Annual Report & Accounts 2010

The Paragon Group of Companies PLC

paragon

Contents

Financial highlights

32.2%

increase in profit before tax to £71.8 million (2009: £54.3 million)

9.1%

increase in dividend for full year to 3.6p (2009: 3.3p)

76.0%

increase in free cash to £147.8 million (2009: 84.0 million)

5.9%

increase in net asset value per share to 234p (2009: 221p)

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Underlying profit before taxation	**66.1**	45.3	66.9	86.7	80.3
Profit before taxation	**71.8**	54.3	53.7	91.0	82.8
Profit after taxation	**53.9**	41.1	37.1	62.8	68.8
Total loan assets	**8,911.2**	9,314.3	10,053.2	11,034.9	8,426.6
Shareholders' funds	**692.3**	650.8	621.5	313.3	279.0

	2010	2009	2008	2007	2006
Earnings per share					
- basic	**18.3p**	13.9p	17.9p	90.5p	97.6p
- diluted	**17.8p**	13.7p	17.9p	87.2p	93.1p
Dividend per £1 ordinary share	**3.6p**	3.3p	3.0p	-	-
Dividend per 10p ordinary share	-	-	-	8.0p	17.0p

Earnings per share in the years ended 30 September 2006 and 30 September 2007 have been restated to account for the bonus effect of the rights issue in 2008.

The derivation of underlying profit before taxation is described in Appendix B.

Chairman's statement

The Group has made excellent progress towards achieving its strategic objectives in the year ended 30 September 2010. Strong customer retention and an improving credit performance contributed to a significant increase in profits and strong cash generation which, together with a return to new lending at the end of the year and further new initiative activity, have placed the Group in a strong position for continued growth in shareholder value.

During the year ended 30 September 2010 the Group earned a profit of £71.8 million before taxation and after exceptional gains on debt repurchase and the charges for impairment and losses on fair valued hedge instruments (2009: £54.3 million), an increase of 32.2%. Underlying profit, before exceptional and fair value items, increased by 45.9% to £66.1 million for the year (2009: £45.3 million).

Earnings per share were 18.3p (2009: 13.9p), the increase from last year reflecting the improved profits earned by the Group.

During the year the Group's activities have been managed in accordance with three clear strategic objectives: positioning the business to enable new lending to recommence when funding capacity returns to the market at commercial terms; the protection of the embedded value of the business by close management of the loan portfolio; and the development of new sources of recurring income using the skills and resources of the business.

Excellent progress has been made in all three areas during the year. In September we announced the Group's return to new lending, following the signing of a £200.0 million warehouse facility and the recovery in the mortgage backed securities market during the year. The loan portfolio has continued to perform well, with arrears steadily reducing over the year and redemptions running at low levels. New sources of income, developed over the past two years, performed well, a further portfolio acquisition was completed at the end of the period and the management of additional third party loan accounts was assumed during the year. The opportunities for further progress in these initiatives have increased in recent months.

In view of the results achieved and in line with the progressive dividend policy outlined in prior years, the Board has declared a final dividend of 2.4p per share (2009: 2.2p) which, when added to the interim dividend of 1.2p, gives a total dividend of 3.6p per share for the year (2009: 3.3p), an increase of 9.1%. Subject to approval at the Annual General Meeting on 10 February 2011, the dividend will be paid on 14 February 2011, by reference to a record date of 14 January 2010.

CAPITAL MANAGEMENT

The Group's free cash flow has been strong during the year, leading to an increase in free cash balances to £147.8 million (30 September 2009: £84.0 million) after investments totalling £29.0 million in respect of the purchase of a portfolio of buy-to-let loans at the end of the financial year and the purchase of the Group's securitisation debt. These balances, together with net cash receipts going forward, will support the Group's future lending and portfolio purchase activities.

Consistent with our aim to follow a progressive dividend policy, the Company has declared a final dividend for the year of 2.4p per share which, when added to the interim dividend, makes a total dividend of 3.6p per share. The Company sees opportunities going forward to deploy capital in support of our new lending activities, which should grow over time. Additionally, opportunities exist to acquire loan portfolios, through Idem Capital, as banks and other financial institutions de-leverage in the coming years. The Company will keep under review the appropriate level of capital for the business to meet its operational requirements and strategic development objectives.

We will be proposing at the forthcoming Annual General Meeting a special resolution seeking authority from shareholders for the Company to purchase up to 29.8 million of its own shares (10% of the issued share capital). It is customary for companies to seek such authority but we would not expect to utilise the authority unless, in the light of market conditions prevailing at the time, we consider that to do so would enhance earnings per share and would be in the best interests of shareholders generally. Given the operational and strategic opportunities described above, the Board has no current intention of using this authority.

Excellent progress

The Group has made excellent progress towards achieving its strategic objectives in the year.

Strong results

Strong customer retention and an improving credit performance contributed to a significant increase in profits and strong cash generation.

Dedication

The excellent progress we have made during the year would not have been achieved without the hard work and dedication of our staff and my fellow directors.

STAFF

The excellent progress we have made during the year would not have been achieved without the hard work and dedication of our staff and my fellow directors. I thank them all for their efforts.

CONCLUSION

The Group has made excellent progress during the year, increasing profits, improving the credit quality of the portfolio, expanding business activities and securing funding to support new buy-to-let lending. Whilst the UK economic environment remains challenging with the outlook for growth, unemployment and house prices all uncertain, the Group enters the new financial year with a term-funded, high quality loan book. We expect that our new lending programme will expand over time and will be complemented by increasing opportunities to acquire loan portfolios and take on new servicing contracts, all of which should leave us well placed for continued growth in shareholder value.

ROBERT G DENCH
Chairman
24 November 2010

Chief Executive's review

The year ended 30 September 2010 has been one of excellent progress for the Group, with a return to new lending at the end of the year and strong growth in profits fuelled by improving margins, reduced arrears, a low redemption rate and good progress with our new initiatives.

FINANCIAL REVIEW

CONSOLIDATED RESULTS

For the year ended 30 September 2010

	2010 £m	2009 £m
Interest receivable	**275.6**	508.2
Interest payable and similar charges	**(142.2)**	(373.4)
Net interest income	**133.4**	134.8
Other operating income	**14.5**	16.0
Total operating income	**147.9**	150.8
Operating expenses	**(42.6)**	(39.3)
Provisions for losses	**(39.2)**	(66.2)
Underlying profit	**66.1**	45.3
Gains on debt repurchases	**5.7**	18.4
Impairment of goodwill	**-**	(6.0)
Fair value net (losses)	**-**	(3.4)
Operating profit being profit on ordinary activities before taxation	**71.8**	54.3
Tax charge on profit on ordinary activities	**(17.9)**	(13.2)
Profit on ordinary activities after taxation	**53.9**	41.1
Dividend – Rate per share for the year	**3.6p**	3.3p
Basic earnings per share	**18.3p**	13.9p
Diluted earnings per share	**17.8p**	13.7p

The Group is organised into two major operating divisions: First Mortgages, which includes the buy-to-let and owner-occupied first mortgage assets and other sources of income derived from first charge mortgages; and Consumer Finance, which includes secured lending, the residual car, retail finance and unsecured loan books and other sources of income derived from consumer loans. These divisions are the basis on which the Group reports primary segmental information.

The underlying operating profits of these business segments are detailed fully in Appendix B to the annual report and are summarised below.

	2010 £m	2009 £m
Underlying operating profit		
First Mortgages	50.6	44.7
Consumer Finance	15.5	0.6
	66.1	45.3

An improvement in margins earned on loans to customers was offset by a 4.3% reduction in the size of the book during the year and by the lower level of interest earned on cash balances as a consequence of lower LIBOR rates over the year. As a result, net interest income decreased by 1.0% to £133.4 million from £134.8 million in the previous year. At 30 September 2010, 95.1% (2009: 94.1%) of the Group's loan assets were first mortgages.

Other operating income was £14.5 million for the year, compared with £16.0 million in 2009, increased income from third party account servicing being offset by lower levels of commissions and fees associated with reduced lending activity and reduced insurance commissions.

Operating expenses during the year were 8.4% higher at £42.6 million (2009: £39.3 million). The increase is due to staff costs, following the recruitment of staff for the third party loan servicing business and to support the return to new lending. The cost:income ratio was in line with expectations at 28.8% for the year, compared with 26.1% for the previous year (Appendix A) reflecting both the reduction in income referred to above and the increase in servicing activities, where the cost:income ratio is higher than for lending activities.

Strong demand for private renting

Landlords are witnessing very high levels of rental demand, strong rental growth and low finance costs.

The charge for impairment provisions of £39.2 million was 40.5% lower than the charge of £65.9 million for 2009 (note 17), reflecting an improvement in arrears performance. Low interest rates have increased affordability for customers, reducing the incidence of new arrears and assisting the correction of past arrears. The loan books continue to be carefully managed and credit performance remains in line with our expectations.

Gains on debt repurchases of £5.7 million (2009: £18.4 million) are detailed under Strategic Developments, below.

Net hedging instrument fair value movements for the year were £nil (2009: £3.4 million losses). In prior years gains and losses on hedging instrument fair values, which do not affect cash flow, have arisen from the IFRS requirement that movements in the fair value of hedging instruments attributable to ineffectiveness in the hedging arrangements should be credited or charged to income and expense.

Cash generation from the Group's securitisation vehicle companies has remained strong over the period, with free cash balances increasing to £147.8 million at 30 September 2010 from £84.0 million a year earlier, after the payment of £20.7 million for the purchase of a first mortgage portfolio in September 2010.

Corporation tax has been charged at an effective tax rate of 24.9%, compared to 24.3% last year.

Profits after taxation of £53.9 million (2009: £41.1 million) have been transferred to shareholders' funds, which totalled £692.3 million at the year-end (2009: £650.8 million), representing 234p per share (2009: 221p per share) (Appendix C).

BUSINESS REVIEW

NEW BUSINESS VOLUMES

Year ended 30 September 2010

	2010 £m	2009 £m	2010 Number	2009 Number
First Mortgages				
Buy-to-let	**14.6**	25.2	**254**	487
Consumer Finance				
Secured lending	**0.5**	60.4	**34**	2,119
	15.1	85.6	**288**	2,606

First Mortgages

The most significant development in the First Mortgage business during the year was the return to new lending following the signing of a £200.0 million warehouse facility in September 2010. The Group's aim is to re-establish its position as the leading mortgage lender to experienced professional landlords, extended, where appropriate to other areas of buy-to-let service provision in the private rented sector. The initial focus of activity is towards the re-establishment of distribution arrangements. Completed loan business will naturally flow from this roll-out after the normal mortgage lead-in times and the level of applications received since September has been encouraging.

At 30 September 2010, the buy-to-let portfolio was £8,323.9 million, compared with £8,585.0 million a year earlier. From the end of February 2008 until the recommencement of new lending, new business origination by the Group's buy-to-let brands, Paragon Mortgages and Mortgage Trust, had been restricted to further advances to existing borrowers where there is adequate equity in the property. Aggregate completions of such loans were £14.6 million for the year ended 30 September 2010, compared with £25.2 million for the previous year.

The credit performance of the Group's buy-to-let mortgages over the year as a whole has again been exemplary. Those cases that have gone into arrears have, for the most part, responded well to the careful management that our specialist arrears team have supplied. At the year end Paragon's three month plus arrears in buy-to-let (excluding the portfolio acquired on 30 September 2010) stood at 0.83%, compared with the market average of 2.45% as recorded by the CML.

Where an account is not responding well to the normal arrears management processes a receiver of rent may be appointed. The function of the receiver is to manage the property on behalf of the landlord and forward the rent collected to the lender. This is a flexible tool that can allow a borrower an opportunity to work his or her way through a period of difficulty whilst the receiver ensures that the property and the tenant are managed professionally and that value is protected. At 30 September 2010 there were 1,398 properties across all portfolios where a receiver had been appointed (30 September 2009: 1,420). Of those available for letting, 93.5% were let.

Landlords continue to display a long-term commitment to property investment and the buy-to-let portfolio redemption rate has fallen to 3.0% for the year (2009: 7.1%). Landlords are witnessing very high levels of rental demand, strong rental growth and low finance costs. With limited availability of alternative, competitively priced, buy-to-let products, customer retention levels are likely to remain high.

Activity in the housing market remains subdued due, in part, to continuing tight credit conditions. The effect on the private rented sector, however, has been to maintain high levels of tenant demand. The low level of purchase transactions means that would-be home buyers are renting in larger numbers and for longer periods. The latest RICS Residential Lettings Survey confirmed that tenant demand remains high, creating upward pressure on rents. A similar picture is painted by The Association of Residential Letting Agents, whose members reported increased achievable rents at the end of the third quarter. The latest data, for September 2010, from Findaproperty.com shows rents increasing by 1.4% in the third quarter, with rental prices at their highest since the Autumn of 2008.

The constraints impacting on the owner-occupier sector seem likely to continue for the foreseeable future. At the same time there appears to be little likelihood of significant public funding being made available to support the social rented sector. As a result, the demand for private renting is expected to remain high.

The owner-occupied book reduced to £151.7 million from £179.3 million during the year ended 30 September 2010 and performed in line with the Group's expectations. Save for the management of this book in run-off, there has been little activity in recent years in this area as the Group has focused on other lending markets.

Consumer Finance

Lending during the period has been limited to a small number of further advances to existing customers. At 30 September 2010, the total loans outstanding on the Consumer Finance books were £435.6 million, compared with £550.0 million at 30 September 2009, the redemption rate being kept low by the shortage of alternative offerings in the market, as a result of lack of funding, and by the low level of housing activity.

The percentage of accounts with arrears of two months and over on the secured loan book has increased from 7.94% at 30 September 2009 to 9.36% at 30 September 2010, reflecting both the effects of economic conditions on borrower performance and the contraction in the size of the portfolio. The arrears performance compares favourably with the industry data recorded by the Finance & Leasing Association ("FLA") of 24.4% (2009: 19.8%).

REGULATION

There has been an increasing trend towards greater regulation in the financial sector, which is likely to continue for the foreseeable future. Paragon is not directly affected by many of these changes, although the consequences of changing market conditions can affect the competitive landscape. Basel III does not apply to the Group although its wider implications for the banking sector are uncertain.

There is uncertainty as to whether buy-to-let lending will become regulated, although secured consumer lending is expected to be FSA regulated in due course.

We continue to engage with government bodies regarding the future course of regulatory processes and participated in the consultation on possible revised prudential and conduct of business obligations for non-bank lenders. We shall maintain an active dialogue with the FSA and HM Treasury as the process of consultation develops.

STRATEGIC DEVELOPMENTS

Last year we reported on the specific areas of strategic focus for the generation of new sources of income to enhance shareholder value, these being the acquisition of loan portfolios through Idem Capital, the servicing of third party loan portfolios through Moorgate Loan Servicing and Arden Credit Management and the expansion of products and services for existing customers. Good progress has been made in these areas.

Idem Capital

The portfolio of second mortgages purchased in September 2009 has performed well during the year and in September 2010 we acquired a further portfolio, consisting of buy-to-let loans, from Morgan Stanley Bank International Limited for £20.7 million. The full transfer of the servicing of these loans to our systems has been completed. The Group has a long and established track record in acquiring loan portfolios and successfully transferring the loan servicing in-house and managing the books effectively thereafter.

The Group has acquired some £3 billion of loan portfolios in the past across a range of asset classes. We continue to believe that a number of portfolios owned by banks and other financial institutions will become available for sale as these institutions de-leverage and restructure their balance sheets. We see this as an important strategic opportunity, with the potential to deliver excellent returns to shareholders and we will continue to pursue opportunities in this area.

Portfolio acquisitions

The Group has a long and established track record in acquiring loan portfolios and successfully transferring the loan servicing in-house and managing the books effectively thereafter.

Moorgate Loan Servicing

Good progress has been made with the development of third party loan servicing through Moorgate Loan Servicing and its division, Arden Credit Management, which utilises our core administration and collection skills. Our experience in loan management established over many years has enabled us to extend this service to our third party clients, providing significant added value to the performance of their loan portfolios. Arden Credit Management assumed servicing of a further 15,000 accounts during the year with the result that 54.3% of accounts under management by the Group at 30 September 2010 were managed on behalf of third parties. We believe increasing opportunities will arise over the coming years, particularly as portfolio disposals take place as part of the wider banking de-leveraging process.

The range of services we offer to the private rented sector under our Redbrick brand, which include the provision of energy performance certificates, survey and valuation services, specialist insurance services for landlords and tenant credit checks and assessments, continued to be developed during the year and we have been encouraged by the growth in business levels in these areas.

The activities of Idem Capital and Moorgate Loan Servicing contributed £4.9 million to operating profit (2009: £1.4 million) during the financial year.

In addition, following the buyback of £37.7 million (nominal) of Group debt during the year ended 30 September 2009 at a cost of £18.9 million, we invested a further £8.3 million during the period in the purchase of £14.0 million (nominal) of the Group's securitisation debt, creating an exceptional profit of £5.7 million. The scope for further purchases is limited as increased bond prices now make further transactions less attractive.

FUNDING

As previously reported, the Group entered into a £200.0 million revolving warehouse agreement with Macquarie Bank in September, providing the warehouse funding for the recommencement of buy-to-let lending. The facility, to be rated by Fitch Ratings, is available for a four year term to Paragon Fourth Funding Limited, a 100% owned subsidiary, and interest will be charged on the amount drawn at one month LIBOR plus 2.875%. The Group's intention is to use the facility to warehouse loans prior to arranging term funding in the mortgage backed securitisation markets. Consequently, the facility is structured to permit drawings and re-drawings in its first two years. The Group continues to engage in a dialogue with other potential counterparties to expand the warehouse funding available.

During the year the Group has engaged with bond investors in the UK and in Europe to update investors on the Group's progress and to determine market appetite for new Paragon debt securities. Taking account of the positive feedback received from investors and the improvement seen during the course of the past year in both the primary and secondary securitisation markets, the Group continues to focus on securitisation issuance as offering the most cost-effective access to long-term funding for new lending.

CONCLUSION

The Group has made excellent progress during the year, materially increasing profits, witnessing further growth in its new ventures and importantly securing funding to support the relaunch back into new buy-to-let lending. We fully expect that our new lending programme will expand over time and will be complemented by increasing opportunities to acquire loan portfolios and take on new servicing contracts, all of which should provide the basis for continued growth in shareholder value. The Group's financial position is strong, leaving us well placed to deal with the economy's uncertainties and to exploit the opportunities ahead.

NIGEL S TERRINGTON
Chief Executive
24 November 2010

Board of Directors

Robert G Dench
Chairman
Age 60

Bob Dench joined the Group as a non-executive director in September 2004 and was appointed Chairman in February 2007. During an extended career with Barclays he held a number of senior positions in the UK and overseas, leaving in 2004. He is also a non-executive director of AXA UK plc and AXA Ireland Limited.

Nigel S Terrington
Chief Executive
Age 50

Nigel Terrington joined the Group in 1987 and became Chief Executive in June 1995, having held the positions of Treasurer and Finance Director. Prior to Paragon, he worked in investment banking. He has previously held the positions of Chairman of the Intermediary Mortgage Lenders Association, Chairman of the FLA Consumer Finance Division and a Board member of the FLA. He is a member of the Chairman's Committee and Executive Committee of the Council of Mortgage Lenders. He is also currently a member of HM Treasury's Home Finance Forum.

Nicholas Keen
Finance Director
Age 52

Nick Keen joined the Group in May 1991 and became Finance Director in June 1995 having previously held the position of Treasurer. Prior to joining the Group he worked in Corporate Banking, Treasury and Capital Markets. He is Chairman of the Paragon Credit Committee.

John A Heron
Director of Mortgages
Age 51

John Heron joined the Group in January 1986. He was appointed as Marketing Director in 1990 and in 1994 played a pivotal role in re-establishing the Group's mortgage lending operations as Managing Director of Paragon Mortgages. Mr Heron joined the board in 2003 and is responsible for the development of all the Group's new business operations. He is a Fellow of the Chartered Institute of Bankers and holds a number of industry positions including the chair of the CML buy-to-let panel.

Christopher D Newell
Non-Executive Director
Age 50

Christopher Newell has been a director of Altium Capital Limited since 1990. He was a director of Artemis Investment Management Limited from its formation until 2006. He is a Chartered Accountant and joined the Board of Paragon as a non-executive director in November 2001. He is Chairman of the Paragon Audit and Compliance Committee.

Terence C Eccles
Non-Executive Director
Age 64

Terry Eccles joined Paragon as a non-executive director on 1 February 2007. He is also a non-executive director of Bluebay Asset Management PLC and of Horizon Acquisition Company PLC. He was previously Vice Chairman of JPMorgan Cazenove. Since joining the JPMorgan Group in 1970 he held a wide range of roles in London, New York and Hong Kong. Since 1986 he was involved with the development of the firm's financial institutions business, becoming its head and then chairman. He has advised on many of the more significant transactions in the financial services industry. He is the Senior Independent Director.

Edward A Tilly
Non-Executive Director
Age 67

Ted Tilly was appointed as a non-executive director on 1 April 2008. Mr Tilly was the senior independent director of Retail Decisions PLC from January 2000 until January 2007. He has held a number of directorships including Chairman of Barclays Life Assurance Company Ltd from 1999 to 2003. Prior to this Mr Tilly was Chairman and Chief Executive of GE Capital's European insurance division. Mr Tilly was with the Legal & General Group for nearly thirty years where he held a number of senior positions including Director Life and Pensions and Director International.

Alan K Fletcher
Non-Executive Director
Age 60

Alan Fletcher was appointed as a non-executive director on 25 February 2009. Mr Fletcher has considerable experience in financial services, including pension fund trusteeship and investment fund management. He was Chairman of Neville James Holdings prior to its acquisition by Challenger International of Australia, following which he was Sales and Marketing Director of Challenger Group Services and a director of Challenger Life (UK) from 2002 to 2003. He has been non-executive Chairman of Hyperama plc since 2000 and was Chairman of the professional training company Fresh Professional Development from 2003 to 2010. He was a member of the General Synod of the Church of England between 2007 and 2010. He has been a member of the Church of England Pensions Board since 2009, and of both its investment and housing committees, which appointment runs until 2013.

Directors' report

The directors submit their Report and the Accounts for the year ended 30 September 2010 which were approved by the Board on 24 November 2010.

Principal activities

The Company (registered number 2336032) is a holding company co-ordinating the activities of its subsidiary companies. The principal activities of the Group continue to be the operation of its first mortgage and consumer finance businesses.

Results and dividends

The results for the year are shown in the Consolidated Income Statement on page 44. The directors recommend a final dividend of 2.4p per share (2009: 2.2p) which, taken with the interim dividend of 1.2p per share (2009: 1.1p per share) paid on 30 July 2010, would give a total dividend for the year of 3.6p per share (2009: 3.3p per share). Before dividends, retained profits of £53.9 million (2009: £41.1 million) have been transferred to reserves.

Business review

The Companies Act 2006 requires the Company to set out in this report a fair review of the business of the Group during the year ended 30 September 2010, including an analysis of the position of the Group at the year end and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review').

The information that fulfils the Business Review requirements can be found in the following sections of the Annual Report. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

- The sections of the Chairman's Statement headed 'Capital Management' and 'Conclusion' on pages 5 and 6;
- The Chief Executive's Review on pages 7 to 11;
- The Corporate Social Responsibility Report on pages 18 to 21;
- The Corporate Governance Statement on pages 36 to 39; and
- The principal risks and uncertainties to which the Group is exposed on pages 40 and 41.

Pages 14 to 17 inclusive, together with the sections of the Annual Report incorporated by reference, comprise a directors' report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

Directors

The interests of the directors at the year end in the share capital of the Company, all beneficially held, are shown below.

	At 30 September 2010 Ordinary Shares	At 30 September 2009 Ordinary Shares
R G Dench	**117,000**	117,000
N S Terrington	**647,972**	612,921
N Keen	**368,679**	342,412
J A Heron	**252,680**	234,256
C D Newell*	**78,000**	78,000
T C Eccles*	**80,000**	80,000
E A Tilly*	**30,000**	-
A K Fletcher*	**125,000**	100,000

* Non-executive directors

In addition, certain directors had interests in the share capital of the Company by virtue of options granted under the Company's executive share option schemes and awards under the Paragon Performance Share Plan, the Deferred Bonus Scheme and the Matching Share Plan, details of which are given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 22 to 32.

There have been no changes in the directors' interests in the share capital of the Company since 30 September 2010.

The directors have no interests in the shares or debentures of the Company's subsidiary companies.

There were no changes in the membership of the Board during the year.

The appointment and replacement of the Company's directors is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts and related legislation and the individual service contracts and terms of appointment of the directors. The powers of the directors, and their service contracts and terms of appointment, are described in the Corporate Governance section on pages 36 to 39.

In accordance with the Articles of Association Mr R G Dench, Mr N Keen and Mr C D Newell will retire from the Board at the end of the forthcoming Annual General Meeting, and, being eligible, will offer themselves for re election.

In addition, the UK Corporate Governance Code, which replaced the Combined Code with effect from the Group's financial year ending 30 September 2011 recommends that all directors should be subject to re-appointment annually and therefore the remaining directors, Mr N S Terrington, Mr J A Heron, Mr T C Eccles, Mr E A Tilly and Mr A K Fletcher, have agreed to voluntarily retire from the Board at the end of the forthcoming Annual General Meeting, and, being eligible, will offer themselves for re election.

None of the directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

From 1 October 2008, a director has had a statutory duty to avoid a situation in which he has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. A director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other directors. The Articles of Association include the relevant authorisation for directors to approve such conflicts.

None of the directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

Capital structure

Details of the issued share capital of the Company, together with details of movements in its issued share capital in the year, are given in note 42 to the accounts. The Company has one class of ordinary share which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The rights and obligations attaching to ordinary shares are set out in the Articles of Association of the Company.

There are no specific restrictions on the size of a member's holding or on the transfer of shares. Both of these matters are governed by the general provisions of the Company's Articles of Association and prevailing legislation. The Articles of Association may be amended by special resolution of the shareholders. The directors are not aware of any agreements between holders of the Company's shares in respect of voting rights or which might result in restrictions on the transfer of securities.

Details of employee share schemes are set out in note 15 to the accounts. Votes attaching to shares held by employee benefit trusts are not exercised at general meetings of the Company.

The Company presently has the authority to issue ordinary shares up to a value of £99,400,000 and to make market purchases of up to 29,900,000 £1 ordinary shares, granted at the Annual General Meeting on 11 February 2010. These authorities expire at the conclusion of the forthcoming Annual General Meeting on 10 February 2011.

Purchase of own shares

At 30 September 2007 the Company had, as part of a £40.0 million repurchase programme, repurchased 6,689,000 10p ordinary shares having an aggregate nominal value of £668,900. The reasons for the repurchase programme were set out in an announcement made by the Company through RNS on 25 May 2005. On 29 January 2008 these shares were consolidated into 668,900 £1 ordinary shares. All of these shares were held as at 30 September 2010 and 30 September 2009 as treasury shares, representing 0.2% of the issued share capital excluding treasury shares, and this holding represents the maximum number of its own £1 ordinary shares held by the Company at any time during the past year.

Substantial shareholdings

As at 31 October 2010, being a date not more than one month before the date of the notice convening the forthcoming Annual General Meeting, the Company had been notified of the following interests of more than 3% in the nominal value of the ordinary share capital of the Company:

	Ordinary shares	% held
Standard Life Investments	28,524,201	9.55%
BlackRock Investment Management (UK)	25,679,636	8.59%
Legal & General Investment Management	20,934,678	7.01%
Schroder Investment Management	19,463,171	6.51%
M & G Investment Management	18,333,707	6.14%
Old Mutual Investment Management	14,708,387	4.92%
VPV Bankers NV	12,958,825	4.34%
Aviva Investors	11,351,309	3.80%

Donations

Company law requires the disclosure of political donations and expenditure by any Group company. During the year ended 30 September 2010 no such payments were made (2009: £nil).

Contributions to charitable institutions in the United Kingdom amounted to £60,963 (2009: £50,895).

Close company status

So far as the directors are aware, the Company is not a close company for taxation purposes.

Creditor payment policy

The Group agrees terms and conditions with each of its suppliers and ensures that its suppliers are aware of these terms. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. It is not the Group's policy to follow any code or standard on payment practice.

The trade creditor days figure has not been stated as the measure is not appropriate to the business.

Auditors

The directors have taken all reasonable steps to make themselves and the Company's auditors aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the directors is aware, there is no relevant audit information of which the auditors are unaware.

A resolution for the re-appointment of Deloitte LLP as the auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Details of resolutions to be proposed as special business at the Annual General Meeting

Resolution 13 is proposed as an ordinary resolution. This means that for this resolution to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 14, 15 and 16 are proposed as special resolutions. This means that for each of these resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

The Board of Directors considers that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole and unanimously recommends that shareholders vote in favour of them.

Resolution 13

Section 549 of the Companies Act 2006 states that the directors may not exercise a company's power to allot shares or grant rights to subscribe for or convert any security into shares unless given authority to do so by resolution of the shareholders in general meeting.

The present authority of the directors to allot the unissued ordinary share capital of the Company was granted at an Annual General Meeting on 11 February 2010 and will expire at the end of the forthcoming Annual General Meeting. Resolution 13 seeks to give the directors authority to allot shares or grant rights to subscribe for or convert any security into shares up to an aggregate nominal value of £99,500,000 representing approximately one third of the Company's issued share capital, excluding treasury shares, at 31 October 2010. At 31 October 2010 the Group held 668,900 treasury shares, representing 0.2% of the Company's issued capital, excluding treasury shares, at that date. The directors have no present intention of exercising this authority, which will expire at the conclusion of the following Annual General Meeting or, if earlier, on 9 May 2012.

Resolution 14

Under Section 561 of the Companies Act 2006, any shares allotted (or, in the case of any shares held in treasury, sold) wholly for cash must be offered to existing shareholders in proportion to their holdings, but this requirement may be modified by the authority of a special resolution of the shareholders in general meeting.

The authority given at the Annual General Meeting held on 11 February 2010 will expire at the end of the forthcoming Annual General Meeting and Resolution 14 seeks to renew it. The resolution authorises the directors to allot or sell shares for cash, other than to existing shareholders or holders of other equity securities in proportion to their holdings, up to an aggregate nominal value of £14,900,000, representing approximately 5% of the Company's issued share capital, excluding treasury shares, at 31 October 2010. In respect of this aggregate nominal amount, the directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders. This authority will expire at the conclusion of the following Annual General Meeting or, if earlier, on 9 May 2012.

Resolution 15

This resolution, which is being proposed as a Special Resolution, will enable the Company to purchase, in the market, up to a maximum of 29.8 million of the Company's ordinary shares (approximately 10% of the issued share capital, excluding treasury shares, at 31 October 2010) for cancellation, or to be held in treasury, at a minimum price of 10p per share and a maximum price of not more than 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to purchase.

The directors would not expect to purchase ordinary shares in the market unless, in the light of market conditions prevailing at the time, they considered that to do so would enhance earnings per share and would be in the best interests of shareholders generally. Any purchases made by the Company will be announced no later than 7.30 a.m. on the business day following the transaction.

Resolution 16

Shareholders may give approval to shorten the notice period required for general meetings (other than Annual General Meetings) from 21 clear days to 14 clear days. At an Annual General Meeting on 11 February 2010 shareholders approved the reduction of the notice period for general meetings (other than Annual General Meetings) to 14 clear days notice. In order to preserve this reduction, Resolution 16 seeks to renew this approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and is thought to be to the advantage of the shareholders as a whole.

Approved by the Board of Directors and signed on behalf of the Board.

JOHN G GEMMELL
Company Secretary
24 November 2010

Corporate social responsibility

The Group believes that the long-term interests of shareholders, employees and customers are best served by acting in a socially responsible manner. As such, the Group ensures that a high standard of corporate governance is maintained.

Commitment to our customers

The Group places the needs of customers at the heart of its day-to-day operations. With a commitment from the Board, fairness to customers is a key consideration and objective at all stages of the lifetime of a loan.

Training and development

The Group has been accredited under the 'Investors in People' scheme since 1997. This demonstrates the Group's commitment to the training and development of employees. The staff appraisal system is designed to assist employees in developing their careers and to identify and provide appropriate training opportunities, with all employees receiving a review at least annually.

The corporate training and development strategy focuses on providing opportunities to develop all staff and is central to the achievement of the Group's business objectives. On average employees received 8.5 days training in the year (2009: 8.1 days).

Equality and diversity

The Group is committed to providing a working environment in which employees feel valued and respected and are able to contribute to the success of the business, and to employing a workforce that recognises the diversity of customers. Employees are requested to co-operate with the Group's efforts to ensure the policy is fully implemented.

The Group's aim is that its employees should be able to work in an environment free from discrimination, harassment and bullying, and that employees, job applicants, customers, retailers, business introducers and suppliers should be treated fairly regardless of:

- race, colour, nationality (including citizenship), ethnic or national origins
- gender, sexual orientation, marital or family status
- religious or political beliefs or affiliations
- disability, impairment or age
- real or suspected infection with HIV/AIDS
- membership of a trade union

and that they should not be disadvantaged by unjust or unfair conditions or requirements.

When responding to changes in its business, the Group seeks to minimise the requirement for compulsory redundancy, retraining and redeploying staff wherever possible.

Composition of the workforce is reviewed on an annual basis and employee satisfaction with equality of opportunity is monitored as part of the regular employee feedback surveys. Human Resources policies are reviewed regularly to ensure that they are non-discriminatory and promote equality of opportunity. In particular, recruitment, selection, promotion, training and development policies and practices are monitored to ensure that all employees have the opportunity to train and develop according to their abilities.

Information on the composition of the workforce at the year end is summarised below:

	2010	2009
Female employees	59.0%	59.5%
Female management grade employees	41.5%	40.7%
Ethnic minority employees	10.3%	8.7%
Ethnic minority management grade employees	2.5%	1.9%

Employees' involvement

The directors recognise the benefit of keeping employees informed of the progress of the business. The Group sponsors a Staff Forum, attended by elected staff representatives from each area of the business, which exists primarily to facilitate communication and dissemination of information throughout the Group and provides a means by which employees can be consulted on matters affecting them.

Employees are provided with regular information on the performance and plans of the Group, and the financial and economic factors affecting it, through information circulars and presentations.

The Company operates a Sharesave share option scheme and a profit sharing scheme, both of which enable eligible employees to benefit from the performance of the business.

The directors encourage employee involvement at all levels through the staff appraisal process and communication between directors, managers, teams and individual employees.

Environmental policy

The Group is engaged in mortgage and consumer finance and arrears management and therefore its overall environmental impact is considered to be low. The main environmental impacts for the Group are limited to universal environmental issues such as resource use, procurement in offices and staff and business travel.

The Group complies with all applicable laws and regulations relating to the environment and operates a Green Charter, which:

- ensures all buildings occupied by the Group are managed efficiently by its Facilities Team and Building Surveyor
- encourages staff to conserve energy
- provides facilities to enable employees to re-cycle used products
- controls business travel and provides opportunities for employees to travel to work in various ways; i.e. providing cycle racks and showers (where possible)
- displays a Paragon Green Charter at all sites to encourage employees to be environmentally friendly at all times
- ensures liaison with the local community
- ensures that redundant IT equipment is disposed of within current directives / regulations (WEEE - Waste Electrical and Electronic Equipment), recycling 98% of such equipment
- ensures that all fluorescent light tubes are disposed of in a safe manner, compliant with appropriate regulations
- arranges for paper waste products to be recycled, securely, by third parties

The Green Charter is kept under continuous review by the Facilities team.

All of the Group's paper based stationery is procured from FSC certified suppliers.

The Group has been involved in no prosecutions, accidents or similar non-compliances in respect of environmental matters.

The environmental key performance indicators for the Group, determined in accordance with the Reporting Guidelines published by the Department for Environment Food and Rural Affairs (DEFRA) in 2006 are set out below.

Direct inputs (operational)

Greenhouse gases	Definition	Absolute tonnes CO_2		Normalised tonnes CO_2 per £m income	
		2010	2009	**2010**	2009
Gas	Emissions from utility boilers	**366**	373	**2.5**	2.5
Vehicle fuel	Petrol and diesel used by staff and company cars	**306**	342	**2.1**	2.3

Waste	Definition	Absolute tonnes		Normalised tonnes per £m income	
		2010	2009	**2010**	2009
Landfill	General office waste, which includes a mixture of paper, card, wood, plastics and metal	**154**	150	**1.0**	1.0
Recycled	General office waste recycled, primarily paper and cardboard	**164**	96	**1.1**	0.6

Indirect inputs (supply chain)

Greenhouse gases	Definition	Absolute tonnes CO_2		Normalised tonnes CO_2 per £m income	
		2010	2009	**2010**	2009
Energy use	Directly purchased electricity, which generates greenhouse gas emissions	**1,523**	1,417	**10.3**	9.4

Water	Definition	Absolute cubic metres		Normalised cubic metres per £m income	
		2010	2009	**2010**	2009
Supplied water	Consumption of piped water. No water is extracted directly by the Group	**6,697**	6,374	**45.2**	42.3

Gas, electricity and water usage is based on consumption recorded on purchase invoices. Vehicle fuel usage is based on expense claims and recorded mileage and waste generation is based on volumes reported on disposal invoices. Waste generation figures for the year ended 30 September 2009 have been restated following the receipt of corrected data from contractors.

CO_2 values above are calculated based on the DEFRA guidelines published in October 2010. CO_2 values for the year ended 30 September 2009 have been restated for the revised conversion factors published by DEFRA. Normalised data is based on total operating income of £147.9m (2009: £150.8m).

Health and safety policy

It is the Group's policy to comply with the terms of the Health and Safety at Work Act 1974, and subsequent legislation, and to provide and maintain a healthy and safe working environment. The health and safety objective of the Group is to minimise the number of instances of occupational accidents and illnesses and ultimately achieve an accident-free workplace.

The Group recognises and accepts its duty to protect the health and safety of all visitors to its premises, including contractors and temporary workers, as well as any members of the public who might be affected by our operations.

While the management of the Group will do all within its power to ensure the health and safety of its employees, it is recognised that health and safety at work is the responsibility of each and every individual associated with the Group. It is the duty of each employee to take reasonable care of their own and other people's welfare and to report any situation which may pose a threat to the well-being of any other person.

Health and safety policies and procedures are managed by the Group Services Division who liaise with senior management and Human Resources as necessary.

All employees are provided with such equipment, information, training and supervision as is necessary to implement the policy in order to achieve the above stated objective. The Group makes available such finances and resources deemed reasonable to implement this policy.

All injuries, however small, sustained by a person at work must be reported. Accident records are crucial to the effective monitoring and revision of the policy and must therefore be accurate and comprehensive.

The Group recognises the civil and moral need to ensure that all employees adhere to this health and safety policy and is prepared to invoke the disciplinary procedure in case of any deliberate disregard for the health and safety policy.

The Group's health and safety policy is continually monitored and updated, particularly when changes in the scale or nature of our operations occur. The policy is updated at least every twelve months.

A six monthly health and safety report is produced by Head of Group Services for the Senior Management Group. Consultants are employed to carry out an annual audit of all health and safety records, including policies, procedures, risk assessments and training records.

Charitable contributions

The Group contributes to registered charities relating to financial services or serving the local communities in which it operates. Included in the charitable contributions shown in the Directors' Report are contributions of £46,453 (2009: £36,792) made by the Group to the work of the Foundation for Credit Counselling which operates the Consumer Credit Counselling Service. The Group has also contributed to charities throughout the year by way of single donations.

The Group's main objective is to support children's and local charities although no charity request is overlooked. During the last year the Group has helped many and varied charities and causes such as: Youth Speaks, Pathway Project, Lupus UK, TSUK- Transplant Active, Action for Sick Children, Special Needs Adventure Playground Kenilworth, Trinity Hospice, Second Chance, The Children's Trust, Down's Syndrome International Swimming Organisation, Children's Cancer Care, Happy Days, The Foundation for Conductive Education, British Blind Sport, Children's Heart Foundation, RMCH, Shelter, Meningitis Trust, Queen Elizabeth Hospital, Walk the Walk Worldwide, The Royal Marsden Cancer Campaign, Motor Neurone Disease Association, CHICKS, Penn Hall School for the Physically Disabled, Care, Child Haven Appeal (SPACE), Zoe's Place Baby Hospice, Help for Heroes, County Air Ambulance.

The Group also supports Paragon's Charity Committee, consisting of volunteer employees, which organises a variety of fundraising activities throughout the year, raising in the region of £7,000 for the employees' chosen charity. All employees are given the opportunity to nominate a charity and a vote is carried out to select the beneficiary of the year's fundraising.

Report of the Board to the shareholders on directors' remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and also sets out how the principles of the Combined Code on Corporate Governance relating to executive directors' remuneration are applied by the Group. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company.

Certain parts of this report are required to be audited. Where disclosures are subject to audit, they have been marked as such.

UNAUDITED INFORMATION

Remuneration Committee

During the year, the Committee consisted of Edward Tilly (who chaired the Committee), Terence Eccles, Christopher Newell and Alan Fletcher, all of whom are independent non-executive directors and the Chairman of the Company, Robert Dench.

None of the non-executive directors who sit on the Committee has any personal financial interest (other than as a shareholder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business. The Chairman of the Company does not participate in discussions on his own remuneration.

The Committee determines the Company's policy on executive remuneration and specific compensation packages for each of the executive directors and the Chairman. No director contributes to any discussion about his own remuneration. The Committee also reviews the level and structure of remuneration of senior management.

The terms of reference of the Committee are available on request from the Company Secretary.

In determining the directors' remuneration for the year, the Committee consulted Mr N S Terrington (Chief Executive) about its proposals. The Committee also retains Hewitt New Bridge Street ('HNBS') as its advisor on remuneration matters. HNBS also advised the Company on various sundry remuneration matters during the year, which did not conflict with its advice to the Committee.

Remuneration policy for the Chairman and executive directors

The Company's policy is to ensure that the Chairman and the executive directors are fairly rewarded for their individual performance, having regard to the importance of retention and motivation. The performance measurement of the Chairman and the executive directors and the determination of their annual remuneration packages are undertaken by the Committee.

In forming and reviewing remuneration policy the Committee has given full consideration to the Combined Code on Corporate Governance and has complied with the Code's provisions relating to directors' remuneration throughout the year. Moreover, the Committee has given due regard to the link between remuneration and strategy, seeking to ensure that the remuneration structures in place do not encourage excessive risk or activities that are not in line with the agreed strategy.

The remuneration packages of the individual directors are assessed after a review of their individual performances and an assessment of comparable positions in the financial sector and within a group of pan-sectoral comparators comprising a number of companies with market capitalisations similar to the Group's discounted net present value, there now being few financial service businesses in the UK of similar size to the Group.

The executive directors receive a combination of fixed and performance-related elements of remuneration. Fixed remuneration consists of salary, benefits in kind and pension scheme contributions (see under 'Pension contributions' below). Performance-related remuneration consists of participation in the annual bonus plan, the award of shares under the Performance Share Plan and participation in the award of shares under the Matching Share Plan from time to time. The performance-related elements of remuneration are intended to provide a significant proportion of executive directors' potential total remuneration.

As a result of the difficulties in the financial markets in recent years and the Board's rejection of an offer for the Company in 2008, the Committee has kept the Company's remuneration policy under review. The Committee, having consulted major shareholders, believes that the current policy is appropriate for the present needs of the Company, acknowledging that its application will take into account the specific context in which the Company operates. The Committee will continue to keep the position under review during the coming year.

The Committee pays due regard to the levels of remuneration within the Group when determining the remuneration of executive directors and other senior employees. It also seeks to ensure that the incentive structure for senior management does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

Salary

The Chairman's fees and executive directors' salaries are determined by the Committee at the beginning of each year. In deciding appropriate levels, the Committee considers remuneration levels within the Group as a whole, individual and business performance during the year and in the past has relied on objective research which gives up-to-date information on comparable companies. Directors' contracts of service will be available for inspection at the Annual General Meeting. In view of the progress made by the Group during the year, the Committee has agreed that the Chairman's fee and executive directors' salaries will be increased by 3% from 1 October 2010, having been frozen at 2008/09 levels for 2009/10 .

Pension contributions

During the year the executive directors were members of the Group Retirement Benefits Plan, to which the Company contributes at the same rate as for all members. Dependants of executive directors who are members of the Group Retirement Benefits Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service. The pension arrangements provide for a pension of 1/37.5 of basic annual salary (to a maximum of 2/3) for every year of eligible service. Where pension contributions are capped, additional payments are made to enable further provision. Plan participants contribute 5% of eligible salary to the Plan. Two of the executive directors suspended their contributions to the Plan, and the accrual of benefits, prior to the beginning of the year. This was because each director affected by the 2006 'A-Day' changes was offered the opportunity to terminate permanently further contributions in exchange for a cash supplement calculated to equate to the cost of the Company's contributions towards the executive's future service benefits had he stayed within the Plan for his future service accrual.

The changes in pension entitlements arising in the financial year, the disclosure of which is required by the Financial Services Authority, are given on pages 27 and 28. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded promises or similar arrangements for directors.

Performance bonuses

During the year, the executive directors participated in an annual bonus scheme under which awards were determined by consideration of (a) several business-specific financial measures, including operating profit, cash generation and cost control; and (b) measures relevant to current business plans and objectives, such as the preparation of the business for a return to new lending. These performance measures are designed to promote the long-term success of the Company by linking to the strategy and specific risk factors faced by the Company. Consideration was also given to individual executive performance. Corporate and individual performance are the key determinants of any bonus paid – share price performance is not intended to have an impact other than in exceptional circumstances.

During the year, the total target bonus for executive directors was 100% of salary, total stretch bonus was 150% of salary and the bonus payable under the bonus scheme was capped at 200% of salary (this could only be achieved for exceptional performance). This structure will remain unchanged for the current year.

In determining bonus levels the Committee has considered the performance of the executive directors and of the Company in relation to the adverse economic and market conditions prevailing during the year. The directors have exceeded their target bonus objectives to deliver the Group's strategy, including, inter alia, revenue generation, the effective and efficient management of the extant book, including optimising value by maintaining low redemption and arrears rates, maximising cash flow and preparing the business for a return to new lending, which has now recommenced. In view of the results achieved the Committee has determined that each executive director should be paid the stretch bonus equal to 150% of his salary in respect of the year ended 30 September 2010. Bonus amounts in excess of £50,000 are subject to compulsory 25% deferral, whereby the deferred amount less any clawback (in the event of misstatement or misconduct), which can be applied by the Committee in certain specific circumstances, is payable in shares after three years.

The Chairman and non-executive directors are not entitled to receive a bonus and do not participate in the performance or matching share plans.

For the current year, bonus objectives will continue to be focused on protecting, maintaining and enhancing shareholder value. Specific objectives will be set concerning the management of the extant book of business, covering such aspects as managing retention, arrears, cash flow and overall cost efficiency. Other objectives will concern the development of the Group's new lending business and the development and delivery of new strategies to enhance existing income streams. Performance against these objectives will be reported in next year's report.

Share awards

In prior years, executive directors received grants of share options under the Paragon 2000 Executive Share Option Scheme ('ESOS'). Executive directors no longer receive share option grants under the ESOS and the scheme has now expired.

Directors remain eligible for awards under the Performance Share Plan ('PSP') and are able to participate in the Matching Share Plan ('MSP') by investing up to 25% of their salary in the Company's shares.

The Committee reviewed the appropriateness of the performance criteria it had applied to awards in the past and concluded that the traditional measures of EPS growth and relative Total Shareholder Return ("TSR") would not be appropriate for the current situation. After consultation with major shareholders, the Committee determined that the most appropriate target is relative TSR, whereby the TSR of the Company is compared to a comparator group of companies comprising the constituents of the FTSE 250. This was the condition applied to grants made under the PSP and MSP on and after 21 May 2009. The FTSE 250 was chosen because it is a broad-based index and because of the lack of comparable listed financial services organisations at the current time. The performance conditions will be reviewed prior to each future grant to ensure that they remain the most suitable in the Company's prevailing circumstances.

The executive directors are entitled to receive options under the Paragon UK Sharesave Plan 2009, on the same terms as other employees.

Paragon Performance Share Plan ('PSP')

The PSP has an annual award limit to an individual of shares worth 200% of salary.

For PSP awards made after 30 September 2005 but prior to 29 September 2008 to Executive Directors, 50% of the awards are subject to an EPS test and 50% to a TSR test. The growth in the Company's EPS (as adjusted for a common rate of corporation tax) and its TSR are compared over a single three-year period to the performance of the following companies: Alliance & Leicester (until its delisting on 10 October 2008), Barclays, Bradford & Bingley (until its nationalisation on 29 September 2008), Cattles, Egg (until its delisting on 20 February 2006), HBOS (until its delisting on 19 January 2009), Hitachi Capital (until its delisting on 9 August 2007), HSBC, Kensington Group (until its delisting on 8 August 2007), Lloyds Banking Group, London Scottish Bank (until its delisting on 4 December 2008), Northern Rock (until its nationalisation on 22 February 2008), Provident Financial and Royal Bank of Scotland.

35% of each element of the PSP award vests for median performance with full vesting for upper quartile performance; between these points awards vest on a straight line basis. For below median performance, none of the relevant element of the award vests. In addition, the Remuneration Committee has regard to the underlying financial performance of the Company as compared with the level of TSR and EPS performance when determining whether to scale back the level of awards that will ultimately vest.

TSR and EPS were selected as the performance measures for these awards since they provided a balance of internal and external measures to incentivise and reward executives more effectively, whilst also aligning the interests of executives with those of shareholders. The Company's TSR performance and the TSR and EPS performance of the peer companies will be independently calculated by HNBS before being reviewed and confirmed by the Remuneration Committee.

PSP awards granted on 29 September 2008 are subject to an absolute TSR performance condition, whereby the Company's share price (plus the benefit of any reinvested dividends) at the end of the performance period must be at least equal to 125p plus compound annual growth of 10%. (The share price at the time awards were granted was 66.5p). 35% of the awards will vest at this level, increasing on a straight line basis to full vesting for compound annual growth of 15%. The performance period is the three year period commencing on the date of grant.

PSP awards granted on or after 21 May 2009 are subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of awards vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

Prior to any awards vesting, the Remuneration Committee must be satisfied that the requirements of a financial underpin test have been met.

During the year the rules of the scheme were amended such that the expiry date for each outstanding award is the tenth anniversary of the grant date. Performance continues to be measured over a single three year period and all other conditions remain unchanged.

Awards under the PSP are made from time to time at the discretion of the Committee and during the year the executive directors were granted awards over shares equal to 150% of salary.

<u>Paragon Matching Share Plan ('MSP')</u>

Under the terms of the MSP, executive directors and senior management may be invited to invest in shares in the Company out of their after-tax cash bonus. Assuming that the executives decide to invest, the shares acquired must remain held by the executives for three years. At the end of the three-year period and, subject to satisfaction of the same performance conditions as set out for the PSP above, the executives will receive a match in shares on a two-for-one basis related to the number of shares which could have been purchased with the pre-tax equivalent of the bonus invested.

Executive directors will be invited to invest the after-tax equivalent of up to 25% of salary; at such a level, their award is over 'free' performance-linked matching shares worth 50% of salary.

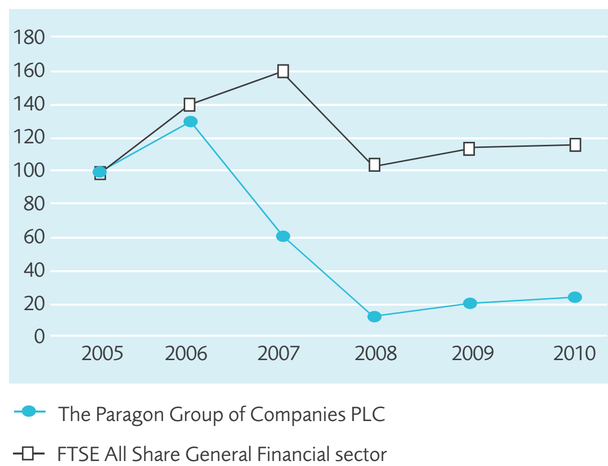
The MSP provides the facility to increase the level of potential investment up to the after-tax equivalent of 50% of salary should the Remuneration Committee feel in future years that this would be appropriate.

During the year the rules of the scheme were amended such that the expiry date for each outstanding award is the tenth anniversary of the grant date. Performance continues to be measured over a single three year period and all other conditions remain unchanged.

Performance graph

The following graph shows the Company's TSR performance compared with the performance of the FTSE All Share General Financial sector index. The General Financial sector has been selected for this comparison because it is the sub-sector index that contains the Company's shares.

Five Year Return Index for the FTSE All Share Financial Services sector as at 30 September 2010



This graph shows the value, by 30 September 2010, of £100 invested in The Paragon Group of Companies PLC on 30 September 2005, compared with £100 invested in the FTSE General Financial sector index. The other points plotted are the values at the intervening financial year ends.

Directors' contracts

The Chairman and executive directors hold one year rolling contracts in line with current market practice and the Remuneration Committee reviews the terms of these contracts regularly. During the year the terms of the executive directors' contracts were amended to require each director to give six months notice of termination of employment.

The current contracts are dated as follows:

R G Dench	-	8 February 2007
N S Terrington	-	1 September 1990 (amended 16 February 1993, 30 October 2001 and 10 March 2010)
N Keen	-	6 February 1996 (amended 30 October 2001 and 10 March 2010)
J A Heron	-	1 September 1990 (amended 14 January, 8 February 1993 and 10 March 2010)

In the event of early termination, the directors' contracts provide for the payment of one year's fees / salary, benefits, pension and bonus in lieu of notice. No provision exists for additional compensation in the event of termination due to a change of control of the Company.

Of the directors seeking re-election at the Annual General Meeting, Mr R G Dench, Mr N S Terrington, Mr N Keen and Mr J A Heron each has a service contract with the Company.

None of the executive directors currently earns remuneration from external non-executive appointments.

Non-executive directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the Board, subject to the Articles of Association. During the year all non executive directors were paid an annual base fee of £31,500 plus £2,100 for membership of each committee, £10,500 for Remuneration Committee and Audit and Compliance Committee chairmanship and £6,300 for acting as the Senior Independent Director. All fees payable to non-executive directors have been increased by 3% with effect from 1 October 2010.

Current terms of engagement apply for the following periods:

C D Newell	-	1 November 2010 to 1 November 2011
T C Eccles	-	1 February 2010 to 1 February 2013
E A Tilly	-	1 April 2008 to 1 April 2011
A K Fletcher	-	25 February 2009 to 25 February 2012

Non-executive directors are not eligible to participate in any of the Company's incentive or pension schemes and are not entitled to receive compensation for early termination of their terms of engagement.

Edward Tilly, Chairman of the Remuneration Committee, will be available to answer questions on remuneration policy at the Annual General Meeting.

AUDITED INFORMATION

Directors' emoluments

The emoluments of directors holding office during the year were:

	Salary and fees £000	Benefits in kind £000	Annual bonus £000	Loss of office £000	**2010 Total £000**	2009 Total £000
Chairman						
R G Dench	193	5	-	-	**198**	209
Executive						
N S Terrington	406	2	456	-	**864**	716
N Keen	307	5	344	-	**656**	545
J A Heron	220	2	249	-	**471**	400
P Pandya	-	-	-	-	**-**	436
Non-executive						
C D Newell	46	-	-	-	**46**	45
E A Tilly	46	-	-	-	**46**	43
T C Eccles	44	-	-	-	**44**	44
A K Fletcher	38	-	-	-	**38**	23
D M M Beever	-	-	-	-	**-**	25
2010	**1,300**	**14**	**1,049**	**-**	**2,363**	2,486
2009	1,306	51	712	417	2,486	

Benefits in kind comprise private health cover, fuel benefit, life assurance and company car provision.

Directors' pensions

The total amount charged to the profit and loss account of the Group in respect of pension provision for directors was £375,000 (2009: £381,000).

Mr N S Terrington, Mr N Keen and Mr J A Heron were members of the Group defined benefit pension scheme during the year.

The amounts shown below describe their entitlement in accordance with paragraph LR 9.8.8(12) of the Listing Rules.

	Increase / (decrease) in accrued pension during the year excluding any increase for inflation £000	Transfer value of increase / (decrease) less directors' contributions £000	**Accumulated total accrued pension at 30 September 2010 £000**	Accumulated total accrued pension at 30 September 2009 £000
N S Terrington	-	-	**151**	151
N Keen	7	96	**87**	80
J A Heron	-	-	**85**	85

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2010 for Mr Keen and service to 6 April 2006 for Messrs Terrington and Heron who each elected to suspend future benefit accrual within the plan from that date.

The increase in accrued pension during the year (and transfer value of the increase) excludes any increase for inflation.

The transfer value has been calculated in accordance with the Occupational Pensions Schemes (Transfer Values) Regulations 1996 and the Occupational Pensions Schemes (Transfer Values) (Amendment) Regulations 2008, in force from 1 October 2008.

Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

The Government has recently announced its intention to link pension increases to CPI rather than RPI. This may have an impact on the plan. The transfer values calculated have been based on the assumption that increases (both revaluation in deferment and increases in payment) continue to be linked to RPI as provided by the plan rules.

The following disclosures describe the pension benefits earned in the year in accordance with section 421 of the Companies Act 2006.

	Age at year end	Directors' contributions in the year £000	Increase in accrued pension in the year £000	Accumulated total accrued pension at year end £000	Transfer value of accrued benefits at 30 September 2009 £000	**Transfer value of accrued benefits at 30 September 2010 £000**	Difference in transfer values less contributions £000
N S Terrington	50	-	-	151	2,428	**2,599**	171
N Keen	52	6	7	87	1,340	**1,534**	188
J A Heron	51	-	-	85	1,415	**1,515**	100

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2010 for Mr Keen and service to 6 April 2006 for Messrs Terrington and Heron who both elected to suspend future benefit accrual within the plan from that date.

The contributions shown are those paid or payable by the directors under the terms of the plan. Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

The increases in transfer values (as shown in the final column) reflect the change in assumptions underlying the transfer value basis as at 30 September 2010 and 30 September 2009, due to changes in financial conditions. The increases also allow for the fact that the accrued pension is a year closer to the assumed date of payment.

The transfer value at 30 September 2010 has been calculated on the basis of the Occupational Pensions Schemes (Transfer Values) (Amendment) Regulations 2008, in force from 1 October 2008. Under the amended regulations, the trustees are responsible for the assumptions and calculation of transfer values, having taken advice from the scheme actuary.

The Government has recently announced its intention to link pension increases to CPI rather than RPI. This may have an impact on the plan. The transfer values calculated have been based on the assumption that increases (both revaluation in deferment and increases in payment) continue to be linked to RPI as provided by the plan rules.

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

During the year the Group made contributions in respect of further pension provision of £130,000 (2009: £130,000) for Mr N S Terrington, £127,000 (2009: £124,000) for Mr N Keen and £65,000 (2009: £65,000) for Mr J A Heron.

Details of share-based awards

Aggregate gains before taxation made by directors on the exercise of share based awards during the year were £109,000 (2009: £12,000). At 30 September 2010 the share price of The Paragon Group of Companies PLC was 163.6p per share (2009: 150.8p per share) and the range during the year then ended was 113.3p to 182.7p per share (2009: 31.0p to 159.0p per share).

Paragon Performance Share Plan

Awards under this plan comprise a right to acquire shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the applicable performance criteria have been satisfied.

Details of individual entitlements of the directors under the Paragon Performance Share Plan at 30 September 2009 and 30 September 2010 are:

Date from which exercisable	Expiry date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number
Awards outstanding at 30 September 2009:					
09/01/2010†	09/07/2010	665.00p *	11,611	8,699	5,545
28/03/2010†	28/06/2010	576.50p *	13,073	9,795	6,244
14/06/2010†	14/06/2017	543.00p *	16,964	12,712	7,238
26/09/2010†	26/09/2017	296.50p *	36,038	27,009	12,673
26/11/2010†	26/11/2017	130.50p *	50,050	37,504	26,693
29/09/2011‡	29/09/2018	66.50p #	844,051	632,475	450,160
21/05/2012§	21/05/2019	70.00p #	844,286	632,143	450,000
			1,816,073	1,360,337	958,553
Awards made in the year:					
Granted on 4 January 2010					
04/01/2013§	04/01/2020	135.20p #	451,145	337,786	240,458
Awards exercised in the year:					
09/01/2010†	09/07/2010	665.00p *	(6,808)	(5,101)	(3,252)
28/03/2010†	28/06/2010	576.50p *	(7,665)	(5,743)	(3,661)
Awards lapsing in the year:					
09/01/2010†	09/07/2010	665.00p *	(4,803)	(3,598)	(2,293)
28/03/2010†	28/06/2010	576.50p *	(5,408)	(4,052)	(2,583)
14/06/2010†	14/06/2017	543.00p *	(7,017)	(5,258)	(2,994)
26/09/2010†	26/09/2017	296.50p *	(14,911)	(11,175)	(5,243)
At 30 September 2010			**2,220,606**	**1,663,196**	**1,178,985**

* price per 10p ordinary share

\# price per £1 ordinary share

† 50% of these awards are subject to an EPS test and 50% to a TSR test. No part of an award vests for below median performance, 35% of each element vests for median performance and full vesting will occur for upper quartile performance. Between median and upper quartile performance, awards vest on a straight line basis.

‡ These awards are subject to an absolute TSR performance condition, whereby the increase in the net return index over the performance period, based on a share price that is equivalent to 125 pence per share, must at least equal compound annual growth of 10%. 35% of the awards will vest for 10% compound annual growth over the performance period, increasing on a straight line basis to full vesting for compound annual growth of 15%. The performance period is the three year period commencing on the date of grant.

§ These awards will be subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of the awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

The share price at the exercise date of 29 March 2010 was 138.0p.

The awards maturing during the year achieved 58.6% vesting after the application of the performance criteria.

Share option schemes

Details of individual options held by the directors at 30 September 2009 and 30 September 2010 are:

Date from which exercisable	Expiry date	Option price	N S Terrington Number	N Keen Number	J A Heron Number
Options held at 30 September 2009:					
17/02/2003	17/02/2010	234.33p	62,730	-	-
27/11/2004	27/11/2011	395.34p	188,190	-	-
29/07/2005	29/07/2012	297.30p	37,638	37,638	50,184
14/03/2006	14/03/2013	297.30p	119,848	87,161	41,269
08/12/2006	08/12/2013	540.40p	61,527	46,261	25,906
01/12/2007	01/12/2014	555.34p	68,874	51,656	27,730
			538,807	222,716	145,089
Options granted in the year:			-	-	-
Options lapsing in the year:					
17/02/2003	17/02/2010	234.33p	(62,730)	-	-
At 30 September 2010			**476,077**	**222,716**	**145,089**

Deferred bonus shares

Details of individual entitlements of the directors to Deferred Bonus Shares at 30 September 2009 and 30 September 2010 are:

Award date	Transfer date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number
Awards outstanding at 30 September 2009:					
15/01/2007	01/10/2009	631.00p*	11,340	8,501	5,996
			11,340	8,501	5,996
Awards made in the year:					
11/01/2010	01/10/2012	130.60p#	60,098	42,802	27,952
Shares transferred in the year:					
15/01/2007	01/10/2009	631.00p*	(11,340)	(8,501)	(5,996)
At 30 September 2010			**60,098**	**42,802**	**27,952**

* price per 10p ordinary share

\# price per £1 ordinary share

The Deferred Bonus Shares awarded will be transferred to the scheme participants as soon as is reasonably practicable after the transfer date.

The share price at the exercise date of 1 December 2009 was 135.0p. Following the transfer of the shares the participants received payment in respect of the dividends which would have accrued on the shares since the award date as follows: Mr N S Terrington - £3,737, Mr N Keen - £2,801 and Mr J A Heron - £1,976.

Rights to the following shares are due to be granted in respect of the compulsory deferral of 25% of performance bonuses in excess of £50,000 for the year ended 30 September 2010. The shares, less any clawback, which can be applied by the Remuneration Committee in certain circumstances, will be transferable to the recipients on 1 October 2013, subject to the recipient being employed by the Company at that time:

N S Terrington	82,248
N Keen	59,672
J A Heron	40,288

Matching Share Plan

The individual interests of the directors in the Matching Share Plan at 30 September 2009 and 30 September 2010 are:

Award date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number
Awards outstanding at 30 September 2009:				
09/01/2007†	665.00p*	15,755	11,805	9,406
		15,755	11,805	9,406
Awards made in the year:				
05/01/2010§	133.40p#	43,249	32,422	22,868
Awards exercised in the year:				
09/01/2007†	665.00p*	(9,238)	(6,922)	(5,515)
Awards lapsing in the year:				
09/01/2007†	665.00p*	(6,517)	(4,883)	(3,891)
At 30 September 2010		**43,249**	**32,422**	**22,868**

* price per 10p ordinary share

\# price per £1 ordinary share

† 50% of these awards are subject to an EPS test and 50% to a TSR test. No part of an award vests for below median performance, 35% of each element vests for median performance and full vesting will occur for upper quartile performance. Between median and upper quartile performance, awards vest on a straight line basis.

§ These awards will be subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of the awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

Awards are exercisable from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied to the tenth anniversary of the grant date. EPS performance is measured over the three year period commencing on the first day of the financial year in which the award date falls and TSR over the three year period commencing on the first day of the calendar quarter in which the award date falls.

The awards maturing during the year achieved 58.6% vesting after the application of the performance criteria.

The share price at the exercise date of 29 March 2010 was 138.0p.

Signed on behalf of the Board of Directors

JOHN G GEMMELL
Company Secretary
24 November 2010

Statement of directors' responsibilities in relation to financial statements

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards ('IFRS') and have also elected to prepare company financial statements in accordance with IFRS. In respect of the financial statements for the year ended 30 September 2010, company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 – 'Presentation of Financial Statements' requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the applicable requirements of the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

The directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole; and
- the business review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties it faces.

Approved by the Board of Directors and signed on behalf of the Board.

JOHN G GEMMELL
Company Secretary
24 November 2010

Independent auditors' report

To the members of The Paragon Group of Companies PLC

We have audited the financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of movements in equity and the related notes 1 to 64. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2010 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 3 to the financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

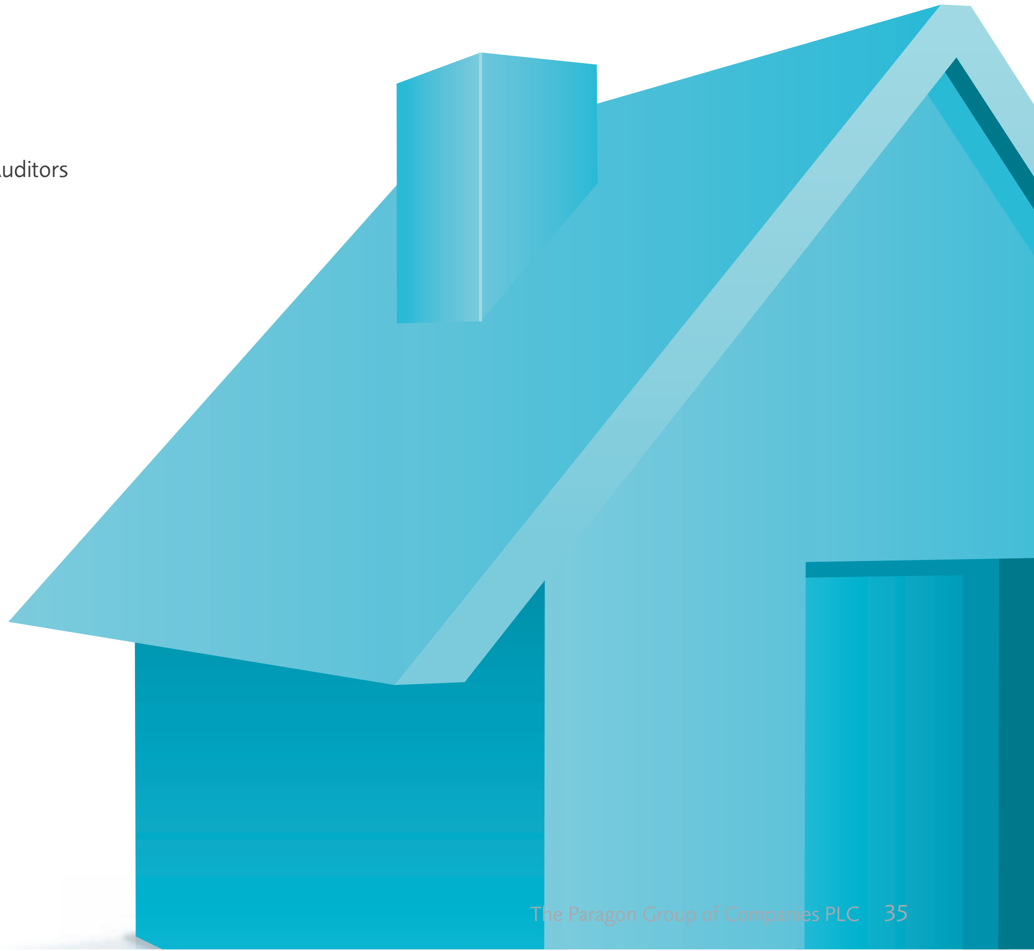
- adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 39 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

MATTHEW PERKINS
(Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham, United Kingdom

24 November 2010



Corporate governance

The Board of Directors is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance ("Code") issued by the Financial Reporting Council in June 2008, which is publicly available on their website at www.frc.org. Throughout the year ended 30 September 2010 the Company complied with the provisions of the Code.

Directors

Throughout the year the Board of Directors comprised the Chairman, three executive and four non-executive directors.

All of the directors bring to the Company a broad and valuable range of experience. In accordance with the Code, all directors have submitted themselves for re-election at least once in every three years. With effect from the Group's financial year ending 30 September 2011, the UK Corporate Governance Code replaces the Combined Code and recommends that all directors should be subject to re-appointment annually. Accordingly all of the directors have submitted themselves for re-election at the forthcoming Annual General Meeting. The names of the directors in office at the date of this report and their biographical details are set out on pages 12 and 13.

The division of responsibilities between the Chairman and Chief Executive is clearly established, set out in writing and agreed by the Board. There is a strong non-executive representation on the Board, including Terence Eccles, who has been nominated as the Senior Independent Director. This provides effective balance and challenge. The Board is responsible for overall Group strategy, for approving major agreements, transactions and other financing matters and for monitoring the progress of the Group against budget. All directors receive sufficient relevant information on financial, business and corporate issues prior to meetings and there is a formal schedule of matters reserved for decision by the Board, which includes material asset acquisitions and disposals, granting and varying authority levels of the Chairman and the executive directors, determination and approval of the Group's objectives, strategy and annual budget, investment decisions, corporate governance policies and financial and dividend policies.

The Chairman's other business commitments are set out in the biographical details on page 12 and there have been no significant changes during the period to those commitments.

There were ten regular Board meetings during the year. Robert Dench, Nigel Terrington, Nicholas Keen, John Heron and Alan Fletcher attended all ten of the Board meetings during the year ended 30 September 2010, Christopher Newell and Edward Tilly attended nine meetings and Terence Eccles attended seven meetings.

All of the non-executive directors are independent of management and all are appointed for fixed terms. They are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues. Christopher Newell's appointment has been extended for a further twelve months to enable an orderly handover of the Chairmanship of the Audit and Compliance Committee after the expected appointment of an appropriately qualified person in the coming year. The Board considers that Mr Newell remains independent.

Prior to 1 October 2008 the Board approved a set of guiding principles on managing conflicts and agreed a process to identify and authorise any conflicts which might arise. At each meeting of the Board actual or potential conflicts of interest in respect of any director are reviewed.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are complied with. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

All directors are able to take independent professional advice in the furtherance of their duties whenever it is considered appropriate to do so and have access to such continuing professional development opportunities as are identified as appropriate in the Board appraisal process.

The Board also operates through a number of committees covering certain specific matters, these being:

- The Remuneration Committee, which during the year consisted of Edward Tilly (who chaired the Committee), Terence Eccles, Christopher Newell and Alan Fletcher, all of whom are independent non-executive directors, and the Chairman of the Company, Robert Dench.

  During the year ended 30 September 2010 there were five meetings of the Remuneration Committee. All meetings were attended by Edward Tilly, Alan Fletcher and Robert Dench and four meetings were attended by Terence Eccles and Christopher Newell.

  Further information about the Remuneration Committee is given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 22 to 32.

- The Audit and Compliance Committee, which during the year consisted of Christopher Newell, who chaired the Committee, Terence Eccles, Edward Tilly and Alan Fletcher. The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Committee meets at least three times per year. It monitors the integrity of the Group's financial reporting, reviews the Group's internal control and risk management systems, monitors and reviews the effectiveness of the Group's internal audit function, monitors the relationship between the Group and the external auditors and provides a forum through which the Group's external and internal audit functions report to the non executive directors. The Committee is also responsible for ensuring that the system and controls for regulatory compliance are effective.

The Audit and Compliance Committee reviews the scope and the results of the annual external audit, its cost effectiveness and the independence and objectivity of the external auditors. In recommending the re-appointment of the external auditors to the Board, the Committee have considered their performance and the requirements of the Group's financial control process and have concluded that the needs of the Group would not be best served by putting the external audit out to tender at this time. The Committee has not identified any factors which might restrict its choice of external auditor.

Both the Audit and Compliance Committee and the external auditors have in place safeguards to avoid compromises of the independence and objectivity of the external auditors. The Group has a formal policy for the engagement of its external auditors to supply non-audit services. The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditors' opinion on the Group's financial statements. The policy incorporates a comprehensive system for reporting to the Audit and Compliance Committee all proposals considered and the level of fees payable to the external auditors for the provision of non-audit services. In pursuance of this policy other accounting firms have been engaged for particular assignments.

At each meeting the Audit and Compliance Committee receives reports of reviews conducted throughout the Group by the Internal Audit and, from time to time, compliance functions.

The Chairman, the executive directors, Director of Financial Accounting and Group Company Secretary, Director of Business Analysis and Planning, Director of Legal Services, Head of Internal Audit and a partner from the external auditors normally attend meetings of the Committee.

During the year ended 30 September 2010 there were three meetings of the Audit and Compliance Committee, all of which were attended by Christopher Newell and Alan Fletcher and two of which were attended by Terence Eccles and Edward Tilly.

- The Nomination Committee, consisting of Robert Dench, who chairs the Committee, Nigel Terrington and three non-executive directors, Christopher Newell, Edward Tilly and Alan Fletcher, ensuring that a majority of the Committee's members are independent non-executive directors. The Committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board. There were no meetings of the Committee during the year. The Committee only engages in the process of identification of suitable candidates for appointment to the Board when requested by the Board to do so.

  There is a formal process for the appointment of directors, starting with a review of the Board structure, size and composition, leading to the preparation of a written job specification and the identification of suitable candidates. The Nomination Committee ensures that prospective non-executive directors can devote sufficient time to the appointment. The Board recognises the benefits that can flow from non-executive directors holding other appointments but requires them to seek the agreement of the Chairman before entering into any commitments that might affect the time they can devote to the Company. The choice of appointee would be based entirely on merit.

- The Asset and Liability Committee, consisting of appropriate heads of functions and chaired by Nigel Terrington, the Chief Executive. It meets regularly and monitors Group liquidity risks, interest rate risks, currency risks and treasury counterparty exposures.

- The Credit Committee, consisting of appropriate heads of functions and chaired by Nicholas Keen, the Finance Director. It meets regularly and is responsible for establishing credit policy and monitoring compliance therewith.

All Board committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The terms of reference of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee are available on request from the Company Secretary.

The composition of the Board and its committees is kept under review, with the aim of ensuring that there is an appropriate balance of power and authority between executive and non-executive directors and that the directors collectively possess the skills and experience necessary to direct the Company and the Group's business activities.

There is an established process for external appointments through the Nomination Committee. Ultimately, the appointment of any new director is a matter for the Board. Executive director appointments are based upon merit and business need. Non-executive appointments are based upon the candidates' profiles matching those drawn up by the Nomination Committee. In all cases the Board approves the appointment only after careful consideration.

The Board, individual directors and Board committees are appraised annually. The performance of the Chief Executive is appraised by the Chairman. The performance of the other executive directors is appraised by the Chief Executive in conjunction with the Chairman. The results of these appraisals are presented to the Remuneration Committee for consideration and determination of remuneration.

During the year the Board conducted a formal and rigorous performance review facilitated by an external company. All Board directors participated and considered a list of questions on Board and Committee performance. The evaluation process was followed by a Board discussion.

At the Annual General Meeting the Chairman will confirm to shareholders, when proposing the re-election of any non-executive director, that, following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role.

The non-executive directors meet at least annually to review the performance of the Chairman.

Directors' remuneration

The Remuneration Committee reviews the performance of executive directors and members of senior management prior to determining its recommendations on annual remuneration, performance bonuses and share options for the Board's determination.

The Report of the Board to the Shareholders on Directors' Remuneration is on pages 22 to 32.

Relations with shareholders

The Board encourages communication with the Company's institutional and private investors. All shareholders have at least twenty working days' notice of the Annual General Meeting at which the directors and committee chairmen are available for questions. The Annual General Meeting is held in London during business hours and provides an opportunity for directors to report to investors on the Group's activities and to answer their questions. Shareholders will have an opportunity to vote separately on each resolution and all proxy votes lodged are counted and the balance for and against each resolution is announced.

The Chairman, Chief Executive and Finance Director have a full programme of meetings with institutional investors during the course of the year and investors comments are communicated to all members of the Board.

The Company's web site at www.paragon-group.co.uk provides access to information on the Company and its businesses.

Accountability and audit

Detailed reviews of the performance of the Group's main business lines are included within the Chairman's Statement and Chief Executive's Review. The Board uses these, together with the Directors' Report on pages 14 to 17 to present a balanced and understandable assessment of the Company's position and prospects.

The directors' responsibility for the financial statements is described on page 33.

An on-going process for identifying, evaluating and managing the significant risks faced by the Group, which is regularly reviewed by the Board, was in place for the year ended 30 September 2010 and to the date of these financial statements. The directors confirm that they have reviewed the effectiveness of the Group's system of internal control for this period and that these procedures accord with the guidance 'Internal Controls: Guidance for Directors on the Combined Code'.

The directors are responsible for the system of internal control throughout the Group, including the system of internal control over financial reporting, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide reasonable, but not absolute, assurance against the risk of material misstatement or loss and that assets are safeguarded against unauthorised use or disposition. In assessing what constitutes reasonable assurance, the directors have regard to the relationship between the cost and benefits from particular aspects of the control system.

The system of internal control includes documented procedures covering accounting, compliance, risk management, personnel matters and operations, clear reporting lines, delegation of authority through a formal structure of mandates, a formalised budgeting, management reporting and review process, the use of key performance indicators throughout the Group and regular meetings of the Asset and Liability and Credit Committees and senior management.

Internal control over financial reporting within the Group is provided by a process designed, under the supervision of the Finance Director and senior financial management of the Group, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes, including the process of preparing the Group's consolidated financial statements.

Internal control over financial reporting includes polices and procedures intended to ensure that records are maintained that fairly, and in reasonable detail, reflect transactions and dispositions of assets, to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements, to ensure that receipts and expenditures are only being made in accordance with management authorisation and to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may reduce.

The Board receives regular reports setting out key performance and risk indicators. In addition the Board operates a formal risk management process, from which the key risks facing the business are identified. The process results in reports to the Board on how these risks are being managed. The Board has a programme of regular presentations from senior management to enable the Board to review the operation of internal controls in relation to the risks associated with their specific areas.

The system of internal control is monitored by management and by an internal audit function that concentrates on the areas of greater risk and reports its conclusions regularly to management and the Audit and Compliance Committee. The internal audit work plan is approved annually by the Audit and Compliance Committee, which reviews the effectiveness of the system of internal control annually and reports its conclusions to the Board.

Going concern basis

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position, are described in the Chairman's Statement on pages 5 to 6 and Chief Executive's review on pages 7 to 11. The principal risks and uncertainties affecting the Group, and the steps taken to mitigate against these risks are described on pages 40 to 41.

Note 5 to the accounts includes an analysis of the Group's working capital position and policies, while note 6 includes a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, interest rate and liquidity risk. Critical accounting estimates affecting the results and financial position disclosed in this annual report are discussed in note 4.

As described under 'Accountability and Audit' above, the Group has a formalised process of budgeting, reporting and review, which provides information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives.

Substantially all of the Group's remaining loan portfolios are funded through securitisation structures and are thus match-funded to maturity. None of the Group's debt matures before 2017, when the £110.0 million corporate bond is repayable. As a consequence the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and accounts.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results. The Group's system of risk management, which includes risk review and an active internal audit function, is monitored by the Audit and Compliance Committee as described in the 'Corporate Governance' section of this Annual Report on pages 36 to 39.

The principal risks to which the Group is exposed include the following:

Economic environment

Further deterioration in the general economy may adversely affect all aspects of the Group's business. Adverse economic conditions might increase the number of borrowers that default on their loans, which may increase the Group's costs and could result in losses on some of the Group's assets.

The general economic factors affecting the Group in the period going forward, together with the steps taken by the Group's management to address these issues are described in more detail in the Chairman's statement on pages 5 to 6 and the Chief Executive's review on pages 7 to 11.

Changes in interest rates may adversely affect the Group's net income and profitability. The steps taken by the Group to mitigate against the long term effects of interest rate movements, through the structuring of its products and the use of hedging procedures are described in note 6 to the accounts.

Credit risk

As a primary lender the Group faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Group's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systematic risks in financial systems could reduce the recoverability and value of the Group's assets.

The Group's approach to the management of credit risk and the systems in place to mitigate that risk are described in the section of note 6 to the accounts entitled 'Credit Risk'.

Operational risk

The activities of the Group subject it to operational risks relating to its ability to implement and maintain effective systems to process the high volume of transactions with customers. A significant breakdown of the IT systems of the Group might adversely impact the ability of the Group to operate its business effectively.

To address these risks, the Group's internal audit function carries out targeted reviews of critical systems to ensure that they remain adequate for their purpose. The Group has a business continuity plan, which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant disruption to the business.

Competitor risk

The Group faces strong competition in all of the core markets in which it operates. There is a danger that its profitability and /or market share may be impaired.

To mitigate this risk the Group maintains relationships with its customers, business introducers and other significant participants in the markets in which it is active, as well as being active in industry-wide organisations and initiatives. This enables market trends to be identified and addressed within the relevant business strategy.

Governmental, legislative and regulatory risk

The market sectors to which the Group supplies products, and the capital markets from which it has historically obtained much of its funding, have been subject to intervention by United Kingdom Government, European Union and other regulatory bodies. Current regulatory developments are discussed in the section of the Chief Executive's Review headed 'Regulation' on page 10. To the extent that such actions disadvantage the Group, when compared to other market participants, they present a risk to the Group.

In order to mitigate this risk the Group has been active in explaining its position to the authorities in order that it is not inadvertently disadvantaged.

Management

The success of the Group is dependent on recruiting and retaining skilled senior management and personnel.

The Group's employment policies, which are designed to ensure that an appropriately skilled workforce is, and remains, in place are described within the Corporate Social Responsibility section of this Annual Report on pages 18 and 19.

Working capital

The Group's capital position and its policies in respect of capital management are described in note 5 to the accounts. These policies and their application are described more fully in the section of the Chairman's Statement headed 'Capital Management' on page 5.

Financial risk

The Group's exposure to other financial risks, including liquidity risk and foreign currency risk, and the procedures in place to mitigate those risks are described in detail in note 6 to the accounts.

Contacts

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The Accounts

CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2010

	Notes	2010 £m	2009 £m
Interest receivable	9	275.6	508.2
Interest payable and similar charges	10	(142.2)	(373.4)
Net interest income		133.4	134.8
Share of results of associate	29	-	-
Other operating income	11	14.5	16.0
Total operating income		147.9	150.8
Operating expenses	12	(42.6)	(39.3)
Provisions for losses	17	(39.2)	(66.2)
Operating profit before gains and fair value items		66.1	45.3
Gains on debt repurchase	18	5.7	18.4
Impairment of goodwill	25	-	(6.0)
Fair value net (losses)	19	-	(3.4)
Operating profit being profit on ordinary activities before taxation		71.8	54.3
Tax charge on profit on ordinary activities	20	(17.9)	(13.2)
Profit on ordinary activities after taxation for the financial year		53.9	41.1

	Notes	2010	2009
Earnings per share			
- basic	22	18.3p	13.9p
- diluted	22	17.8p	13.7p

The results for the current and preceding years relate entirely to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2010

	Notes	2010 £m	2010 £m	2009 £m	2009 £m
Profit for the year			53.9		41.1
Other comprehensive income					
Actuarial (loss) on pension scheme	54	(5.7)		(7.7)	
Cash flow hedge gains taken to equity	46	0.3		1.9	
Tax on items taken directly to equity	23	1.3		1.6	
Other comprehensive income for the year net of tax			(4.1)		(4.2)
Total comprehensive income for the year			49.8		36.9

CONSOLIDATED BALANCE SHEET

30 September 2010

	Notes	2010 £m	2009 £m	2008 £m
Assets employed				
Non-current assets				
Intangible assets	24	**9.2**	9.6	0.4
Property, plant and equipment	26	**10.4**	13.5	18.5
Interest in associate	29	**-**	-	-
Financial assets	30	**10,080.1**	10,640.8	10,647.6
Deferred tax asset	38	**1.5**	2.8	10.3
		10,101.2	10,666.7	10,676.8
Current assets				
Current tax assets	39	**-**	1.7	-
Other receivables	40	**5.9**	5.5	6.6
Cash and cash equivalents	41	**536.7**	480.4	826.3
		542.6	487.6	832.9
Total assets		**10,643.8**	11,154.3	11,509.7
Financed by				
Equity shareholders' funds				
Called-up share capital	42	**299.4**	299.1	299.1
Reserves	43	**446.1**	408.4	378.7
Share capital and reserves		**745.5**	707.5	677.8
Own shares	50	**(53.2)**	(56.7)	(56.3)
Total equity		**692.3**	650.8	621.5
Current liabilities				
Financial liabilities	51	**1.0**	1.1	0.9
Current tax liabilities	55	**16.2**	-	6.3
Provisions	56	**-**	0.5	0.3
Other liabilities	57	**32.4**	30.4	79.4
		49.6	32.0	86.9
Non-current liabilities				
Financial liabilities	51	**9,883.8**	10,457.5	10,791.5
Retirement benefit obligations	54	**16.5**	11.5	5.0
Provisions	56	**-**	-	0.2
Other liabilities	57	**1.6**	2.5	4.6
		9,901.9	10,471.5	10,801.3
Total liabilities		**9,951.5**	10,503.5	10,888.2
		10,643.8	11,154.3	11,509.7

Approved by the Board of Directors on 24 November 2010.

Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

COMPANY BALANCE SHEET

30 September 2010

	Notes	2010 £m	2009 £m	2008 £m
Assets employed				
Non-current assets				
Property, plant and equipment	26	**7.0**	7.9	8.7
Investment in subsidiary undertakings	27	**764.4**	769.9	782.0
Interest in associate	29	**-**	-	-
Financial assets	30	**8.0**	8.7	15.5
		779.4	786.5	806.2
Current assets				
Other receivables	40	**125.8**	88.5	102.0
Cash and cash equivalents	41	**143.6**	78.8	64.8
		269.4	167.3	166.8
Total assets		**1,048.8**	953.8	973.0
Financed by				
Equity shareholders' funds				
Called-up share capital	42	**299.4**	299.1	299.1
Reserves	43	**269.7**	235.1	208.5
Share capital and reserves		**569.1**	534.2	507.6
Own shares	50	**(39.5)**	(39.5)	(39.5)
Total equity		**529.6**	494.7	468.1
Current liabilities				
Financial liabilities	51	**0.9**	0.8	0.8
Current tax liabilities	55	**1.5**	1.0	1.0
Other liabilities	57	**389.2**	317.6	369.4
		391.6	319.4	371.2
Non-current liabilities				
Financial liabilities	51	**126.7**	138.6	132.5
Other liabilities	57	**0.9**	1.1	1.2
		127.6	139.7	133.7
Total liabilities		**519.2**	459.1	504.9
		1,048.8	953.8	973.0

Approved by the Board of Directors on 24 November 2010.

Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2010

	Notes	2010 £m	2009 £m
Net cash generated by operating activities	58	470.3	738.8
Net cash generated by investing activities	59	0.3	1.3
Net cash (utilised) by financing activities	60	(414.1)	(1,086.2)
Net increase / (decrease) in cash and cash equivalents		56.5	(346.1)
Opening cash and cash equivalents		480.1	826.2
Closing cash and cash equivalents		536.6	480.1
Represented by balances within:			
Cash and cash equivalents		536.7	480.4
Financial liabilities		(0.1)	(0.3)
		536.6	480.1

COMPANY CASH FLOW STATEMENT

For the year ended 30 September 2010

	Notes	2010 £m	2009 £m
Net cash generated / (utilised) by operating activities	58	71.5	(0.6)
Net cash generated by investing activities	59	3.8	24.6
Net cash (utilised) by financing activities	60	(10.5)	(10.0)
Net increase in cash and cash equivalents		64.8	14.0
Opening cash and cash equivalents		78.8	64.8
Closing cash and cash equivalents		143.6	78.8
Represented by balances within:			
Cash and cash equivalents		143.6	78.8
Financial liabilities		-	-
		143.6	78.8

STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 September 2010

	Notes	The Group		The Company	
		2010	2009	2010	2009
		£m	£m	£m	£m
Total comprehensive income for the year		49.8	36.9	43.2	34.6
Dividends paid	48	(10.0)	(9.2)	(10.0)	(9.2)
Net movement in own shares		3.5	(0.4)	-	-
(Deficit) / surplus on transactions in own shares	49	(3.5)	(0.6)	0.3	-
Charge for share based remuneration	13	1.4	1.2	1.4	1.2
Tax on share based remuneration	23	0.3	1.4	-	-
Net movement in equity in the year		41.5	29.3	34.9	26.6
Equity at 30 September 2009		650.8	621.5	494.7	468.1
Equity at 30 September 2010		692.3	650.8	529.6	494.7

NOTES TO THE ACCOUNTS

For the year ended 30 September 2010

1. GENERAL INFORMATION

The Paragon Group of Companies PLC is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 2336032. The address of the registered office is given on page 42. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 14 to 17.

These financial statements are presented in pounds sterling, which is the currency of the economic environment in which the Group operates.

2. ADOPTION OF NEW AND REVISED REPORTING STANDARDS

In the preparation of these financial statements reporting standards being applied for the first time are:

- International Financial Reporting Standard 8 – 'Operating Segments' ('IFRS 8');
- The revisions to International Accounting Standard 1 – 'Presentation of Financial Statements' ('IAS 1 (revised)');
- Amendment to IFRS 2 – 'Share-based Payment' in respect of cancellations and vesting conditions; and
- Amendment to IFRS 7 – 'Financial Instruments – Disclosure' in respect of extended disclosures.

As a result of the adoption of IFRS 8, the disclosures on operating segments given in note 7 are presented on a different basis from in previous years and certain disclosures have been changed. The segments reported and their results, however, remain as previously disclosed under IAS 14 – 'Segment Reporting'.

As a result of the adoption of IAS 1 (revised), the format of certain disclosures made in the financial statements and notes differs from previous years. Comparative figures have been reanalysed on a consistent basis.

The adoption of the amendment to IFRS 2 has had no material impact on the accounting of the Group.

The amendment to IFRS 7 has mandated certain new disclosures in respect of the Group's financial instruments which are included in the financial statements for the first time.

None of these accounting changes has any effect on the results of the Group for the current or preceding period, its balance sheets or its cash flows.

At the date of authorisation of these financial statements the following International Financial Reporting Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 – 'Financial Instruments';
- Amendment to IFRIC 14 – 'Prepayments of a Minimum Funding Requirement'; and
- IAS 24 (Revised) – 'Related Party Disclosures'.

The directors anticipate that the adoption of these Standards and Interpretations in future periods, other than IFRS 9, will have no material impact on the financial statements of the Group.

The adoption of IFRS 9, as currently in issue, would not be anticipated to have a material impact on the accounting of the Group although the International Accounting Standard Board ('IASB') has announced its intention to expand this Standard in such a way that would require changes to the valuation and income recognition methods relating to the Group's Loans to Customers, Borrowings and derivative assets and liabilities. This Standard is intended to come into force for the financial year ending 30 September 2014, if the Standard is endorsed by the European Union. The European Union has, however, declined to consider the endorsement of IFRS 9 until a complete version is issued by the IASB. The Group has yet to conduct a full assessment of its potential impact, pending further information on endorsement from the European Union.

Other Standards and interpretations in issue but not effective do not address matters relevant to the Group's accounting and reporting.

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union.

The particular policies adopted are described below.

(a) Accounting convention

The financial statements have prepared under the historical cost convention, except as required in the valuation of certain financial instruments which are carried at fair value.

(b) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2010. Subsidiaries comprise all those entities over which the Group has control. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

In accordance with SIC 12 – 'Consolidation: Special Purpose Entities' companies owned by charitable trusts into which loans originated by Mortgage Trust Limited were sold as part of its securitisation programme, where the Group enjoys the benefits of ownership, are treated as subsidiaries.

Similarly, trusts set up to hold shares in conjunction with the Group's employee share ownership arrangements are also treated as subsidiaries.

(c) Goodwill

Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair value of the purchase consideration over the fair values of acquired assets, including intangible assets, is held on the balance sheet and reviewed annually to determine whether any impairment has occurred.

Negative goodwill is written off as it arises.

As permitted by IFRS 1, the Group has elected not to apply IFRS 3 – 'Business Combinations' to combinations taking place before its transition date to IFRS (1 October 2004). Therefore any goodwill which was written off to reserves under UK GAAP will not be charged or credited to the profit and loss account on any future disposal of the business to which it relates.

(d) Intangible assets

Intangible assets comprise purchased computer software and other intangible assets acquired in business combinations.

Purchased computer software is capitalised where it has a sufficiently enduring nature and is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

Other intangible assets acquired in business combinations include brands and business networks and are capitalised in accordance with the requirements of IFRS 3 – 'Business Combinations'. Such assets are stated at attributed cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 6.67% per annum.

(e) Leases

Leases are accounted for as operating or finance leases in accordance with IAS 17 – 'Leases'. A finance lease is deemed to be one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

Rental income and costs under operating leases are credited or charged to the profit and loss account on a straight line basis over the period of the leases.

(f) Contract hire

Motor vehicles acquired in connection with contract hire arrangements are sold to finance houses, who lease them to customers for a pre-determined period. The Group has undertaken to repurchase these vehicles at the end of the lease term.

In accordance with the requirements of IAS 17, the assets are not derecognised on the sale to the finance house and remain as the Group's assets and the consideration received is spread over the customer's lease term.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost for property held under a sale and leaseback transaction represents the sale value.

Depreciation is provided on cost in equal annual instalments over the lives of the assets. Land is not depreciated. The rates of depreciation are as follows:

Freehold premises	2% per annum
Short leasehold premises	over the term of the lease
Computer hardware	25% per annum
Furniture, fixtures and office equipment	15% per annum
Company motor vehicles	25% per annum
Motor vehicles subject to contract hire arrangements	over the term of the lease

(h) Associates

The Group's interest in associated undertakings is valued at the Group's share of the net assets of the associate, as required by IAS 28 – 'Investments in Associates'. The interest of the Group in the profit after tax of the associate is recognised in the income statement.

The Company's interest in the shares of associated undertakings is valued at cost less provision for impairment. Dividends received from the associate by the Company are included in income when they become receivable.

(i) Investments

The Company's investments in subsidiary undertakings are valued at cost less provision for impairment.

(j) Loans to customers

Loans to customers are considered to be 'loans and receivables' as defined by IAS 39 – 'Financial Instruments: Recognition and Measurement'. They are therefore accounted for on the amortised cost basis.

Loans advanced are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter all loans to customers are valued at this initial amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method. The loan balances are then reduced where necessary by a provision for balances which are considered to be impaired.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payments and receipts arising from the loan to the initial carrying amount.

The Group's policy is to hedge against any exposure to fixed rate loan assets.

(k) Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for doubtful debts.

Income from finance lease contracts is accounted for on the actuarial basis.

3. ACCOUNTING POLICIES (continued)

(l) Impairment of loans and receivables

Loans and receivables are reviewed for indications of possible impairment throughout the year and at each balance sheet date, in accordance with IAS 39. Where loans exhibit objective evidence of impairment, the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security, discounted at the original EIR. Loans are assessed collectively, grouped by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date.

For financial accounting purposes provisions for impairments of loans to customers are held in an allowance account. These balances are offset against the gross value of the loan when it is written off on the administration system. After this point a salvage balance may be held in respect of any further recoveries expected on the loan.

(m) Amounts owed by or to group companies

In the accounts of the Company balances owed by or to other group companies are carried at the current amount outstanding less any provision. Where balances owing between group companies fall within the definition of either financial assets or financial liabilities given in IAS 32 – 'Financial Instruments: Presentation' they are classified as 'Loans and Receivables' or 'Other financial liabilities', respectively.

(n) Cash and cash equivalents

Balances shown as cash and cash equivalents in the balance sheet comprise demand deposits and short-term deposits with banks with initial maturities of not more than 90 days.

(o) Own shares

Shares in The Paragon Group of Companies PLC held in treasury or by the trustees of the Group's employee share ownership plans are shown on the balance sheet as a deduction in arriving at total equity. Own shares are stated at cost.

(p) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of temporary differences. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Tax relating to items taken directly to equity is also taken directly to equity.

(q) Borrowings

Borrowings are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance.

Interest and all other costs of the funding are expensed to the income statement as interest payable over the term of the borrowing on an Effective Interest Rate basis.

Gains on the purchase of the Group's Floating Rate Notes or corporate bonds are recognised as income at the time of the transaction.

(r) Finance lease payables

Balances due on the lease arising from the sale and leaseback of a Group property are recognised in creditors at the total amount payable less interest not yet accrued. Interest is accrued on the actuarial basis.

The profit which arose on the sale and leaseback transaction is held within deferred income and is being credited to profit over the lease term on a straight line basis.

(s) Derivative financial instruments

Derivative instruments utilised by the Group comprise currency swap, interest rate swap and interest rate option agreements. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Group in line with the Group's risk management policies.

The Group does not enter into speculative derivative contracts.

All derivatives are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative. Fair value is based on market prices, where a market exists. If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments. Changes in the fair value of derivatives are recognised in the income statement, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge.

(t) Hedging

For all hedges, the Group documents, at inception, the relationship between the hedging instruments and the hedged items, as well as its risk management strategy and objectives for undertaking the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by IAS 39.

For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of IAS 39, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

Where a derivative is used to hedge the variability of cash flows of an asset or liability, it may be designated as a cash flow hedge so long as this relationship meets the hedging requirements of IAS 39. For such an instrument the effective portion of the change in the fair value of the derivative is taken initially to equity, with the ineffective part taken to profit or loss. The amount taken to equity is released to the income statement at the same time as the hedged item affects the income statement. Where a cash flow hedge relationship is terminated, or deemed ineffective, the amount taken to equity will remain there until the hedged transaction is recognised, or is no longer highly probable.

(u) Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. As required by IAS 12 – 'Income Taxes', deferred tax assets and liabilities are not discounted to take account of the expected timing of realisation.

(v) Retirement benefit obligations

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations by professionally qualified actuaries using the projected unit method, is charged to the income statement. Actuarial gains and losses are recognised in full in the period in which they occur and do not form part of the result for the period, being recognised in the Statement of Comprehensive Income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date.

Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period are recognised in the result for the period. Any variances against these estimates in the year form part of the actuarial gain or loss.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

The charge to the income statement for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

3. ACCOUNTING POLICIES (continued)

(w) Provisions

Provisions are recognised where there is a present obligation as a result of a past event, it is probable that this obligation will result in an outflow of resources and this outflow can be reliably quantified. Provisions are discounted where this effect is material.

(x) Revenue

The revenue of the Group comprises interest receivable and similar charges and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

(y) Fee and commission income

Other income includes administration fees charged to borrowers, which are credited when the related service is performed, fees charged to third parties for account administration services, which are credited as those services are performed, and commissions receivable on the sale of insurances, which are taken to profit at the point at which the Group becomes unconditionally entitled to the income.

(z) Share based payments

In accordance with IFRS 2 – 'Share based payments', the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date.

As permitted by IFRS 1, only those options and awards granted after 7 November 2002 and not vested at 1 January 2005 have been restated on transition to IFRS.

National Insurance on share based payments is accrued over the vesting period, based on the share price at the balance sheet date.

Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

(aa) Dividends

In accordance with IAS 10 – 'Events after the balance sheet date', dividends payable on ordinary shares are recognised in equity once they are appropriately authorised and are no longer at the discretion of the Company. Dividends declared after the balance sheet date, but before the authorisation of the financial statements remain within shareholders' funds.

(bb) Foreign currency

Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 – 'The Effects of Changes in Foreign Exchange Rates'. The functional currency of the Group is the pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

Gains and losses on retranslation are included in interest payable or interest receivable depending on whether the underlying instrument is an asset or a liability, except where deferred in equity in accordance with the cash flow hedging provisions of IAS 39.

(cc) Segmental reporting

The accounting policies of the operating segments are the same as those described above for the Group as a whole. Costs attributed to each segment represent the direct costs incurred by the segment operations and an allocation of the costs of areas of the business which serve all segments. Such allocations are weighted by the value of loan assets in each segment, adjusted for the relative effort involved in the administration of each asset class.

4. CRITICAL ACCOUNTING ESTIMATES

Certain of the balances reported in the financial statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most significant of these are:

(a) Impairment losses on loans to customers

Impairment losses on loans are calculated based on statistical models. The key assumptions revolve around estimates of future cash flows from customer's accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect the current conditions.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided.

(b) Effective interest rates

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based on historical data and reviewed regularly. The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual borrower behaviour and that predicted.

(c) Fair values

Where financial assets and liabilities are carried at fair value, in the majority of cases this can be derived by reference to quoted market prices. Where such a quoted price is not available the valuation is based on cash flow models based, where possible, on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

(d) Retirement benefits

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions. These are listed in note 54. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

(e) Goodwill and intangible assets arising on acquisition

The value of goodwill and intangible assets recognised on the Group's acquisition of TBMC was derived from the projected cash flows for that business at the time of acquisition, based on management forecasts. The accuracy of this valuation would therefore be compromised by any differences between these forecasts and the levels of business activity that the entity might actually have been able to generate in the absence of the acquisition. This valuation will also be affected by the accuracy of the discount factor used.

The carrying value of the goodwill and intangible assets is dependent on the accuracy of the inputs into the impairment test described in note 25.

5. CAPITAL MANAGEMENT

The Group's objectives in managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as corporate bonds, or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements.

The Board of Directors regularly review the proportion of working capital represented by debt and equity. Net debt is calculated as total debt, other than securitised and warehouse debt, valued at principal value, less free cash up to a maximum of the total debt. Adjusted equity comprises all components of equity (i.e. share capital, share premium, minority interest, retained earnings, and revaluation surplus) other than amounts recognised in equity relating to cash flow hedges.

The debt and equity amounts at 30 September 2010 and at 30 September 2009 were as follows:

	2010 £m	2009 £m
Debt		
Corporate bond	110.0	110.0
Bank overdraft	0.1	0.3
Less: Applicable free cash	(110.1)	(84.0)
Net debt	-	26.3
Equity		
Total equity	692.3	650.8
Less: cash flow hedging reserve	(1.4)	(1.2)
Adjusted equity	690.9	649.6
Total working capital	690.9	675.9
Debt	-	3.9%
Equity	100.0%	96.1%
Total working capital	100.0%	100.0%

In addition the Group held £37.7m of free cash in excess of that shown above.

The increased proportion of working capital represented by equity during 2010 resulted primarily from the operation of the policy described above.

6. FINANCIAL RISK MANAGEMENT

The principal financial risks arising from the Group's normal business activities are credit risk, liquidity risk, interest rate risk and currency risk. The Board operates through the Credit Committee and the Asset and Liability Committee to review and agree policies for managing each of these risks, as described in the Corporate Governance Statement on pages 36 to 39, and they are summarised below. These policies have remained unchanged throughout the year and since the year end. The position disclosed below is materially similar to that existing throughout the year.

Use of derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. Such instruments are used only to limit the exposure of the Group to movements in market interest or exchange rates.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken, and hence all of the Group's derivative financial instruments are for commercial hedging purposes only. These are used to protect the Group from exposures principally arising from fixed rate lending or borrowing and borrowings denominated in foreign currencies. Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under the IAS 39 rules, while in other cases hedge accounting has not been adopted either because natural accounting offsets are expected or because complying with the IAS 39 hedge accounting rules would be especially onerous.

The Group has designated a number of derivatives as fair value hedges for accounting purposes. In particular this treatment is used for:

(a) hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis. The Group believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Group to these assets.

(b) hedging the interest rate risk of fixed rate corporate bond borrowings with a designated fixed to floating interest rate swap, which was taken out for this specific purpose.

The Group has also designated cash flow hedging relationships, principally arising from currency borrowings, where a specified foreign exchange basis swap, set up as part of the terms of the borrowing is used.

The only derivative financial instrument held by the Company is the swap related to the fixed rate corporate bond borrowing described above.

Credit risk

The Group's business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of acquiring or underwriting a new loan, where strict lending criteria are applied, and in the collections process.

Primary responsibility for credit risk management across the Group lies with the Credit Committee. The Credit Committee is made up of four senior members of staff, headed by the Finance Director. Its key responsibilities include setting and reviewing credit policy, controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

The assets of the Group and the Company which are subject to credit risk are set out below:

	The Group		The Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Loans to customers (note 33)	**8,911.2**	9,314.3	**-**	-
Derivative financial assets (note 37)	**1,160.3**	1,287.5	**8.0**	8.7
Amounts owed by Group companies (note 40)	**-**	-	**125.8**	88.5
Accrued interest (note 40)	**0.5**	0.5	**0.6**	-
Cash (note 41)	**536.7**	480.4	**143.6**	78.8
Maximum exposure to credit risk	**10,608.7**	11,082.7	**278.0**	176.0

The Group's credit risk is primarily attributable to its loans to customers.

6. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

While this maximum exposure represents the potential loss which might have to be accounted for by the Group, the terms on which the Group's loan assets are funded, described under Liquidity Risk below, limit the amount of principal repayments on the Group's securitised and warehouse borrowings in cases of capital losses on assets, significantly reducing the effective shareholder value at risk.

The Group's loan assets at 30 September 2010 are analysed as follows:

	2010 £m	2010 %	2009 £m	2009 %
Buy-to-let mortgages	8,323.9	93.4%	8,585.0	92.2%
Owner occupied mortgages	151.7	1.7%	179.3	1.9%
Total first mortgages	8,475.6	95.1%	8,764.3	94.1%
Secured loans	391.9	4.4%	467.4	5.0%
Loans secured on property	8,867.5	99.5%	9,231.7	99.1%
Car loans	21.0	0.2%	48.3	0.5%
Retail finance loans	4.8	0.1%	9.0	0.1%
Other loans	17.9	0.2%	25.3	0.3%
Total loans to customers	8,911.2	100.0%	9,314.3	100.0%

There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

The Group's underwriting philosophy is based on a combination of sophisticated individual credit assessment and the automated efficiencies of a scored decision making process. Information on each applicant is combined with data taken from a credit reference bureau to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provides evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement.

First mortgages and secured loans are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities. Car loans are effectively secured by the financed vehicle.

Despite this security, in assessing credit risk, an applicant's ability and propensity to repay the loan remain the principal factors in the decision to lend.

In considering whether to acquire loan assets, the Group reviews documentary and statistical evidence to achieve a level of confidence that the Group's investment will be recovered similar to that provided by the underwriting process.

In order to control credit risk relating to counterparties to the Group's derivative financial instruments and cash deposits, the Asset and Liability Committee determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits. Such counterparties are typically highly rated banks and, for all cash deposits and derivative positions held within the Group's securitisation structures, must comply with criteria set out in the financing arrangements. Where a derivative counterparty fails to meet the required criteria they are obliged under the terms of the instruments to set aside a cash collateral deposit. The amounts of these cash collateral deposits, which do not form part of the Group's cash position, are given in note 37.

The Group's cash balances are held in sterling at London banks in current accounts and as short fixed term deposits. Credit risk on these balances, and the interest accrued thereon, is considered to be immaterial.

An analysis of the indexed loan to value ratio for those loan accounts secured on property by value at 30 September 2010 is set out below.

	2010 First Mortgages %	2010 Secured Loans %	2009 First Mortgages %	2009 Secured Loans %
Loan to value ratio				
Less than 70%	23.6	28.3	17.7	26.0
70% to 80%	23.0	14.8	16.5	13.2
80% to 90%	30.1	15.2	30.2	16.5
90% to 100%	19.2	14.7	30.0	14.2
Over 100%	4.1	27.0	5.6	30.1
	100.0	100.0	100.0	100.0
Average loan to value ratio	79.4	86.5	82.6	88.4

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2010 and 30 September 2009, compared to the most recent available industry averages published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was:

	2010 %	2009 %
First mortgages		
Accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	0.83	1.54
Buy-to-Let accounts excluding receiver of rent cases	0.10	0.29
Owner Occupied accounts	4.00	4.11
CML data for mortgage accounts more than three months in arrears at 30 September 2010		
Buy-to-Let accounts including receiver of rent cases	2.45	3.23
Buy-to-Let accounts excluding receiver of rent cases	1.71	2.19
Owner Occupied accounts	2.20	2.45
All mortgages	2.15	2.42
Secured loans		
Accounts more than 2 months in arrears	9.36	7.94
FLA data for secured loans at 30 September 2010	24.40	19.80
Car loans		
Accounts more than 2 months in arrears	5.85	4.44
FLA data for all personal loans at 30 September 2010	4.80	5.00
Other loans		
Accounts more than 2 months in arrears	59.75	47.94

No published industry data for asset classes comparable to the Group's retail finance and other books has been identified.

During the year ended 30 September 2010 the CML has enhanced the analysis of its published data, enabling the Group to provide clearer comparisons of the performance of its loan book. Accordingly additional data has been given for both 2010 and 2009.

The portfolio of buy-to-let mortgage assets acquired on 30 September 2010 has not been included above. This portfolio was acquired for £20.7m at a discount to the total of its current balances and had not been brought within the Group's collection processes at the year end, so its performance is not directly comparable to other Group buy-to-let assets. 28.0% of these assets were more than three months in arrears at the year end.

The number of accounts in arrears will be higher for closed books such as the owner occupied mortgage book and the car finance, retail finance and unsecured loan books than for comparable active ones, as performing accounts pay off their balances.

6. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The payment status of the current balances of the Group's loan assets, at 30 September 2010 and at 30 September 2009 split between those accounts considered as performing and those included in the population for impairment testing, is shown below.

FIRST MORTGAGES

	2010	2009 (restated)
	£m	£m
Not past due	7,852.2	7,928.9
Arrears less than 3 months	337.4	431.8
Performing accounts	8,189.6	8,360.7
Arrears 3 to 6 months	24.6	48.0
Arrears 6 to 12 months	28.9	53.7
Arrears over 12 months	53.4	61.9
Possessions and similar cases	48.6	80.0
Impairment population	155.5	243.6
	8,345.1	8,604.3

During the year the Group has changed the analysis of arrears accounts used internally and now classifies Receiver of Rent cases which are unlet or in the process of being sold with possession cases, regardless of their arrears status, as this gives more useful information. The arrears analysis at 30 September 2009 has been restated on a comparable basis.

CONSUMER FINANCE

	Secured loans £m	Car loans £m	Retail finance loans £m	Total £m
30 September 2010				
Not past due	**296.8**	**16.7**	**1.9**	**315.4**
Arrears less than 2 months	**50.0**	**1.3**	**0.1**	**51.4**
Performing accounts	**346.8**	**18.0**	**2.0**	**366.8**
Arrears 2 to 6 months	**27.2**	**0.7**	**0.1**	**28.0**
Arrears 6 to 9 months	**8.3**	**0.2**	**0.2**	**8.7**
Arrears 9 to 12 months	**5.4**	**0.1**	**0.2**	**5.7**
Arrears over 12 months	**9.0**	**0.9**	**2.7**	**12.6**
Impairment population	**49.9**	**1.9**	**3.2**	**55.0**
	396.7	**19.9**	**5.2**	**421.8**
30 September 2009				
Not past due	370.3	39.3	4.7	414.3
Arrears less than 2 months	48.1	2.5	0.2	50.8
Performing accounts	418.4	41.8	4.9	465.1
Arrears 2 to 6 months	32.0	1.7	0.3	34.0
Arrears 6 to 9 months	9.5	0.4	0.2	10.1
Arrears 9 to 12 months	3.6	0.2	0.2	4.0
Arrears over 12 months	5.1	0.8	2.8	8.7
Impairment population	50.2	3.1	3.5	56.8
	468.6	44.9	8.4	521.9

OTHER LOANS

	2010 £m	2009 £m
Not past due	**5.1**	8.4
Arrears less than 1 month	**0.3**	0.3
Performing accounts	**5.4**	8.7
Arrears 1 to 3 months	**0.2**	0.4
Arrears 3 to 6 months	**0.4**	0.6
Arrears 6 to 12 months	**1.1**	1.8
Arrears over 12 months	**45.4**	65.7
Impairment population	**47.1**	68.5
	52.5	77.2

6. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

The Group uses securitisation to mitigate its exposure to liquidity risk, ensuring, as far as possible, that the maturities of assets and liabilities are matched.

The Group's loan assets are principally financed by asset backed loan notes ('Notes') issued through the securitisation process. In a securitisation deal a Group company, referred to as a Special Purpose Vehicle ('SPV') will issue Notes secured on a pool of mortgage or other loan assets owned by the SPV. The Notes have a maturity date later than the final repayment date for any asset in the pool, typically over thirty years from the issue date. The noteholders are entitled to receive repayment of the Note principal out of principal funds generated by the loan assets from time to time, but their right to the repayment of principal is limited to the cash available in the SPV. Similarly, payment of accrued interest to the noteholders is limited to cash generated within the SPV. There is no requirement for any Group company other than the issuing SPV to make principal or interest payments in respect of the Notes. This has the effect of matching the maturities of the assets and the related funding, substantially reducing the Group's exposure to liquidity risk. Details of Notes in issue are given in note 52 and the assets backing the Notes are shown in notes 31 and 32.

In the Group's consumer finance SPVs, principal cash was not required to be repaid to noteholders during an initial period, but instead could be used to acquire new loans from the Group, subject to underwriting conditions being met. Following the completion of this initial period, principal cash is repaid in the same way as for other SPVs.

The Group provides additional funding to the SPV at inception, subordinated to the external funding, which means that credit risk on the pool assets is retained within the Group. The Group also receives the residual income generated by the assets. These factors mean that the risks and rewards of ownership of the assets remain with the Group, and hence the loans remain on the Group's balance sheet.

Cash received in each SPV is held until the next interest payment date, after which the remaining balances become available to the Group. Cash balances are also held within each SPV to provide credit enhancement for the particular securitisation, allowing principal payments to be made even if loans default. In order to provide further credit enhancement in certain of the SPVs there exist specific economic trigger events which cause additional cash to be retained in the SPV, rather than being transferred to the Group. While the Group can, if it chooses, contribute additional cash to cover these requirements, it is under no obligation to do so. No such trigger event has occurred to date in any of the Group's SPVs and whether one arises in the future will depend on the performance of the general economy and its impact on mortgage and loan arrears. However if such trigger events occurred in all of the SPVs, a total of £65.7m of additional cash would be retained in those companies (2009: £65.3m). The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 41.

New loan originations are held within a revolving 'warehouse' facility from the point of their origination until their inclusion in a securitisation deal. A warehouse functions in a similar way to an SPV, except that funds are drawn down as advances are made and repaid when loans are securitised.

Before 29 February 2008 a warehouse facility was provided to Paragon Second Funding Limited. On this date the warehouse ceased to be available for new drawings, although assets held within it at that time continued to be funded. Repayment of the principal on these assets is not required unless amounts are realised from them. The final repayment date of the facility is later than the final due date of the assets it is used to fund.

On 27 September 2010 a new warehouse facility agreement was signed with Macquarie Bank. This warehouse is available for drawing and redrawing until 21 December 2012 for the purpose of funding new first charge mortgage loans. After that the loan has a further two year period for the assets funded to be sold or refinanced. Repayment of the principal drawn in respect of assets is not required unless amounts are realised from them, even after the two year period. There is no further recourse to the assets of the Group in respect of either interest or principal on the borrowing.

As with the SPVs, the Group provides funding to the warehouse companies and restricted cash balances are held within them. Further details of the warehouse facilities are given in note 52 and details of the loan assets within the warehouses are given in note 31.

Between 29 February 2008 and 30 September 2010 the only advances made by the Group were consumer loans and further advances on existing mortgage accounts, which are funded using the existing drawings in the SPV companies. The provision of new consumer loans ceased on 9 April 2009, except for further advances on existing accounts, when the period over which new loans could be sold to the consumer finance SPVs ended.

The securitisation process and the terms of the warehouse facilities effectively limit liquidity risk from the funding of the Group's loan assets. It remains to ensure that sufficient funding is available to fund the Group's participation in the SPVs, provide capital support for new loans and working capital for the Group. This responsibility rests with the Asset and Liability Committee which sets the Group's liquidity policy and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

The final repayment date for all of the securitisation borrowings and the old warehouse borrowing is more than five years from the balance sheet date, the earliest falling due in 2033 and the latest in 2050. The equivalent sterling principal amount outstanding at 30 September 2010 under these arrangements, allowing for the effect of the cross currency basis swaps, described under currency risk below, which are net settled with the loan payments, was £8,598.3m (2009: £9,007.3m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date would be £19,550.9m (2009: £21,413.7m). As the principal will, as discussed above, reduce as customers repay or redeem their accounts, the cash flow will in practice be far less than this amount.

The total undiscounted amounts, inclusive of estimated interest, which would be payable in respect of the Group's other borrowings, should those balances remain outstanding until the contracted repayment date, together with amounts payable in respect of the 'other accruals' shown in note 57 are shown below.

	Corporate bond £m	Other accruals £m	Total £m
30 September 2010			
Payable in less than one year	**7.7**	**10.1**	**17.8**
Payable in one to two years	**7.7**	**0.1**	**7.8**
Payable in two to five years	**23.2**	-	**23.2**
Payable in over five years	**125.4**	-	**125.4**
	164.0	**10.2**	**174.2**
30 September 2009			
Payable in less than one year	7.7	10.9	18.6
Payable in one to two years	7.7	0.5	8.2
Payable in two to five years	23.2	0.1	23.3
Payable in over five years	133.1	-	133.1
	171.7	11.5	183.2

The cash flows described above will include those for interest on borrowings accrued at 30 September 2010 disclosed in note 57.

The cash flows which are expected to arise from derivative contracts in place at the year end, estimating future floating rate payments and receipts on the basis of the yield curve at the balance sheet date are as follows:

	2010 Total cash outflow / (inflow) £m	2009 Total cash outflow / (inflow) £m
On derivative liabilities		
Payable in less than one year	**7.5**	38.8
Payable in one to two years	**4.0**	8.1
Payable in two to five years	**5.0**	5.6
Payable in over five years	**14.6**	30.8
	31.1	83.3
On derivative assets		
Payable in less than one year	**(6.1)**	(7.9)
Payable in one to two years	**(5.8)**	(6.6)
Payable in two to five years	**(12.3)**	(7.4)
Payable in over five years	**(17.8)**	(32.7)
	(42.0)	(54.6)
	(10.9)	28.7

6. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

The Group manages interest rate risk, the risk that margins will be adversely affected by movements in market interest rates, by maintaining floating rate liabilities and matching these with floating rate assets, hedging fixed rate assets and liabilities by the use of interest rate swap or cap agreements.

The rates of interest payable on the loan facilities and on asset backed loan notes issued in the securitisation process are reset quarterly on the basis of LIBOR. Where asset backed loan notes are issued in foreign currencies, cross-currency basis swaps are put in place converting the reference interest rate to a sterling LIBOR basis.

The Group's assets predominantly bear LIBOR linked interest rates or are hedged fixed rate assets. The interest rates charged on the Group's variable rate loan assets are determined by reference to, inter alia, the Group's funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Group's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term. Forward rate agreements may be used to hedge against any perceived risk of temporary increases in LIBOR rates at month ends.

The fixed rate corporate bond is hedged by use of a long-term interest rate swap agreement, of notional principal equal to the principal amount of the bond. This swap is in place until the optional repayment date in 2012 and converts the interest payable to a LIBOR-linked floating rate basis.

The Group has entered into various interest rate basis swap arrangements to alter the effective basis of interest payments on certain borrowings to match the underlying assets, though due to their nature and the low notional value of these swaps, they do not have a significant impact on the Group's results.

The Asset and Liability Committee monitors the interest rate risk exposure on the Group's loan assets and asset backed loan notes and ensures compliance with the requirements of the trustees in respect of the Group's securitisations.

To assess the Group's exposure to interest rate movements the notional impact of a 1% change in UK interest rates on the equity of the Group at 30 September 2010, and the notional annualised impact of such a change on the operating profit of the Group, based on the year end balance sheet have been calculated.

On this basis a 1% increase in UK interest rates would reduce the Group's equity at 30 September 2010 by £4.3m (2009: £4.5m) and increase profit before tax by £5.1m (2009: increase profit before tax by £3.8m).

This calculation allows only for the direct effects of any change in UK interest rates. In practice such a change might have wider economic consequences which would themselves potentially effect the Group's business and results.

Although certain of the Group's borrowings have interest rates dependant on US Dollar and Euro LIBOR rates, the effect of the cross currency basis swaps is such that the Group's results have no material exposure to movements in these rates. The effects of independent 1% increases in US or Euro interest rates would be to increase the Group's equity by £1.4m (2009: £1.4m) and £2.4m (2009: £2.7m) respectively.

The only interest rate risk in the Company arises from the corporate bond described above which is a fixed rate instrument, until its maturity in 2017, which is fully hedged. Loans to associates and inter company assets and liabilities bear interest at floating rates based on LIBOR which reset within three months of the balance sheet date. The finance lease bears notional interest only; all other balances are non-interest bearing.

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of the asset backed loan notes denominated in US dollars and euros, which are described in note 52. Although IAS 39 requires that they be accounted for as currency liabilities and valued at their spot rates, it was a condition of the issue of these notes that interest rate and currency swaps were put in place for the duration of the borrowing, having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing. As a result the Group has no material exposure to foreign currency risk, and no sensitivity analysis is presented for currency risk.

The equivalent sterling principal amounts of notes in issue under these arrangements, and their carrying values at 30 September 2010 and 30 September 2009 are:

	2010 Equivalent sterling principal £m	**2010 Carrying value £m**	2009 Equivalent sterling principal £m	2009 Carrying value £m
US dollar notes	**3,054.8**	**3,652.3**	3,177.3	3,717.8
Euro notes	**2,108.2**	**2,663.9**	2,191.8	2,930.1
	5,163.0	**6,316.2**	5,369.1	6,647.9

Fair values of financial assets and financial liabilities

Fair values have been determined for all derivatives, listed securities and any other financial assets and liabilities for which an active and liquid market exists.

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a risk adjusted interest rate. The principal inputs to these valuation models are LIBOR benchmark interest rates for the currencies in which the instruments are denominated, sterling, euros and dollars. The cross currency basis swaps have a notional principal related to the outstanding currency borrowings and therefore the estimated rate of repayment of these notes also affects the valuation of the swaps. In order to determine the fair values the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors.

For assets and liabilities carried at fair value IFRS 7 requires that the measurements should be classified using a fair value hierarchy reflecting the inputs used, and defines three levels. Level 1 measurements are unadjusted market prices, level 2 measurements are derived from observable data, such as market prices or rates, while level 3 measurements rely on significant inputs which are not derived from observable data. As described above the valuations of the Group's derivatives are based on market information and they are therefore classified as level 2 measurements. Details of these assets are given in note 37. The Group had no financial assets or liabilities in the year ended 30 September 2010 or the year ended 30 September 2009 valued using level 1 or level 3 measurements.

The fair values of cash and cash equivalents, bank loans and overdrafts and asset backed loan notes, which are carried at amortised cost, are not materially different from their book values because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset on a quarterly basis. While the Group's asset backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it.

In the absence of a liquid market in loan assets the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers and have concluded that the carrying value of these assets, determined on the amortised cost basis, is not significantly different from the fair value of the assets derived on a discounted cash flow basis.

7. SEGMENTAL INFORMATION

For internal reporting purposes the Group is organised into two major operating divisions, First Mortgages and Consumer Finance. These divisions are the basis on which the Group reports segmental information.

The revenue generated by the First Mortgages segment includes interest and fees generated by the buy-to-let and owner-occupied mortgage assets and other income derived from first charge mortgages. Consumer Finance revenue includes interest and fees generated by second charge loans and the residual car and retail finance and unsecured loan assets, and other sources of income derived from the consumer loans.

All of the Group's operations are conducted in the United Kingdom, all revenues arise from external customers and there are no inter-segment revenues. No customer contributes more than 10% of the revenue of the Group.

Financial information about these business segments is shown below.

Year ended 30 September 2010

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	228.4	47.2	275.6
Interest payable	(133.6)	(8.6)	(142.2)
Net interest income	94.8	38.6	133.4
Share of associate result	-	-	-
Other operating income	6.5	8.0	14.5
Total operating income	101.3	46.6	147.9
Operating expenses	(32.1)	(10.5)	(42.6)
Provisions for losses	(18.6)	(20.6)	(39.2)
	50.6	15.5	66.1
Gains on debt repurchases	5.7	-	5.7
Impairment of goodwill	-	-	-
Fair value net (losses) / gains	(0.2)	0.2	-
Operating profit	56.1	15.7	71.8
Tax charge			(17.9)
Profit after tax			53.9

Year ended 30 September 2009

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	443.8	64.4	508.2
Interest payable	(347.8)	(25.6)	(373.4)
Net interest income	96.0	38.8	134.8
Share of associate result	-	-	-
Other operating income	11.4	4.6	16.0
Total operating income	107.4	43.4	150.8
Operating expenses	(31.2)	(8.1)	(39.3)
Provisions for losses	(31.5)	(34.7)	(66.2)
	44.7	0.6	45.3
Gains on debt repurchases	15.9	2.5	18.4
Impairment of goodwill	(6.0)	-	(6.0)
Fair value net (losses) / gains	(3.6)	0.2	(3.4)
Operating profit	51.0	3.3	54.3
Tax charge			(13.2)
Profit after tax			41.1

The assets and liabilities attributable to each of the segments at 30 September 2010, 30 September 2009 and 30 September 2008 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2010			
Segment assets	**10,081.3**	**562.5**	**10,643.8**
Segment liabilities	**(9,529.6)**	**(421.9)**	**(9,951.5)**
	551.7	**140.6**	**692.3**
30 September 2009			
Segment assets	10,443.4	710.9	11,154.3
Segment liabilities	(9,929.5)	(574.0)	(10,503.5)
	513.9	136.9	650.8
30 September 2008			
Segment assets	10,580.8	928.9	11,509.7
Segment liabilities	(10,095.4)	(792.8)	(10,888.2)
	485.4	136.1	621.5

All of the assets shown above were located in the United Kingdom.

7. SEGMENTAL INFORMATION (continued)

The total additions to non-current assets, excluding financial instruments and deferred tax assets, attributable to each segment during the years ended 30 September 2010 and 30 September 2009 was:

	First Mortgages £m	Consumer Finance £m	Total £m
2010	**1.2**	**0.1**	**1.3**
2009	0.2	0.1	0.3

Being:	Intangible Assets (Note 24) £m	Property, Plant and Equipment (Note 26) £m	Total £m
2010	**0.3**	**1.0**	**1.3**
2009	0.1	0.2	0.3

8. REVENUE

	2010 £m	2009 £m
Interest receivable	**275.6**	508.2
Other income	**14.5**	16.0
Total revenue	**290.1**	524.2
Arising from:		
First Mortgages	**234.9**	455.2
Consumer Finance	**55.2**	69.0
Total revenue	**290.1**	524.2

9. INTEREST RECEIVABLE

	2010 £m	2009 £m
Interest on loans to customers	**269.1**	489.1
Interest on loans to associate	**-**	0.5
Other interest receivable	**2.9**	15.1
Total interest on financial assets	**272.0**	504.7
Return on pension scheme assets	**3.6**	3.5
	275.6	508.2

Interest on loans to customers includes £11.7m (2009: £15.8m) charged on accounts where an impairment provision has been made.

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £m	2009 £m
On asset backed loan notes	110.3	298.9
On corporate bond	3.4	7.7
On bank loans and overdrafts	22.6	60.9
Total interest on financial liabilities	136.3	367.5
On pension scheme liability	3.6	3.2
On finance leases	1.1	1.2
Other finance costs	1.2	1.5
	142.2	373.4

11. OTHER OPERATING INCOME

	2010 £m	2009 £m
Loan account fee income	6.5	10.4
Insurance income	0.7	2.5
Third party servicing	5.6	1.0
Other income	1.7	2.1
	14.5	16.0

12. OPERATING EXPENSES

	Notes	2010 £m	2009 £m
Employment costs	13	26.2	23.7
Auditor remuneration	16	0.7	0.8
Amortisation of intangible assets	24	0.7	0.7
Depreciation	26	2.3	3.2
Operating lease rentals	62	3.2	4.1
Other administrative costs		9.5	6.8
		42.6	39.3

13. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 611 (2009: 553). The number of employees at the end of the year was 636 (2009: 596).

Staff costs incurred during the year in respect of these employees were:

	2010 £m	2010 £m	2009 £m	2009 £m
Share based remuneration	1.4		1.2	
Other wages and salaries	20.4		19.2	
Total wages and salaries		21.8		20.4
National Insurance on share based remuneration	0.9		-	
Other social security costs	1.7		1.8	
Total social security costs		2.6		1.8
Defined benefit pension cost	1.6		1.4	
Other pension costs	0.2		0.1	
Total pension costs		1.8		1.5
Total staff costs		26.2		23.7

Details of the pension schemes operated by the Group are given in note 54.

The Company has no employees. Details of the directors' remuneration are given in note 14.

14. KEY MANAGEMENT REMUNERATION

The remuneration of the directors, who are the key management personnel of the Group and the Company, is set out below in aggregate in accordance with IAS 24 – 'Related Party Transactions'. Further information about the remuneration of individual directors is provided in the Report of the Board to the Shareholders on Directors' Remuneration on pages 27 to 32.

	2010 £m	2009 £m
Short-term employee benefits	2.7	2.3
Post-employment benefits	0.4	0.4
Termination benefits	-	0.4
Share based payment	1.0	0.4
	4.1	3.5

15. SHARE BASED REMUNERATION

During the year the Group had various share based payment arrangements with employees. They are accounted for by the Group and the Company as shown below.

The effect of the share based payment arrangements on the Group's profit is shown in note 13.

Further details of share based payment arrangements are given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 27 to 32.

(a) Share option schemes

Options under the Executive Share Option ('Executive') schemes have been granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee. These options vest so long as the grantee is still employed by the Group at the end of the vesting period and, where applicable, performance criteria have been satisfied. The Executive schemes are no longer available for the grant of further awards.

The Group also operates an All Employee Share Option ('Sharesave') scheme. Grants under this scheme vest after the completion of the appropriate service period and subject to a savings requirement.

A reconciliation of movements in the number and weighted average exercise price of options over £1 ordinary shares during the year ended 30 September 2010 and the year ended 30 September 2009 is shown below.

	2010 Number	2010 Weighted average exercise price p	2009 Number	2009 Weighted average exercise price p
Options outstanding				
At 1 October 2009	4,214,600	190.70	4,840,258	195.33
Granted in the year	712,869	100.32	-	-
Exercised in the year	(6,845)	525.52	-	-
Lapsed during the year	(169,230)	194.66	(625,658)	226.55
At 30 September 2010	4,751,394	177.17	4,214,600	190.70
Options exercisable	1,500,460	405.32	1,593,440	396.17

The weighted average remaining contractual life of options outstanding at 30 September 2010 was 17.1 months (2009: 20.2 months).

15. SHARE BASED REMUNERATION (continued)

Options are outstanding under the Executive and Sharesave schemes to purchase ordinary shares as follows:

Grant date	Period exercisable	Exercise price	Number 2010	Number 2009
Executive Schemes				
17/02/2000	17/02/2003 to 17/02/2010	234.33p	-	94,095
27/11/2001	27/11/2004 to 27/11/2011	395.34p	319,923	319,923
29/07/2002	29/07/2005 to 29/07/2012	297.30p	244,647	244,647
14/03/2003	14/03/2006 to 14/03/2013	297.30p	413,110	413,110
18/12/2003	18/12/2006 to 18/12/2013	540.40p	225,199	225,199
01/06/2004	01/06/2007 to 01/06/2014	514.10p	25,092	25,092
01/12/2004	01/12/2007 to 01/12/2014	555.34p	264,672	264,672
			1,492,643	1,586,738
Sharesave Schemes				
23/06/2005	01/08/2010 to 01/02/2011	520.89p	4,880	4,880
28/07/2006	01/09/2009 to 01/03/2010	837.73p	-	6,702
28/07/2006	01/09/2011 to 01/03/2012	837.73p	191	191
20/06/2007	01/08/2010 to 01/02/2011	685.84p	2,937	2,937
20/06/2007	01/08/2012 to 01/02/2013	685.84p	4,006	4,960
18/07/2008	01/09/2011 to 01/03/2012	63.00p	1,512,873	1,576,432
18/07/2008	01/09/2013 to 01/03/2014	63.00p	1,031,760	1,031,760
20/07/2010	01/09/2013 to 01/03/2014	100.32p	505,908	-
20/07/2010	01/09/2015 to 01/03/2016	100.32p	196,196	-
			3,258,751	2,627,862
			4,751,394	4,214,600

The number of share options outstanding and the exercise price under each of the arrangements shown above was adjusted in accordance with the respective scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008.

A number of the above options were granted to former employees whose rights terminate at the later of twelve months following redundancy or forty-two months after the issue of the options.

The fair value of options granted is determined using a Binomial model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2010, which were all made under the Sharesave scheme, are shown below. No grants were made in the year ended 30 September 2009.

Grant date	20/07/10	20/07/10
Number of awards granted	516,673	196,196
Market price at date of grant	120.00p	120.00p
Contractual life (years)	3.00	5.00
Fair value per share at date of grant	57.88p	57.16p
Inputs to valuation model		
Expected volatility	86.87%	86.87%
Expected life at grant date (years)	3.41	5.43
Risk-free interest rate	1.71%	1.71%
Expected dividend yield	2.82%	2.82%
Expected annual departures	5.00%	5.00%

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the six years preceding the grant date.

(b) Paragon Performance Share Plan

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting, to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2010 and 30 September 2009 were:

Grant date	Period exercisable	Number 2010	Number 2009
09/01/2007	09/01/2010 to 09/01/2017 †	**3,294**	71,680
28/03/2007	28/03/2010 to 28/03/2017 †	**3,514**	55,467
14/06/2007	14/06/2010 to 14/06/2017 †	**36,550**	91,920
26/09/2007	26/09/2010 to 26/09/2017 †	**64,545**	127,318
26/11/2007	26/11/2010 to 26/11/2017 †	**312,421**	358,426
18/03/2008	18/03/2011 to 18/03/2018 §	**725,000**	860,000
29/09/2008	29/09/2011 to 29/09/2018 ‡	**1,926,686**	2,081,344
21/05/2009	21/05/2012 to 21/05/2019 *	**3,221,335**	3,419,549
04/01/2010	04/01/2013 to 04/01/2020 *	**1,797,822**	-
02/09/2010	02/09/2013 to 02/09/2020 *	**141,844**	-
		8,233,011	7,065,704

† The receipt of these shares is 50% subject to an EPS test and 50% to a TSR test. The growth in the Company's EPS (as adjusted for a common rate of corporation tax) and its TSR will be compared over the vesting period to the performance of a group of designated comparator companies. 35% of each element of the award will vest for median performance with full vesting for upper quartile performance; between these points awards will vest on a straight line basis. For below median performance, none of the relevant element of the award will vest. In addition, the Remuneration Committee will have regard to the underlying financial performance of the Company as compared with the level of TSR and EPS performance.

§ The receipt of these shares is subject to the Company's TSR exceeding the TSR of a comparator group drawn from the FTSE All Share Banks and General Financial sectors. No part of an award will vest for below median performance, 35% will vest for median performance and 100% will vest for upper quartile performance. Between median and upper quartile performance, awards will vest on a straight line basis.

‡ The receipt of these shares is subject to an absolute TSR performance condition, whereby the increase in the net return index over the performance period, based on a share price that is equivalent on the grant date to 125 pence per share, must at least equal compound annual growth of 10%. 35% of the awards will vest for 10% compound annual growth over the performance period, increasing on a straight line basis to full vesting for compound annual growth of 15%. The performance period is the three year period commencing on the date of grant.

* The receipt of these shares is subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of the awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008.

During the year the outstanding awards were modified so that awards vesting would be exercisable for a period of seven years after the vesting date rather than six months. This change had no incremental effect on the fair value of the awards, as it implied no changes in any of the assumptions used in the valuations.

15. SHARE BASED REMUNERATION (continued)

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2010 and the year ended 30 September 2009 are shown below:

Grant date	02/09/10	04/01/10	21/05/09
Number of awards granted	141,844	1,903,737	3,419,550
Market price at date of grant	140.00p	135.20p	70.75p
Fair value per share at date of grant	103.35p	99.36p	11.67p
Inputs to valuation model			
Expected volatility	85.51%	84.76%	82.78%
Risk-free interest rate	1.51%	2.04%	2.13%
Expected dividend yield	2.43%	2.44%	4.43%

For all of the above grants the contractual life and expected life at grant date is three years and no departures are expected.

For awards granted before 18 July 2008 the expected volatility of the share price used in determining the fair value was based on the annualised standard deviation of daily changes in price over the previous year from the grant date. The expected volatility for awards granted between this date and 30 September 2008 is calculated using the same method but using daily changes in price over the six years preceding the grant date. The expected volatility for awards granted after this date is calculated using the same method but using daily changes in price over the three years preceding the grant date.

(c) Deferred Bonus awards

Awards under this scheme comprise a right to acquire ordinary shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting.

The conditional entitlements outstanding under this scheme at 30 September 2010 and 30 September 2009 were:

Grant date	Transfer date	Number 2010	Number 2009
15/01/2007	01/10/2009	-	37,595
28/12/2007	01/10/2010	21,120	29,121
05/01/2010	01/10/2012	169,287	-
		190,407	66,716

The shares awarded will be transferred to the scheme participants as soon as is reasonably practicable after the transfer date.

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008.

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2010 are shown below. No awards were made in the year ended 30 September 2009.

Grant date	05/01/10
Number of awards granted	169,287
Market price at date of grant	133.40p
Fair value per share at date of grant	124.64p
Inputs to valuation model	
Risk-free interest rate	2.04%
Expected dividend yield	2.47%

(d) Matching Share Plan

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2010 and at 30 September 2009 were:

Grant date	Transfer date	Number 2010	Number 2009
09/01/2007	09/01/2010 †	5,625	84,081
02/01/2008	02/01/2011 †	56,680	56,680
05/01/2010	05/01/2013 *	142,347	-
		204,652	140,761

† The receipt of these shares is 50% subject to an EPS test and 50% to a TSR test. The growth in the Company's EPS (as adjusted for a common rate of corporation tax) and its TSR will be compared over the vesting period to the performance of a group of designated comparator companies. 35% of each element of the award will vest for median performance with full vesting for upper quartile performance; between these points awards will vest on a straight line basis. For below median performance, none of the relevant element of the award will vest. In addition, the Remuneration Committee will have regard to the underlying financial performance of the Company as compared with the level of TSR and EPS performance.

* The receipt of these shares is subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of the awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008.

During the year the outstanding awards were modified so that awards vesting would be exercisable for a period of seven years after the vesting date rather than six months. This change had no incremental effect on the fair value of the awards, as it implied no changes in any of the assumptions used in the valuations.

The fair value of awards granted under the Matching Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2010 are shown below. No awards were made in the year ended 30 September 2009.

Grant date	15/01/10
Number of awards granted	142,347
Market price at date of grant	133.40p
Fair value per share at date of grant	97.96p
Inputs to valuation model	
Expected volatility	84.76%
Risk-free interest rate	2.04%
Expected dividend yield	2.47%

For all of the above grants the contractual life and expected life at grant date is three years and no departures are expected.

For awards granted before 18 July 2008 the expected volatility of the share price used in determining the fair value was based on the annualised standard deviation of daily changes in price over the previous year from the grant date. The expected volatility for awards granted between this date and 30 September 2008 is calculated using the same method but using daily changes in price over the six years preceding the grant date. The expected volatility for awards granted after this date is calculated using the same method but using daily changes in price over the three years preceding the grant date.

16. AUDITOR REMUNERATION

The analysis of fees payable to the Group's auditors, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration) Regulations 2005 is set out below. This analysis includes amounts charged to the profit and loss account or included within the issue costs of debt and equity in respect of fees paid to the Group auditors and their associates.

	2010 £000	2010	2009 £000	2009
Group audit fee	184	29%	162	22%
Other services				
Audit of associated undertakings pursuant to legislation				
Subsidiary audit fees	203	32%	259	34%
Total audit fees	387	61%	421	56%
Other services pursuant to legislation				
Interim review	40	6%	40	5%
Other services related to taxation				
Compliance services	116	18%	130	17%
Advisory services	96	15%	165	22%
	212	33%	295	39%
Total fees	639	100%	756	100%
Irrecoverable VAT	110		113	
Total cost to the Group	749		869	
Of which:				
Included in operating expenses (note 12)	749		799	
Included in gains on debt repurchase	-		70	
	749		869	

In addition to the amounts above, the auditors received fees of £7,000 (2009: £7,000), excluding VAT, in respect of the audit of the Group pension scheme.

17. PROVISIONS FOR LOSSES

	2010 £m	2009 £m
Impairment of financial assets (note 34)		
First mortgage loans	18.6	31.2
Other secured loans	7.6	18.9
Finance lease receivables	3.5	5.0
Retail finance loans	0.5	0.8
Other loans	9.0	10.0
On loans to customers	39.2	65.9
Other provisions (note 56)	-	0.3
	39.2	66.2

18. GAINS ON DEBT REPURCHASE

	2010 £m	2009 £m
On asset backed loan notes	5.7	13.9
On corporate bond	-	4.5
	5.7	18.4

These gains have arisen on the repurchase by the Group, on the open market, of its debt securities at less than their carrying value.

The cash consideration paid on these purchases, including transaction costs of £nil (2009: £0.3m) was:

	2010 £m	2009 £m
On asset backed loan notes	8.3	13.9
On corporate bond	-	5.4
	8.3	19.3

Despite the gains made on the repurchase of these debt instruments, the directors consider that the carrying values of the remaining borrowings are not materially different from their fair values. The directors currently expect that these borrowings will be repaid in full and the present values of such cash flows will not be materially different to the carrying value. The gains described above have been made on purchases in a market with a very low level of activity, where the prices which can be achieved in one-off transactions will not necessarily be representative of the fair value of the liabilities concerned.

19. FAIR VALUE NET GAINS / (LOSSES)

	2010 £m	2009 £m
Net gain / (loss) on derivatives designated as fair value hedges	30.3	(51.7)
Fair value adjustments from hedge accounting	(30.4)	51.0
Ineffectiveness of fair value hedges	(0.1)	(0.7)
Ineffectiveness of cash flow hedges	-	-
Net gains / (losses) on other derivatives	0.1	(2.7)
	-	(3.4)

The fair value net gain / (loss) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis generated by the requirements of IAS 39. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The losses and gains are primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities. Such differences will reverse over time and have no impact on the cash flows of the Group.

20. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2010 £m	2009 £m
Current tax		
UK Corporation Tax on profits of the period	16.1	5.0
Adjustment in respect of prior periods	(1.1)	(3.1)
Total current tax	15.0	1.9
Deferred tax	2.9	11.3
Tax charge on profit on ordinary activities	17.9	13.2

(b) Deferred tax charge for the year

The deferred tax charge in the income statement comprises the following temporary differences:

	2010 £m	2009 £m
Accelerated tax depreciation	0.2	0.3
Retirement benefit obligations	0.2	1.4
Impairment and other provisions	0.2	(8.6)
Utilisation of tax losses	3.2	12.6
Other timing differences	0.9	5.2
Deferred tax charge for the year	4.7	10.9
Recognition of asset not previously recognised	(1.6)	0.4
Change in tax rate	(0.2)	-
Deferred tax charge (note 38)	2.9	11.3

The United Kingdom Government enacted provisions reducing the standard rate of corporation tax from 28% to 27% with effect from 1 April 2011. Therefore the standard rate of corporation tax applicable to the Group will be 27.5% in the year ending 30 September 2011 and 27% thereafter. The expected impact of this change on the values at which deferred tax amounts are expected to crystallise has been accounted for in the year ended 30 September 2010.

The Government has announced its intention to make further reductions in the rate of corporation tax in future years. The effect of any such changes on deferred tax balances will be accounted for in the period in which any such changes are enacted.

(c) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 28% (2009: 28%). The differences are explained below:

	2010 £m	2009 £m
Profit on ordinary activities before taxation	71.8	54.3
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	20.1	15.2
Effects of:		
Permanent differences	0.7	0.6
Share based payments	-	-
Recognition of deferred tax asset not previously recognised	(0.3)	0.4
Change in rate of taxation on deferred tax assets and liabilities	(0.2)	-
Other movements in unprovided deferred taxation	0.5	0.1
Prior year (credit)	(2.9)	(3.1)
Tax charge for the year	17.9	13.2

21. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARAGON GROUP OF COMPANIES PLC

The Company's profit after tax for the financial year amounted to £43.2m (2009: £34.6m). A separate income statement has not been prepared for the Company under the provisions of Section 408 of the Companies Act 2006.

The Company has no other items of comprehensive income for the years ended 30 September 2010 or 30 September 2009.

22. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

		2010	2009
Profit for the year (£m)		53.9	41.1
Basic weighted average number of ordinary shares ranking for dividend during the year (million)		295.3	295.7
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)		8.3	5.2
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)		303.6	300.9
Earnings per ordinary share	- basic	18.3p	13.9p
	- diluted	17.8p	13.7p

23. TAX CHARGED TO EQUITY

	The Group		The Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
On actuarial (loss) on pension scheme (note 54)	**1.4**	2.2	**-**	-
On gains on cash flow hedges (note 46)	**(0.1)**	(0.6)	**-**	-
Tax on items taken to equity	**1.3**	1.6	**-**	-
On share based payment	**0.3**	1.4	**-**	-
Total tax credited to equity	**1.6**	3.0	**-**	-
Of which				
Current tax	**-**	-	**-**	-
Deferred tax (note 38)	**1.6**	3.0	**-**	-
	1.6	3.0	**-**	-

Included in tax charged to equity in the year ended 30 September 2010 is £0.2m in respect of the effect of the changes in corporation tax rates described in note 20 on deferred tax assets.

24. INTANGIBLE ASSETS

	Goodwill (note 25)	Computer Software	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 October 2008	-	2.1	-	2.1
Acquisition	7.6	0.1	8.1	15.8
Additions	-	0.1	-	0.1
Disposals	-	-	-	-
At 30 September 2009	7.6	2.3	8.1	18.0
Additions	-	0.3	-	0.3
Disposals	-	-	-	-
At 30 September 2010	**7.6**	**2.6**	**8.1**	**18.3**
Accumulated amortisation				
At 1 October 2008	-	1.7	-	1.7
Amortisation charge for the year	-	0.3	0.4	0.7
Impairment of goodwill	6.0	-	-	6.0
On disposals	-	-	-	-
At 30 September 2009	6.0	2.0	0.4	8.4
Amortisation charge for the year	-	0.2	0.5	0.7
On disposals	-	-	-	-
At 30 September 2010	**6.0**	**2.2**	**0.9**	**9.1**
Net book value				
At 30 September 2010	**1.6**	**0.4**	**7.2**	**9.2**
At 30 September 2009	1.6	0.3	7.7	9.6
At 30 September 2008	-	0.4	-	0.4

Other intangible assets comprise brands and the benefit of business networks recognised on the acquisition of subsidiary companies.

25. GOODWILL

The goodwill carried in the accounts was recognised on the acquisition of The Business Mortgage Company and its subsidiaries ('TBMC') in December 2008. The cash generating unit to which this goodwill was attributed for impairment testing purposes was TBMC, which is the lowest level within the Group at which this goodwill is currently monitored, though the operations of the acquired entity will, in time, be integrated with those of the First Mortgage division.

An impairment review undertaken at 30 September 2009 indicated a write down of £6.0m which was charged to the profit and loss account. A further review was undertaken at 30 September 2010, which indicated no further impairment.

The recoverable amount of TBMC used in this impairment testing is determined on a value in use basis using cash flow projections based on financial budgets approved by the Board covering a 4 year period. The discount rate applied to the cash flow projection is 7.25% and cash flows beyond the 4 year budget are extrapolated using a 2.40% growth rate, being the average long term growth rate in the United Kingdom economy over a twenty year period.

The key assumptions underlying the value in use calculation for the TBMC business are:

- Level of business activity, based on management expectations. Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment.
- Discount rate, which is based on the Group's cost of capital.

The directors believe that no reasonably possible change in any of the key assumptions above would cause the carrying value of the unit to exceed its recoverable amount.

26. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and Buildings £m	Plant and Machinery £m	Total £m
Cost			
At 1 October 2008	19.4	18.7	38.1
Acquisition	-	0.1	0.1
Additions	-	0.2	0.2
Disposals	-	(5.2)	(5.2)
At 30 September 2009	19.4	13.8	33.2
Additions	0.7	0.3	1.0
Disposals	-	(4.3)	(4.3)
At 30 September 2010	**20.1**	**9.8**	**29.9**
Accumulated depreciation			
At 1 October 2008	9.7	9.9	19.6
Charge for the year	1.0	2.2	3.2
On disposals	-	(3.1)	(3.1)
At 30 September 2009	10.7	9.0	19.7
Charge for the year	1.0	1.3	2.3
On disposals	-	(2.5)	(2.5)
At 30 September 2010	**11.7**	**7.8**	**19.5**
Net book value			
At 30 September 2010	**8.4**	**2.0**	**10.4**
At 30 September 2009	8.7	4.8	13.5
At 30 September 2008	9.7	8.8	18.5

The net book value of land and buildings includes £7.0m in respect of buildings held under finance leases (2009: £7.9m).

26. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	Land and Buildings £m
Cost	
At 1 October 2008, 30 September 2009 and 30 September 2010	**16.6**
Accumulated depreciation	
At 1 October 2008	7.9
Charge for the year	0.8
At 30 September 2009	8.7
Charge for the year	0.9
At 30 September 2010	**9.6**
Net book value	
At 30 September 2010	**7.0**
At 30 September 2009	7.9
At 30 September 2008	8.7

The net book value of land and buildings represents buildings held under finance leases.

27. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group companies £m	Loans to Group companies £m	Loans to ESOP Trusts £m	Total £m
At 1 October 2008	252.1	526.5	3.4	782.0
Acquisition	-	15.4	-	15.4
Loans advanced	-	14.7	0.2	14.9
Loans repaid	-	(39.5)	-	(39.5)
Provision movements	0.1	(3.6)	0.6	(2.9)
At 30 September 2009	252.2	513.5	4.2	769.9
Loans advanced	-	15.0	0.2	15.2
Loans repaid	-	(19.0)	-	(19.0)
Provision movements	0.3	(1.8)	(0.2)	(1.7)
At 30 September 2010	**252.5**	**507.7**	**4.2**	**764.4**

During the year ended 30 September 2010 the Company received £27.7m in dividend income from its subsidiaries (2009: £23.2m) and £30.3m of interest on loans to Group companies (2009: £41.0m).

The principal operating subsidiaries, and the nature of the Group's interest in them, are shown in note 28.

28. PRINCIPAL OPERATING SUBSIDIARIES

The financial year end of all of the Group's subsidiary companies is 30 September, with the exception of The Business Mortgage Company Limited, the year end of which is 31 December. They are all registered in England and Wales, except Idem Jersey (No. 1) Limited, which is registered in the Bailiwick of Jersey, and they all operate in the United Kingdom.

Principal operating subsidiaries where the share capital is held within the Group comprise:

	Holding	Principal activity
Direct subsidiaries of The Paragon Group of Companies PLC		
Paragon Finance PLC	100%	Residential mortgages and asset administration
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Paragon Mortgages (2010) Limited	100%	Residential mortgages
Paragon Vehicle Contracts Limited	100%	Vehicle fleet management
Paragon Car Finance Limited	100%	Vehicle finance
Paragon Personal Finance Limited	100%	Unsecured lending
Moorgate Servicing Limited	100%	Intermediate holding company
Redbrick Real Estate Services Limited	100%	Property services
Idem Capital Limited	100%	Asset investment
Idem Jersey (No. 1) Limited	100%	Asset investment
The Business Mortgage Company Limited	100%	Mortgage broker
Paragon Mortgages (No. 7) PLC	100%	Residential mortgages
Paragon Mortgages (No. 8) PLC	100%	Residential mortgages
Paragon Mortgages (No. 9) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 10) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 11) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 12) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 13) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 14) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 15) PLC	100% *	Residential mortgages
Paragon Personal and Auto Finance (No. 3) PLC	100%	Loan and vehicle finance
Paragon Secured Finance (No. 1) PLC	100%	Loan finance
First Flexible (No. 7) PLC	100% *	Residential mortgages
Subsidiary of Paragon Mortgages Limited		
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance
Subsidiaries of Mortgage Trust Limited		
Mortgage Trust Services plc	100%	Residential mortgages and asset administration
First Flexible No. 6 PLC	74%	Residential mortgages
Subsidiaries of Moorgate Servicing Limited		
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Moorgate Loan Servicing Limited	100%	Asset administration
Subsidiary of Idem Capital Limited		
Idem (No. 1) Limited	100%	Asset investment

The holdings shown above are those held by the Group. The shareholdings of the Company are the same as those held by the parent company identified above, except that for the shareholdings marked * the parent company holds only 74% of the share capital, the remainder being held by other group companies.

The issued share capital of all subsidiaries consists of ordinary share capital, except that First Flexible No. 6 PLC has additional preference share capital held by the Group. The minority interest in this company is not material.

28. PRINCIPAL OPERATING SUBSIDIARIES (continued)

In addition, prior to its acquisition by the Group, certain loans originated by Mortgage Trust Limited had been sold to special purpose entity companies, ultimately beneficially owned by charitable trusts, which had raised non-recourse finance to fund these purchases. The Group is considered to control these entities, as defined by SIC-12 'Special Purpose Entities' and hence they are considered to be subsidiaries of the Group.

The principal companies party to these arrangements are First Flexible No. 4 plc and First Flexible No. 5 plc. The principal activity of both of these companies is residential mortgages.

29. INTEREST IN ASSOCIATE

On 25 January 2007 the Group acquired a 33% interest in the equity of The Business Mortgage Company Limited, a mortgage broker. This company operates in the United Kingdom and is registered in England and Wales. On 17 December 2008 this company became a subsidiary of the Group. The net assets position of the associate at 30 September 2008 is shown below.

	2008 £m
Total assets	16.0
Total liabilities	(16.6)
Total equity	(0.6)

During the period from 1 October 2008 to its acquisition by the Group the associate was charged £0.7m by the Group and the Company in interest and received £0.0m in commission income from Group companies. The Group provided the associate with certain management services in this period.

(a) The Group

Equity interest in the associate carried in the consolidated balance sheet using the equity method.

	2010 **£m**	2009 £m
At 1 October 2009	-	-
Additions	-	-
Share of result of associates	-	-
Dividends received	-	-
At 30 September 2010	-	-

(b) The Company

Equity interest in the associate carried in the balance sheet of the Company at cost.

	2010 **£m**	2009 £m
At 1 October 2009	-	-
Provision	-	-
Transfer to investments in subsidiaries	-	-
At 30 September 2010	-	-

30. FINANCIAL ASSETS

(a) The Group

	Notes	2010 £m	2009 £m	2008 £m
Loans and receivables	31	**8,890.2**	9,266.0	9,966.4
Finance lease receivables	32	**21.0**	48.3	86.8
Loans to customers	33	**8,911.2**	9,314.3	10,053.2
Fair value adjustments from portfolio hedging	35	**8.6**	39.0	(12.0)
Loans to associate	36	**-**	-	15.5
Derivative financial assets	37	**1,160.3**	1,287.5	590.9
		10,080.1	10,640.8	10,647.6

(b) The Company

	Notes	2010 £m	2009 £m	2008 £m
Loans to associate	36	**-**	-	15.5
Derivative financial assets	37	**8.0**	8.7	-
		8.0	8.7	15.5

31. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2010, 30 September 2009 and 30 September 2008, which are all denominated and payable in sterling, were:

	2010 £m	2009 £m	2008 £m
First mortgage loans	**8,475.6**	8,764.3	9,418.7
Secured loans	**391.9**	467.4	487.4
Retail finance loans	**4.8**	9.0	25.6
Other unsecured loans	**17.9**	25.3	34.7
	8,890.2	9,266.0	9,966.4

First mortgages are secured on residential property within the United Kingdom; Secured loans enjoy second charges on residential property. Retail finance loans are unsecured. The estimated value of the security held against those loans above which are considered to be impaired or past due, representing the lesser of the outstanding balance and the estimated valuation of the property for each such account was:

	2010 £m	2009 £m
First mortgage loans	**105.7**	196.6
Secured loans	**32.3**	28.8
	138.0	225.4

The amount shown above for first mortgages in 2009 has been revised to correspond to the revised definition of the impairment population discussed in note 6.

31. LOANS AND RECEIVABLES (continued)

Mortgage loans have a contractual term of up to thirty years, secured loans up to twenty five years, retail finance loans up to ten years and other unsecured loans up to ten years. In all cases the borrower is entitled to settle the loan at any point and in most cases early settlement does take place. All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms.

Under the terms of certain first mortgage products, the customer has the right to draw down further funds. At 30 September 2010 the Group's commitment in respect of such facilities was £43.3m (2009: £48.6m).

The loans shown above pledged as collateral for the liabilities described in note 52 at 30 September 2010 and 30 September 2009 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2010			
In respect of:			
Asset backed loan notes	**6,915.5**	**397.6**	**7,313.1**
Warehouse facilities	**1,514.0**	**-**	**1,514.0**
Total pledged as collateral	**8,429.5**	**397.6**	**8,827.1**
Not pledged as collateral	**46.1**	**17.0**	**63.1**
	8,475.6	**414.6**	**8,890.2**
30 September 2009			
In respect of:			
Asset backed loan notes	7,166.0	479.1	7,645.1
Warehouse facilities	1,566.4	-	1,566.4
Total pledged as collateral	8,732.4	479.1	9,211.5
Not pledged as collateral	31.9	22.6	54.5
	8,764.3	501.7	9,266.0

32. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans. The average contractual life of such loans is 56 months (2009: 56 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

The minimum lease payments due under these loan agreements are:

	2010 £m	2009 £m	2008 £m
Amounts receivable			
Within one year	**12.4**	21.8	31.7
Within two to five years	**9.5**	28.8	62.2
After five years	**0.7**	1.7	3.0
	22.6	52.3	96.9
Less: future finance income	**(1.4)**	(4.6)	(11.4)
Present value	**21.2**	47.7	85.5

The present values of those payments, net of provisions for impairment, carried in the accounts are:

	2010 £m	2009 £m	2008 £m
Amounts receivable			
Within one year	11.6	19.9	28.0
Within two to five years	8.9	26.3	54.9
After five years	0.7	1.5	2.6
	21.2	47.7	85.5
Allowance for uncollectible amounts	(1.8)	(2.4)	(2.3)
Provision for recoveries	1.6	3.0	3.6
	21.0	48.3	86.8

The Group considers that the fair value of its finance lease receivables is not significantly different to their carrying values. Whilst the Group has the benefit of the underlying vehicle as security on these loans, no account of this is taken in the allowance for uncollectible amounts shown above. The Group has insufficient information on the current condition of finance leased vehicles to derive a reliable estimate of the value which could be realised from vehicles to offset against arrears accounts. Accordingly, no such disclosure is provided.

The loans shown above pledged as collateral for liabilities at 30 September 2010 and 30 September 2009 were:

	2010 £m	2009 £m
In respect of:		
Asset backed loan notes	19.3	45.2
Warehouse facilities	-	-
Total pledged as collateral	19.3	45.2
Not pledged as collateral	1.7	3.1
	21.0	48.3

33. LOANS TO CUSTOMERS

The movements in the Group's investment in loans to customers in the year ended 30 September 2010 and the year ended 30 September 2009 were:

	2010 £m	2009 £m
Cost		
At 1 October 2009	9,314.3	10,053.2
Additions	52.5	96.6
Effective Interest Rate ('EIR') adjustments	(22.5)	23.0
Other debits	296.7	488.8
Provision charge (note 34)	(39.2)	(65.9)
Repayments and redemptions	(690.6)	(1,281.4)
At 30 September 2010	8,911.2	9,314.3

'Other debits' includes primarily interest and fees charged to customers on loans outstanding.

The fair value of loans to customers is considered to be not materially different to the amortised cost value at which they are disclosed.

34. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

The following amounts in respect of impairment provisions, net of allowances for recoveries of written off assets, have been deducted from the appropriate assets in the balance sheet.

	First Mortgages £m	Other loans and receivables £m	Finance leases £m	Total £m
At 1 October 2008	16.9	53.1	(1.3)	68.7
Charge for the year (note 17)	31.2	29.7	5.0	65.9
Amounts written off	(1.9)	(17.8)	(3.7)	(23.4)
Amounts recovered	(0.1)	(2.0)	(0.6)	(2.7)
At 30 September 2009	46.1	63.0	(0.6)	108.5
Charge for the year (note 17)	18.6	17.1	3.5	39.2
Amounts written off	-	(37.9)	(2.3)	(40.2)
Amounts recovered	0.2	(1.0)	(0.4)	(1.2)
At 30 September 2010	**64.9**	**41.2**	**0.2**	**106.3**

35. FAIR VALUE ADJUSTMENTS FROM PORTFOLIO HEDGING

The Group applies fair value hedge accounting in respect of portfolios of loan assets where the appropriate criteria are met. In these circumstances the change in the fair value of the hedged items attributable to the hedged risk is shown under this heading.

36. LOANS TO ASSOCIATE

The Group's associated undertaking became a subsidiary on 17 December 2008. After that date the loan balances were eliminated on consolidation. Loans to the associated undertaking at 30 September 2008 were all denominated and payable in sterling. Interest is charged on these loans at a fixed margin above six-month LIBOR. Details of these loans are shown below.

	2008 £m
Carrying value (£m)	15.5
Outstanding principal (£m)	16.2
Maximum contractual life (months)	108
Average contractual life (months)	76
Maximum remaining life (months)	88
Average remaining life (months)	56
Average margin charged above LIBOR	5.06%

The fair values of these loans were not considered to be significantly different to their carrying values and the effective interest rates were not materially different to the rates charged.

37. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

All of the Group's financial derivatives are held for economic hedging purposes, although not all may be designated for hedge accounting in accordance with the provisions of IAS 39. The analysis below therefore splits derivatives between those accounted for as hedges and those which, while representing an economic hedge, do not qualify for this treatment.

All of the financial derivatives shown are valued using methodologies where the principal inputs are directly or indirectly derived from market data and are therefore classified within level two of the fair value hierarchy laid down by IFRS 7.

The Group's securitisation borrowings are denominated in sterling, euros and US dollars. All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to large balances for the swaps being carried in the balance sheet. This is currently the case with both euro and US dollar swaps, although the debit balance is compensated for by retranslating the borrowings at the current exchange rate.

Derivative financial assets and liabilities are included within Financial Assets (note 30) and Financial Liabilities (note 51) respectively.

(a) The Group

	2010 Notional Amount £m	2010 Assets £m	2010 Liabilities £m	2009 Notional Amount £m	2009 Assets £m	2009 Liabilities £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	410.0	8.0	(9.8)	1,362.6	8.7	(45.6)
	410.0	8.0	(9.8)	1,362.6	8.7	(45.6)
Cash flow hedges						
Foreign exchange basis swaps	5,163.0	1,148.7	-	5,369.1	1,273.5	-
Interest rate swaps	4.9	-	(0.1)	13.1	-	(0.5)
	5,167.9	1,148.7	(0.1)	5,382.2	1,273.5	(0.5)
	5,577.9	1,156.7	(9.9)	6,744.8	1,282.2	(46.1)
Other derivatives						
Interest rate swaps	283.5	3.5	(7.4)	557.8	4.9	(10.5)
Interest rate caps	48.7	0.1	-	62.6	0.4	-
Interest rate floors	10.5	-	-	10.5	-	-
	342.7	3.6	(7.4)	630.9	5.3	(10.5)
Total recognised derivative assets / (liabilities)	5,920.6	1,160.3	(17.3)	7,375.7	1,287.5	(56.6)

At 30 September 2010 cash deposits of £145.9m had been pledged as collateral in respect of swaps shown above by the respective swap counterparties (2009: £174.4m) as described in note 6.

37. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(b) The Company

	2010 Notional Amount £m	2010 Assets £m	2010 Liabilities £m	2009 Notional Amount £m	2009 Assets £m	2009 Liabilities £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	110.0	8.0	-	110.0	8.7	-
	110.0	8.0	-	110.0	8.7	-
Total recognised derivative assets / (liabilities)	110.0	8.0	-	110.0	8.7	-

Of the interest rate swap agreements used for fair value hedging, swaps of a notional value of £110.0m (2009: £110.0m), recognised as assets of £8.0m (2009: assets of £8.7m) in both the Group and the Company relate to the hedging of the Corporate Bond borrowings. All other fair value hedging items relate to the hedging of the Group's loan assets on a portfolio basis.

38. DEFERRED TAX

(a) The Group

The movements in the net deferred tax asset are as follows:

	Notes	2010 £m	2009 £m	2008 £m
Net asset at 1 October 2009		2.8	10.3	16.1
Acquisition		-	0.8	-
Income statement (charge)	20	(2.9)	(11.3)	(6.8)
Credit to equity	23	1.6	3.0	1.0
Net asset at 30 September 2010		1.5	2.8	10.3

The net deferred tax asset for which provision has been made is analysed as follows:

	2010 £m	2009 £m	2008 £m
Accelerated tax depreciation	1.4	1.7	1.9
Retirement benefit obligations	4.5	3.2	2.4
Impairment and other provisions	(16.5)	(17.0)	(25.2)
Tax losses	13.2	16.8	28.6
Other timing differences	(1.1)	(1.9)	2.6
Net deferred tax asset	1.5	2.8	10.3

Temporary differences arising in connection with interests in the associated undertaking at 30 September 2008 were not significant.

(b) The Company

No provision for deferred tax was required in the Company at 30 September 2010, 30 September 2009 or 30 September 2008.

39. CURRENT TAX ASSETS

	The Group		
	2010	2009	2008
	£m	£m	£m
UK Corporation Tax	-	1.7	-
	-	1.7	-

40. OTHER RECEIVABLES

(a) The Group

	2010	2009	2008
	£m	£m	£m
Current assets			
Amounts owed by associated undertakings	-	-	0.5
Accrued interest income	0.5	0.5	2.8
Prepayments	1.0	1.4	1.2
Other debtors	4.4	3.6	2.1
	5.9	5.5	6.6

Accrued interest income and other debtors fall within the definition of financial assets given in IAS 32.

The fair values of the above items are not considered to be materially different to their carrying values.

(b) The Company

	2010	2009	2008
	£m	£m	£m
Current assets			
Amounts owed by Group companies	125.2	88.5	101.4
Amounts owed by associated undertakings	-	-	0.5
Accrued interest income	0.6	-	0.1
	125.8	88.5	102.0

Accrued interest income and other debtors fall within the definition of financial assets given in IAS 32.

The fair values of the above items are not considered to be materially different to their carrying values.

41. CASH AND CASH EQUIVALENTS

Only 'Free Cash' is unrestrictedly available for the Group's general purposes. Cash received in respect of loan assets is not immediately available, due to the terms of the warehouse facilities and the securitisations. 'Cash and Cash Equivalents' also includes balances held by the Trustees of the Paragon Employee Share Ownership Plans which may only be used to invest in the shares of the Company, pursuant to the aims of those plans.

The total consolidated 'Cash and Cash Equivalents' balance may be analysed as shown below:

	2010 £m	2009 £m	2008 £m
Free cash	**147.8**	84.0	73.2
Securitisation cash	**387.2**	394.7	750.6
ESOP cash	**1.7**	1.7	2.5
	536.7	480.4	826.3

All 'Cash and Cash Equivalents' shown in the Company balance sheet are included in free cash.

Cash and Cash Equivalents includes current bank balances and fixed rate sterling term deposits with London banks.

42. CALLED-UP SHARE CAPITAL

The share capital of the company consists of a single class of £1 ordinary shares.

Movements in the issued share capital in the year were:

	2010 Number	2009 Number
Ordinary shares of £1 each		
At 1 October 2009	**299,159,605**	299,159,605
Shares issued	**294,473**	-
At 30 September 2010	**299,454,078**	299,159,605

During the year the Company issued 294,473 shares at par to the trustees of its ESOP Trusts in order that they could fulfil their obligations under the Group's share based award arrangements.

43. RESERVES

(a) The Group

	Notes	2010 £m	2009 £m	2008 £m
Share premium account	44	**64.1**	64.1	64.1
Merger reserve	45	**(70.2)**	(70.2)	(70.2)
Cash flow hedging reserve	46	**1.4**	1.2	(0.1)
Profit and loss account	47	**450.8**	413.3	384.9
		446.1	408.4	378.7

(b) The Company

	Notes	2010 £m	2009 £m	2008 £m
Share premium account	44	**64.1**	64.1	64.1
Merger reserve	45	**(23.7)**	(23.7)	(23.7)
Profit and loss account	47	**229.3**	194.7	168.1
		269.7	235.1	208.5

44. SHARE PREMIUM ACCOUNT

	The Group		The Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Balance at 1 October 2009	**64.1**	64.1	**64.1**	64.1
Balance at 30 September 2010	**64.1**	64.1	**64.1**	64.1

45. MERGER RESERVE

	The Group		The Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Balance at 1 October 2009	**(70.2)**	(70.2)	**(23.7)**	(23.7)
Balance at 30 September 2010	**(70.2)**	(70.2)	**(23.7)**	(23.7)

The merger reserve arose, due to the provisions of UK company law at the time, on a group restructuring on 12 May 1989 when the Company became the parent entity of the Group.

46. CASH FLOW HEDGING RESERVE

	The Group		The Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
Balance at 1 October 2009	1.2	(0.1)	-	-
Movement in fair value of hedging derivatives	0.3	1.9	-	-
Deferred tax thereon (note 23)	(0.1)	(0.6)	-	-
Balance at 30 September 2010	1.4	1.2	-	-

The cash flows to which these amounts relate are expected to take place, and to affect profit, over the next 34 years (2009: 35 years). The majority of the balance relates to the cross currency basis swaps described in note 6. Cash flows in respect of these swaps will continue for as long as the related notes remain outstanding.

Foreign exchange gains of £124.8m on asset backed loan notes denominated in US dollars and euros (2009: losses of £719.1m) have been taken to the cash flow hedging reserve together with equal and opposite movements on the cross currency basis swaps used to hedge these liabilities.

47. PROFIT AND LOSS ACCOUNT

	The Group		The Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
Balance at 1 October 2009	413.3	384.9	194.7	168.1
Dividends paid (note 48)	(10.0)	(9.2)	(10.0)	(9.2)
Share options exercised (note 49)	(3.8)	(0.6)	-	-
Charge for share based remuneration (note 13)	1.4	1.2	1.4	1.2
Tax on share based remuneration (note 23)	0.3	1.4	-	-
Actuarial (loss) on retirement benefit obligation (note 54)	(4.3)	(5.5)	-	-
Profit for the year	53.9	41.1	43.2	34.6
Balance at 30 September 2010	450.8	413.3	229.3	194.7

48. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	2010 Per share	2009 Per share	2010 £m	2009 £m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2009	2.2p	2.0p	6.5	5.9
Interim dividend for the year ended 30 September 2010	1.2p	1.1p	3.5	3.3
	3.4p	3.1p	10.0	9.2

Amounts paid and proposed in respect of the year:

	2010 Per share	2009 Per share	2010 £m	2009 £m
Interim dividend for the year ended 30 September 2010	1.2p	1.1p	3.5	3.3
Proposed final dividend for the year ended 30 September 2010	2.4p	2.2p	7.1	6.5
	3.6p	3.3p	10.6	9.8

Dividends of £0.0m (2009: £0.0m) were paid by the Company in respect of shares held by ESOP trusts on which dividends had not been waived.

The proposed final dividend for the year ended 30 September 2010 will be paid on 14 February 2011, subject to approval at the Annual General Meeting, with a record date of 14 January 2011. The dividend will be recognised in the accounts when it is paid.

49. TRANSACTIONS IN SHARES

	The Group		The Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Awards from ESOP schemes				
Proceeds	-	-	-	-
Cost of shares transferred (note 50)	(3.8)	(0.6)	-	-
(Deficit) on exercise (note 47)	(3.8)	(0.6)	-	-
Shares issued				
Nominal value (note 42)	0.3	-	0.3	-
Premium on issue (note 44)	-	-	-	-
Proceeds of issue	0.3	-	0.3	-
(Deficit) / surplus on transactions in own shares	(3.5)	(0.6)	0.3	-

50. OWN SHARES

	The Group		The Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Treasury shares				
At 1 October 2009	**39.5**	39.5	**39.5**	39.5
Shares purchased	**-**	-	**-**	-
At 30 September 2010	**39.5**	39.5	**39.5**	39.5
ESOP shares				
At 1 October 2009	**17.2**	16.8	**-**	-
Shares purchased	**-**	1.0	**-**	-
Shares subscribed for (note 42)	**0.3**	-	**-**	-
Options exercised (note 49)	**(3.8)**	(0.6)	**-**	-
At 30 September 2010	**13.7**	17.2	**-**	-
Balance at 30 September 2010	**53.2**	56.7	**39.5**	39.5
Balance at 1 October 2009	**56.7**	56.3	**39.5**	39.5

At 30 September 2010 the number of the Company's own shares held in treasury was 668,900 (2009: 668,900). These shares had a nominal value of £668,900 (2009: £668,900). The dividends on these shares have been waived.

The ESOP shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon Performance Share Plan, Matching Share Plan and Deferred Bonus Scheme. The trustees' costs are included in the operating expenses of the Group.

At 30 September 2010, the trusts held 3,366,361 ordinary shares (2009: 3,405,452) with a nominal value of £3,366,361 (2009: £3,405,452) and a market value of £5,507,366 (2009: £5,135,422). Options, or other share-based awards, were outstanding against 3,366,361 of these shares at 30 September 2010 (2009: 3,405,452). The dividends on 2,821,549 of these shares have been waived (2009: 2,860,640).

51. FINANCIAL LIABILITIES

(a) The Group

	Notes	**2010**	2009	2008
		£m	£m	£m
Current liabilities				
Finance lease liability	53	**0.9**	0.8	0.8
Bank loans and overdrafts		**0.1**	0.3	0.1
		1.0	1.1	0.9
Non-current liabilities				
Asset backed loan notes		**8,336.2**	8,819.2	9,028.7
Corporate bond		**115.8**	116.8	117.9
Finance lease liability	53	**10.9**	11.8	12.6
Bank loans and overdrafts		**1,403.6**	1,453.1	1,606.6
Derivative financial instruments	37	**17.3**	56.6	25.7
		9,883.8	10,457.5	10,791.5

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 52.

(b) The Company

	Notes	2010 £m	2009 £m	2008 £m
Current liabilities				
Finance lease liability	53	**0.9**	0.8	0.8
Non-current liabilities				
Corporate bond		**115.8**	126.8	117.9
Finance lease liability	53	**10.9**	11.8	12.6
Derivative financial instruments	37	**-**	-	2.0
		126.7	138.6	132.5

A maturity analysis of the above borrowings is given in note 52.

52. BORROWINGS

All borrowings shown as falling due after more than one year fall due after more than five years.

The fair values of borrowings are not considered to be significantly different to their carrying values and the effective interest rates are not materially different to the rates charged.

(a) Asset backed loan notes

The asset backed loan notes are secured on portfolios comprising variable and fixed rate mortgages or personal, retail and car loans, and are redeemable in part from time to time, but such redemptions are limited to the net capital received from borrowers in respect of the underlying assets. There is no requirement for the Group to make good any shortfall out of general funds. The maturity date of the notes matches the maturity date of the underlying assets. It is likely that a substantial proportion of these notes will be repaid within five years.

In each issue there exists an option for the Group to repay all of the notes at an earlier date (the 'call date'), at the outstanding principal amount.

Interest is payable at a fixed margin above;

- the London Interbank Offered Rate ('LIBOR') on notes denominated in sterling;
- the Euro Interbank Offered Rate ('EURIBOR') on notes denominated in euros; and
- the London Interbank Offered Rate ('US Dollar LIBOR') on notes denominated in US dollars.

All payments in respect of the notes are required to be made in the currency in which they are denominated.

The notes outstanding at 30 September 2010 comprised £7,877.8m (2009: £8,225.9m, 2008: £8,241.6m) in respect of mortgage backed notes and £458.4m (2009: £593.3m, 2008: £787.1m) in respect of notes backed by other loan assets. The details of the assets backing these securities are given in notes 31 and 32.

A more detailed description of the securitisation structure under which these notes are issued is given in note 6.

52. BORROWINGS (continued)

Notes in issue at 30 September 2010 and 30 September 2009 were:

Issuer	Maturity date	Call date	Principal Outstanding 2010 £m	Principal Outstanding 2009 £m	Average Interest Margin 2010 %	Average Interest Margin 2009 %
Sterling notes						
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**88.5**	91.0	**0.42**	0.21
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**251.4**	258.9	**0.30**	0.31
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**149.9**	154.8	**0.38**	0.19
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**187.5**	187.5	**0.28**	0.28
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**96.0**	99.2	**0.14**	0.14
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**134.7**	137.8	**0.19**	0.18
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**150.9**	153.7	**0.17**	0.18
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**164.4**	167.6	**0.16**	0.16
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**190.4**	195.9	**0.14**	0.14
First Flexible No. 4 PLC	01/07/36	01/07/08	**86.3**	94.8	**1.09**	1.08
First Flexible No. 5 PLC	01/06/34	01/07/09	**98.2**	105.5	**0.99**	0.97
First Flexible No. 6 PLC	01/12/35	01/03/08	**82.5**	86.9	**1.28**	1.27
First Flexible No. 7 PLC	15/09/33	15/03/11	**110.7**	131.4	**0.13**	0.13
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**119.0**	156.0	**0.89**	0.39
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	**162.1**	191.5	**0.95**	0.43
US dollar notes			**$m**	$m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**255.7**	265.4	**0.74**	0.37
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**24.3**	25.1	**0.36**	0.18
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**204.2**	240.4	**0.09**	0.09
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**527.3**	548.3	**0.10**	0.10
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**1,157.5**	1,196.8	**0.12**	0.12
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**1,211.6**	1,253.3	**0.11**	0.11
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**1,406.7**	1,455.0	**0.10**	0.10
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**951.8**	981.8	**0.09**	0.09
First Flexible No. 6 PLC	01/12/35	01/03/08	**12.5**	13.4	**0.56**	0.56
Euro notes			**€m**	€m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**260.0**	269.4	**0.66**	0.33
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**328.7**	338.0	**0.24**	0.24
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**235.6**	244.0	**0.57**	0.29
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**269.0**	269.0	**0.21**	0.20
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**287.5**	292.2	**0.25**	0.25
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**388.6**	393.9	**0.25**	0.25
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**371.3**	378.4	**0.19**	0.19
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**406.4**	412.7	**0.21**	0.21
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**287.0**	289.9	**0.33**	0.33
First Flexible No. 6 PLC	01/12/35	01/03/08	**46.1**	48.9	**1.05**	1.03
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**206.0**	271.9	**0.79**	0.35

During the year, Group companies issued £nil (2009: £nil) of mortgage backed floating rate notes at par and £nil (2009: £nil) of asset backed floating rate notes at par.

(b) Bank borrowings

Prior to the recent difficulties in the capital markets, assets were typically securitised within twelve months of origination. New loans were funded by a bank facility (the 'old warehouse facility'). This was drawn down to fund completions and repaid when assets were securitised. More information on this process is given in note 6.

The old warehouse facility was available for further drawings until 29 February 2008 at which point it converted automatically to a term loan and no further drawings were allowed. The old warehouse facility is provided by a committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks. This facility is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance (No. 1) Limited and Paragon Personal Finance (No. 1) Limited and although its final repayment date is 28 February 2050 it is likely that substantial repayments will be made within the next five years. Interest on this loan is payable monthly in sterling at 0.675% above LIBOR (2009: 0.675% above LIBOR).

The principal amount outstanding on the facility at 30 September 2010, which was also the maximum available amount, was £1,403.6m (2009: £1,453.1m). The carrying value of the borrowing in the balance sheet was £1,403.6m (2009: £1,453.1m).

Details of assets held within the old warehouse are given in note 32. As with the asset backed loan notes, repayments of this facility before the final repayment date are restricted to the amount of principal cash realised from the funded assets.

In order to provide funding for new lending, on 27 September 2010 the Group entered into a £200.0m committed sterling facility provided to Paragon Fourth Funding Limited by Macquarie Bank plc ('the new warehouse'). This facility is secured on all the assets of Paragon Fourth Funding Limited and is available for drawing for a period of two years and has a term of four years. It is the Group's intention to refinance loans originated in the new warehouse in the mortgage backed securitisation market when appropriate. Interest on this loan is payable monthly in sterling at 2.875% above LIBOR. The facility has a renewal process that allows the Group to agree a new two year commitment period prior to the expiry of the existing commitment period.

No amounts had been drawn on this facility at 30 September 2010 and hence the maximum available drawing at that date was £200.0m (2009: £nil). As with the old warehouse, repayments on the new warehouse are limited to principal cash received from the funded assets.

The Group additionally has entered into £64.8m (2009: £79.8m) of sterling revolving credit facilities to fund, where necessary, the purchase of mortgage redraws in certain subsidiary companies. At 30 September 2010 £nil (2009: £nil) had been drawn down under these facilities.

The weighted average margin above LIBOR on bank borrowings at 30 September 2010 was 0.675% (2009: 0.675%).

(c) Corporate bond

On 20 April 2005 the Company issued £120.0m of 7% Callable Subordinated Notes at an issue price of 99.347% to provide long term capital for the Group. These bonds bear interest at a fixed rate of 7% per annum and are repayable on 20 April 2017, but may be repaid on 20 April 2012 at the Company's option. They are unsecured and subordinated to any other creditors of the Company. At 30 September 2010 £115.8m (2009: £126.8m) was included within the financial liabilities of the Company in respect of these bonds.

At 30 September 2009 bonds to the principal value of £10.0m were held by other group companies and hence the value included within the financial liabilities of the Group in respect of these bonds was £116.8m. During the year ended 30 September 2010 these notes were cancelled, realising a profit of £10.0m in the Company, and at 30 September 2010 none of the bonds were held by other entities within the Group and therefore the value included within the financial liabilities of the Group in respect of the bonds at 30 September 2010 was the same as that for the Company.

53. OBLIGATIONS UNDER FINANCE LEASES

The finance lease obligations recorded in the accounts arise from a sale and leaseback transaction of the Group's former head office building in 1997 which falls to be treated as a finance lease under IAS 17 - 'Leases'. The lease expires in 2019 and is subject to five yearly rent reviews, with guaranteed minimum rent increases.

The minimum lease payments payable under this lease are:

	2010 £m	2009 £m	2008 £m
Amounts payable			
Within one year	1.9	1.9	2.0
Within two to five years	8.2	8.0	7.8
After five years	7.0	9.1	11.2
	17.1	19.0	21.0
Less: future finance charges	(5.3)	(6.4)	(7.6)
Present value of lease obligations	11.8	12.6	13.4

The present value of these payments recognised in the financial statements is:

	2010 £m	2009 £m	2008 £m
Amounts payable			
Within one year	0.9	0.8	0.8
Within two to five years	5.0	4.3	3.8
After five years	5.9	7.5	8.8
	11.8	12.6	13.4

The fair value of the lease obligation is not considered to be materially different to the present value of the future obligations shown above. The interest rate implicit in the lease is 9.13% (2009: 9.13%)

At 30 September 2010 the minimum amount of payments expected to be received in respect of non-cancellable sub-leases in respect of this building was £1,100,000 (2009: £2,100,000).

54. RETIREMENT BENEFIT OBLIGATIONS

The Group operates a funded defined benefit pension scheme in the UK (the 'Plan'). A full actuarial valuation was carried out at 31 March 2007 and updated to 30 September 2010 by a qualified independent actuary. A full actuarial valuation as at 31 March 2010 is currently being carried out. The results of this valuation will be used in compiling the financial statements for the year ending 30 September 2011.

The liabilities of the Plan are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the Projected Unit method. This amount is reflected in the liability in the balance sheet. The Projected Unit method is an accrued benefits valuation method in which the technical provisions are calculated based on service up until the valuation date allowing for future salary growth until the date of retirement, withdrawal or death, as appropriate. The future service rate is then calculated as the contribution rate required to fund the service accruing over the control period again allowing for future salary growth. As a result of the Plan being closed to new entrants, the service cost as a percentage of pensionable salaries is expected to increase as the members of the Plan approach retirement. However the membership is expected to reduce so that the service charge in monetary terms will gradually reduce. The major weighted average assumptions used by the actuary were (in nominal terms):

	30 September 2010	30 September 2009	30 September 2008
In determining net pension cost for the year			
Discount rate	5.70%	6.50%	6.10%
Expected long term rate of return on scheme assets	6.60%	7.70%	7.20%
Rate of compensation increase	4.20%	4.35%	4.10%
Rate of increase of pensions			
in payment (accrued before 6 April 2006)	3.20%	3.35%	3.10%
in payment (accrued after 5 April 2006)	2.50%	2.50%	2.50%
in deferment	3.20%	3.35%	3.10%
In determining benefit obligations			
Discount rate	5.20%	5.70%	6.50%
Rate of compensation increase	4.00%	4.20%	4.35%
Rate of increase of pensions			
in payment (accrued before 6 April 2006)	3.00%	3.20%	3.35%
in payment (accrued after 5 April 2006)	2.50%	2.50%	2.50%
in deferment	3.00%	3.20%	3.35%
Further life expectancy at age 60			
Pensioner (male)	30	30	30
Pensioner (female)	33	33	33
Non-retired member (male)	31	31	31
Non-retired member (female)	35	35	35

54. RETIREMENT BENEFIT OBLIGATIONS (continued)

The assets in the Plan at 30 September 2010, 30 September 2009 and 30 September 2008 and the expected rates of return were:

	At 30 September 2010		At 30 September 2009		At 30 September 2008	
	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m
Equities	7.25%	35.2	7.60%	33.0	8.20%	31.5
Bonds	4.40%	16.8	4.80%	13.7	6.25%	12.1
Other	5.80%	5.2	4.80%	5.3	6.25%	0.3
Total market value of assets	6.28%	57.2	6.90%	52.0	7.70%	43.9
Present value of scheme liabilities		(73.7)		(63.5)		(48.9)
(Deficit) in the scheme		(16.5)		(11.5)		(5.0)

The Plan assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the Plan are required to act in the best interests of the Plan's beneficiaries. The appointment of trustees to the Plan is determined by the scheme's trust documentation. The Group has a policy that one third of all trustees should be nominated by active and pensioner members of the Plan.

At 30 September 2010 the Plan assets were invested in a diversified portfolio that consisted primarily of equity and gilt investments. The majority of the equities held by the Plan are in developed markets. The target asset allocations for the year ending 30 September 2011 are 55% equities, 25% bonds and 20% other assets.

In conjunction with the trustees, the Group has continued to conduct asset-liability reviews of the Plan. These studies are used to assist the trustees and the Group to determine the optimal long-term asset allocation with regard to the structure of liabilities within the Plan. The results of the studies are used to assist the trustees in managing the volatility in the underlying investment performance and risk of a significant increase in the scheme deficit by providing information used to determine the investment strategy of the Plan.

Following the 2007 actuarial valuation, the trustees put in place a recovery plan. The trustees' recovery plan aims to meet the statutory funding objective within ten years and nine months from the date of valuation, i.e. by 1 January 2018.

The rate of return expected on scheme assets is based on the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The movement in the market value of the scheme assets during the year was as follows:

	2010 £m	2009 £m
At 1 October 2009	52.0	43.9
Movement in year		
Contributions by the Group	2.3	2.3
Contributions by scheme members	0.3	0.3
Benefits paid	(1.4)	(0.8)
Expected return on scheme assets	3.6	3.5
Actuarial gain	0.4	2.8
At 30 September 2010	57.2	52.0

The actual rate of return on scheme assets in the year ended 30 September 2010 was 7.8% (2009: 14.5%).

The movement in the present value of the scheme liabilities during the year was as follows:

	2010 £m	2009 £m
At 1 October 2009	63.5	48.9
Movement in year		
Current service cost	1.6	1.4
Past service costs	-	-
Contributions by scheme members	0.3	0.3
Benefits paid	(1.4)	(0.8)
Finance cost	3.6	3.2
Actuarial loss	6.1	10.5
At 30 September 2010	73.7	63.5

The most recent valuation of the scheme liabilities on a buy out basis obtained by the trustees in accordance with section 224 of the Pensions Act 2004 was calculated at 31 March 2007, when the valuation on that basis was £76.1m. An actuarial valuation as at 31 March 2010 is in progress, but the results have not been finalised.

The sensitivity of the valuation of the scheme liabilities to the principal assumptions disclosed above at 30 September 2010 is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities
Discount rate	0.1% p.a.	Decrease by 2.6%
Rate of inflation *	0.1% p.a.	Increase by 2.4%
Rate of salary growth	0.1% p.a.	Increase by 0.8%
Rates of mortality	1 year of life expectancy	Increase by 1.9%

* maintaining a 1% real increase in salary growth

The duration of the scheme's liabilities are shown in the table below:

	2010 Years	2009 Years
Category of member		
Active members	28	28
Deferred pensioners	27	27
Current pensioners	14	14
All members	27	27

The agreed rate of employer contributions was 27.4% of gross salaries for participating employees. Since 1 July 2008 an additional contribution of £500,000 per annum has been paid by monthly instalments. Contributions to the plan will be reviewed and agreed with the trustees as part of the 31 March 2010 valuation.

The amounts charged in the income statement in respect of the pension scheme are:

	Notes	2010 £m	2009 £m
Current service cost		1.6	1.4
Past service cost		-	-
Included within operating expenses	13	1.6	1.4
Expected return on scheme assets	9	(3.6)	(3.5)
Funding cost of scheme liability	10	3.6	3.2
Total expense recognised in profit		1.6	1.1

54. RETIREMENT BENEFIT OBLIGATIONS (continued)

The actuarial losses and gains in the statement of comprehensive income in respect of the pension scheme are:

	Notes	2010 £m	2009 £m
Gain on scheme assets		**0.4**	2.8
(Loss) on scheme liabilities		**(6.1)**	(10.5)
Total actuarial (loss)		**(5.7)**	(7.7)
Tax thereon	23	**1.4**	2.2
Net actuarial (loss)	47	**(4.3)**	(5.5)

The cumulative value of actuarial losses charged through reserves to the profit and loss account since 1 October 2001, the first date on which a valuation of the scheme assets and liabilities on a basis consistent with IAS 19 was carried out is £33.4m (2009: £27.7m):

The five year history of experience adjustments on the scheme is as shown below:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	**57.2**	52.0	43.9	49.2	43.9
Present value of scheme obligations	**(73.7)**	(63.5)	(48.9)	(45.0)	(43.6)
(Deficit) / surplus in the scheme	**(16.5)**	(11.5)	(5.0)	4.2	0.3
Experience adjustments on scheme assets:					
Amount (£m)	**0.4**	2.8	(10.4)	0.9	0.4
Percentage of scheme assets	**0.6%**	5.3%	(23.8)%	1.8%	1.0%
Experience adjustments on scheme liabilities:					
Amount (£m)	**-**	-	0.2	2.5	-
Percentage of scheme liabilities	**0.0%**	0.0%	0.4%	5.6%	0.0%

In addition to the Group Pension Scheme, the Group operates a defined contribution (Stakeholder) pension scheme. Contributions made by the Group to this scheme in the year ended 30 September 2010 were £0.2m (2009: £0.1m).

55. CURRENT TAX LIABILITIES

(a) The Group

	2010 £m	2009 £m	2008 £m
UK Corporation Tax	**16.2**	-	6.3
	16.2	-	6.3

(b) The Company

	2010 £m	2009 £m	2008 £m
UK Corporation Tax	**1.5**	1.0	1.0
	1.5	1.0	1.0

56. PROVISIONS

	2010 £m	2009 £m
Provision at 1 October 2009	0.5	0.5
Current year charge (note 17)	-	0.3
Utilised in the year	(0.5)	(0.3)
Released in the year	-	-
Provision at 30 September 2010	-	0.5
Included in current liabilities	-	0.5
Included in non-current liabilities	-	-
	-	0.5

Provisions included committed future lease costs for properties no longer occupied by the Group.

57. OTHER LIABILITIES

(a) The Group

	2010 £m	2009 £m	2008 £m
Current liabilities			
Accrued interest	21.1	17.8	68.2
Deferred income	0.4	0.9	1.7
Other accruals	10.1	10.9	9.0
Other taxation and social security	0.8	0.8	0.5
	32.4	30.4	79.4
Non-current liabilities			
Deferred income	1.5	1.9	2.1
Other accruals	0.1	0.6	2.5
	1.6	2.5	4.6

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39.

(b) The Company

	2010 £m	2009 £m	2008 £m
Current liabilities			
Amounts owed to Group companies	385.6	313.7	365.5
Accrued interest	3.5	3.8	3.8
Deferred income	0.1	0.1	0.1
	389.2	317.6	369.4
Non-current liabilities			
Deferred income	0.9	1.1	1.2
	0.9	1.1	1.2

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39.

58. NET CASH FLOW FROM OPERATING ACTIVITIES

(a) The Group

	2010 £m	2009 £m
Profit before tax	71.8	54.3
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	2.3	3.2
Amortisation of intangible assets	0.7	0.7
Impairment of goodwill	-	6.0
Share of result of associated undertakings	-	-
Profit on repurchase of debt	(5.7)	(18.4)
Foreign exchange movement on borrowings	(124.8)	719.1
Other non-cash movements on borrowings	0.6	12.3
Impairment losses on loans to customers	39.2	66.2
Charge for share based remuneration	1.4	1.2
Loss on disposal of property, plant and equipment	0.2	0.5
Net decrease / (increase) in operating assets:		
Loans to customers	363.9	673.0
Loans to associates	-	0.1
Derivative financial instruments	127.2	(696.6)
Fair value of portfolio hedges	30.4	(51.0)
Other receivables	(0.4)	(0.1)
Net (decrease) / increase in operating liabilities:		
Derivative financial instruments	(39.3)	30.9
Other liabilities	(0.1)	(52.7)
Cash generated by operations	467.4	748.7
Income taxes received / (paid)	2.9	(9.9)
	470.3	738.8

(b) The Company

	2010 £m	2009 £m
Profit before tax	**45.8**	36.3
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	**0.9**	0.8
Non-cash movements on borrowings	**(1.0)**	8.9
Impairment losses on investments in subsidiaries	**1.7**	2.9
Cancellation of debt (note 52)	**(10.0)**	-
Charge for share based remuneration	**1.4**	1.2
Net (increase) / decrease in operating assets:		
Loans to associates	**-**	0.1
Other receivables	**(37.3)**	13.5
Derivative financial instruments	**0.7**	(8.7)
Net increase / (decrease) in operating liabilities:		
Derivative financial instruments	**-**	(2.0)
Other liabilities	**71.4**	(51.9)
Cash generated by operations	**73.6**	1.1
Income taxes paid	**(2.1)**	(1.7)
	71.5	(0.6)

59. NET CASH FLOW FROM INVESTING ACTIVITIES

	The Group		The Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Proceeds on disposal of property, plant and equipment	**1.6**	1.6	**-**	-
Purchases of property, plant and equipment	**(1.0)**	(0.2)	**-**	-
Purchases of intangible assets	**(0.3)**	(0.1)	**-**	-
Investment in subsidiary undertakings	**-**	-	**3.8**	24.6
Net cash generated by investing activities	**0.3**	1.3	**3.8**	24.6

60. NET CASH FLOW FROM FINANCING ACTIVITIES

	The Group		The Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Shares issued	**-**	-	**0.3**	-
Dividends paid (note 48)	**(10.0)**	(9.2)	**(10.0)**	(9.2)
Repayment of asset backed floating rate notes	**(345.5)**	(902.4)	**-**	-
Repurchase of debt (note 18)	**(8.3)**	(19.3)	**-**	-
Capital element of finance lease payments	**(0.8)**	(0.8)	**(0.8)**	(0.8)
Movement on bank facilities	**(49.5)**	(153.5)	**-**	-
Purchase of shares (note 50)	**-**	(1.0)	**-**	-
Net cash (utilised) by financing activities	**(414.1)**	(1,086.2)	**(10.5)**	(10.0)

61. PURCHASE OF SUBSIDIARY UNDERTAKINGS

On 25 January 2007 the Group acquired a 33% interest in the equity of The Business Mortgage Company Limited and its subsidiary companies ('TBMC'), a mortgage broker, as part of a transaction in which the Company supported the purchase of TBMC by its management, providing facilities of £15.75 million. With the significant downturn in market activity during 2008 the business of TBMC suffered and, in order to secure the future of this strategically important business channel, the Group agreed to a reorganisation of TBMC whereby it accepted the remaining 67% of the equity on 17 December 2008, bringing the company within the Group, and suspended interest payments on its loan to TBMC. No payment was made in respect of the shares accepted. This transaction was accounted for by the purchase method of accounting. The fair values of the assets acquired and the liabilities assumed as a result of the acquisition were as follows:

	The Group 2009 £m
Intangible assets	8.2
Tangible fixed assets	0.1
Deferred tax assets	0.8
Other receivables	0.2
Other liabilities	(0.1)
	9.2
Liabilities owed to Group	(16.8)
	(7.6)
Goodwill	7.6
	-
Total cash consideration	-
Less: cash acquired	-
Cash flow on acquisition less cash acquired	-

62. OPERATING LEASE ARRANGEMENTS

(a) As lessee

	The Group		The Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Minimum lease payments under operating leases recognised in income for the year	**3.2**	4.1	**0.3**	0.3

At 30 September 2010 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Amounts falling due:				
Within one year	**2.5**	3.3	**0.3**	0.3
Between two and five years	**8.1**	10.0	**1.0**	1.0
After more than five years	**4.0**	5.9	**0.9**	1.2
	14.6	19.2	**2.2**	2.5

Operating lease payments represent rents payable by the Group in respect of certain of its office premises and amounts attributed to land rent under the finance lease described in note 53. The average term of the current leases is 13 years (2009: 15 years) with rents subject to review every five years.

(b) As lessor

Certain of the Group's office premises which are not currently required by the Group have been sub-let. Rental income from these premises during the year ended 30 September 2010 was:

	The Group		The Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Rental income	**1.7**	2.1	**1.3**	1.8

At 30 September 2010 the Group had received outstanding commitments from tenants for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Amounts receivable:				
Within one year	**0.7**	1.5	**0.7**	1.0
Between two and five years	**0.4**	2.3	**0.4**	1.1
After more than five years	**-**	0.2	**-**	-
	1.1	4.0	**1.1**	2.1

63. CAPITAL COMMITMENTS

There were no capital commitments (2009: £nil) contracted but not provided for.

64. RELATED PARTY TRANSACTIONS

(a) The Group

On 27 May 2010, Mr A K Fletcher, an independent non-executive director of the Company, was appointed as a trustee of the Group Pension Plan. In respect of this appointment he was paid £3,000 in the year ended 30 September 2010 by Paragon Finance plc, the sponsoring company of the Plan.

The Group had no other transactions with related parties other than the key management compensation disclosed in note 14 and the transactions with its associated undertaking, up to the time it joined the Group, disclosed in notes 29, 36 and 40.

(b) The Company

During the year the parent company entered into transactions with its subsidiaries, which are related parties. Management services were provided to the Company by one of its subsidiaries and the Company granted awards under the share based payment arrangements described in note 15 to employees of subsidiary undertakings. The Company also issued shares to the trustees of its ESOP trusts, as described in note 42.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 27 and 28.

Outstanding current account balances with subsidiaries are shown in notes 40 and 57.

During the year the Company incurred interest costs of £16.6m in respect of borrowings from its subsidiaries (2009: £18.7m).

The Company had made investments in an associated undertaking, which became a subsidiary of the Group during the year ended 30 September 2009, and had made loans to this associate. Details of equity investments in the associate are given in note 29, details of loans to the associate are given in note 36 and the accrued interest payable by the associate, up to the point at which it joined the Group, is shown in note 40.

Appendices to the Annual Report

For the year ended 30 September 2010

A. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	2010 £m	2009 £m
Cost – operating expenses	42.6	39.3
Total operating income	147.9	150.8
Cost / Income	28.8%	26.1%

B. UNDERLYING PROFIT

Underlying profit is determined by excluding from the operating result certain costs of a one off nature, which do not reflect the underlying business performance of the Group, gains on the repurchase of debt which result from the illiquidity of the credit markets rather than the fair value of the security and fair value accounting adjustments arising from the Group's hedging arrangements.

	2010 £m	2009 £m
First Mortgages		
Profit before tax for the period (note 7)	56.1	51.0
Less: Gain on debt repurchase	(5.7)	(15.9)
Impairment of goodwill	-	6.0
Fair value losses / (gains)	0.2	3.6
	50.6	44.7
Consumer Finance		
Profit before tax for the period (note 7)	15.7	3.3
Less: Gain on debt repurchase	-	(2.5)
Impairment of goodwill	-	-
Fair value losses / (gains)	(0.2)	(0.2)
	15.5	0.6
Total		
Profit before tax for the period (note 7)	71.8	54.3
Less: Gain on debt repurchase	(5.7)	(18.4)
Impairment of goodwill	-	6.0
Fair value losses / (gains)	-	3.4
	66.1	45.3

C. NET ASSET VALUE PER SHARE

Net asset value per share is derived as follows:

	Notes	2010 £m	2009 £m
Total equity (£m)		**692.3**	650.8
Outstanding issued shares (m)	42	**299.5**	299.2
Treasury shares (m)	50	**(0.7)**	(0.7)
Shares held by ESOP schemes (m)	50	**(3.4)**	(3.4)
		295.4	295.1
Net asset value per £1 ordinary share		**234p**	221p

Notice of Annual General Meeting

Notice of Annual General Meeting

THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this notice or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser.

To all shareholders

NOTICE IS HEREBY GIVEN that the twenty-second Annual General Meeting of The Paragon Group of Companies PLC will be held at the offices of RBS Hoare Govett Limited at 250 Bishopsgate, London, EC2M 4AA on 10 February 2011 at 10.00 a.m. for the following purposes:

As ordinary business

1 To receive and consider the Company's Accounts for the year ended 30 September 2010 and the Reports of the Directors and the Auditors.

2 To consider and adopt the Report of the Board to the Shareholders on Directors' Remuneration.

3 To declare a dividend.

4 To re-appoint as a director Mr R G Dench (who retires under Article 77(b)).

5 To re-appoint as a director Mr N Keen (who retires under Article 77(b)).

6 To re-appoint as a director Mr C D Newell (who retires under Article 77(b)).

7 To re-appoint as a director Mr N S Terrington.

8 To re-appoint as a director Mr J A Heron.

9 To re-appoint as a director Mr T C Eccles.

10 To re-appoint as a director Mr E A Tilly.

11 To re-appoint as a director Mr A K Fletcher.

12 To re-appoint Deloitte LLP as Auditors and to authorise the directors to fix their remuneration.

As special business

To consider and, if thought fit, to pass resolution 13 as an ordinary resolution and resolutions 14, 15 and 16 as special resolutions:

Ordinary Resolution

13 'THAT the Board be and it is hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £99,500,000 PROVIDED THAT this authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company after the passing of this resolution and the close of business on 9 May 2012 (unless previously revoked or varied by the Company in general meeting) save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted after such expiry and the Board may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.'

Special Resolutions

14 'THAT, subject to the passing of resolution 13, the Board be and it is hereby empowered pursuant to Section 571 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of the said Act) for cash pursuant to the authority conferred by resolution 13 and/or where allotment is treated as an allotment of equity securities under section 560(3) as if sub-section (1) of Section 561 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

(a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders and in favour of all holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of all such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with treasury shares, fractional entitlements, record dates or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or any stock exchange in any territory or any other matter whatsoever); and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £14,900,000

and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, the close of business on 9 May 2012), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.'

15 'THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 ('the Act') to make one or more market purchases (within the meaning of Section 693(4) of the Act) on the London Stock Exchange PLC of ordinary shares of £1 each in the share capital of the Company ('Ordinary Shares') provided that:-

(a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 29,800,000 (representing approximately 10 per cent of the Company's issued ordinary share capital excluding treasury shares);

(b) the minimum price which may be paid for an Ordinary Share is 10p;

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market price shown in the quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;

(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the close of business on 9 August 2012; and

(e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.'

16 'THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.'

By order of the Board
JOHN G GEMMELL
Company Secretary

Registered and Head Office:
St Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE

24 November 2010

Registered in England No. 2336032

A member entitled to attend and vote at this meeting may appoint another person as their proxy to exercise all or any of their rights to attend and to speak and vote at a meeting of the Company. A member may appoint more than one proxy in relation to the Annual General Meeting provided that the member specifies the number of shares in relation to which each proxy is appointed and each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not also be a member of the Company. A proxy form is enclosed for use in connection with the meeting. Proxy forms and any power of attorney or other written authority under which they are executed (or an office or notarially certified copy thereof) should be lodged with the Registrar of the Company at the address shown on the reverse of the proxy form by 10.00 a.m. on Tuesday 8 February 2011. The appointment of a proxy or any CREST Proxy Instruction (as described below) will not preclude a shareholder from attending and voting at the meeting.

The proxy appointment rights described above do not apply to any person nominated to enjoy information rights under section 146 of the Companies Act 2006 by a member who holds shares on behalf of that person.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the register of members of the Company at 10.00 a.m. on Tuesday 8 February 2011 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

As at 23 November 2010 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 299,454,078 ordinary shares, carrying one vote each, of which 668,900 were held in treasury. Therefore, the total voting rights in the Company as at 23 November 2010 are 298,785,178.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number 3RA50) by 10.00 a.m. on Tuesday 8 February 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.paragon-group.co.uk.

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than Wednesday 29 December 2010, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

The register of directors' interests, copies of directors' service contracts and letters of appointment of non executive directors will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the Registered Office of the Company from the date of this notice until the date of the meeting and at the place of the meeting from 9.30 a.m. on the date of such meeting until the conclusion thereof. The Report and Accounts have been sent to the Company's shareholders.

Biographical details of current directors are provided on pages 12 and 13.

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