Annual Report & Accounts 2011

The Paragon Group of Companies PLC

Contents

Financial highlights

£80.8m
pre-tax profit
up from £71.8m in 2010

20.2p
earnings per share
up from 18.3p in 2010

£742m
shareholders' funds
up from £692.0m (restated) in 2010

4.0p
total dividend
up from 3.6p in 2010

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Underlying profit before taxation	**81.1**	66.1	45.3	66.9	86.7
Profit before taxation	**80.8**	71.8	54.3	53.7	91.0
Profit after taxation	**59.6**	53.9	41.1	37.1	62.8
Total loan assets	**8,724.2**	8,911.2	9,314.3	10,053.2	11,034.9
Shareholders' funds	**742.0**	692.0	650.5	621.2	313.0

	2011	2010	2009	2008	2007
Earnings per share					
- basic	**20.2p**	18.3p	13.9p	17.9p	90.5p
- diluted	**19.6p**	17.8p	13.7p	17.9p	87.2p
Dividend per £1 ordinary share	**4.0p**	3.6p	3.3p	3.0p	-
Dividend per 10p ordinary share	**-**	-	-	-	8.0p

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

Shareholders' funds in the years ended 30 September 2007 to 30 September 2010 are restated for the change in accounting policy described in note 2.

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

Chairman's statement

The Group has made considerable progress during the year ended 30 September 2011, with new investments in portfolios, new servicing contracts, new buy-to-let lending and strong credit performance and customer retention contributing to a significant increase in profits. Since the year end, a further, significant, portfolio acquisition and the Group's first securitisation since 2007 have been completed. The Group is well placed for future growth.

During the year ended 30 September 2011 the Group earned a profit of £80.8 million before taxation (2010: £71.8 million after exceptional gains on debt repurchase), an increase of 12.5%. Underlying profit, before exceptional and fair value items, increased by 22.7% to £81.1 million for the year (2010: £66.1 million).

Earnings per share were 20.2p (2010: 18.3p), the increase from last year reflecting the improved profits earned by the Group.

The Group's strategic focus has remained unchanged, to deliver value to shareholders by close management of the existing loan portfolio, which continued to perform well in the year, and by exploiting new opportunities, principally through investment in loan portfolios and through the re-establishment of our buy-to-let origination franchise.

These new developments have been of particular significance this year. Idem Capital, our dedicated investment subsidiary, has successfully built on the two portfolios purchased in prior years with three further investments during the financial year and another substantial portfolio purchase shortly after the year end. Paragon Mortgages and Mortgage Trust, our buy-to-let origination brands, have also re-established themselves in the lending market, supported by the £200.0 million warehouse facility signed in September 2010. New loans of £127.0 million were advanced and a strong pipeline of business was in place at the end of the year.

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 2.65p per share (2010: 2.40p) which, when added to the interim dividend of 1.35p, gives a total dividend of 4.00p per share for the year (2010: 3.60p), an increase of 11.1%. Subject to approval at the Annual General Meeting on 9 February 2012, the dividend will be paid on 13 February 2012, by reference to a record date of 13 January 2012.

CAPITAL MANAGEMENT

The Group's cash flow has been strong during the year, leading to an increase in free cash balances to £195.0 million at the year-end (30 September 2010: £147.8 million) after investments to support new buy-to-let originations and acquisitions by Idem Capital. The Company sees opportunities going forward to deploy capital for new lending activities, which should grow over time, and to invest in loan portfolios, through Idem Capital, as banks and other financial institutions de-leverage in the coming years. These cash balances, together with net cash receipts going forward, will support the Group's investments in these areas.

Consistent with our aim to follow a progressive dividend policy, the Company has declared a final dividend for the year of 2.65p per share which, when added to the interim dividend, makes a total dividend of 4.00p per share. The Company will keep under review the appropriate level of capital for the business to meet its operational requirements and strategic development objectives.

In accordance with our usual practice, we will be proposing at the forthcoming Annual General Meeting a special resolution seeking authority from shareholders for the Company to purchase up to 29.9 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.

CORPORATE GOVERNANCE

The Board of Directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council in May 2010. A detailed explanation of how those principles are applied is given in the Corporate Governance section on page 39 to 43 of this annual report.

BOARD OF DIRECTORS

On 11 February 2011, Peter Hartill was appointed by the Board as a Non-Executive Director. Mr Hartill, a Chartered Accountant, is currently Non-Executive Chairman of Deeley Group and a Non-Executive Director of Scott Bader Limited. Previously, he spent 40 years with Deloitte, becoming a Senior Audit Partner and a Business Advisor with experience across a wide range of industries and business issues. Specifically he has considerable experience in acquisitions and disposals, capital raising, risk control and corporate governance in the financial services sector.

On 27 July 2011 Terry Eccles, who remains on the Board, stepped down from his previous position as Senior Independent Director and Christopher Newell stepped down as Chairman of the Audit and Compliance Committee. They were replaced by Ted Tilly and Peter Hartill respectively. Alan Fletcher replaced Ted Tilly as Chairman of the Remuneration Committee.

On 31 October 2011 Christopher Newell resigned from the Board of Directors after ten years of service. The Board would like to record its gratitude for his considerable support during the years he has been a Director.

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

During the year the Group has successfully pursued its strategy to deliver shareholder value through purchasing portfolios, recommencing new lending, entering into new servicing agreements and continuing the careful management of the extant portfolios. Since the year-end the Group has completed a further, substantial, portfolio acquisition and successfully executed a £163.8 million securitisation under difficult market conditions, the Group's first since 2007.

The current difficulties in the Eurozone create serious uncertainties for the future course of the UK economy, with continued weakness being likely for some considerable time. However, Paragon continues to manage, actively and prudently, its portfolio of high quality originated assets, whilst looking to extract value from the acquired assets and use its strong liquidity for new lending and portfolio investment opportunities. We believe that the opportunities being created by the de-leveraging activities of the larger banks and financial institutions will create acquisition and servicing opportunities for the Group, where our proven experience and expertise in taking over the running of portfolios and extracting value makes Paragon a natural partner or co-investor for larger transactions. Sound foundations are therefore in place for further growth in the present financial year.

ROBERT G DENCH
Chairman
22 November 2011

Chief Executive's review

During the year ended 30 September 2011 the Group has successfully pursued its strategy to deliver shareholder value through purchasing portfolios, recommencing new lending, entering into new servicing agreements and continuing the careful management of the extant portfolios. Since the year-end the Group has completed a further, substantial, portfolio acquisition and successfully executed a £163.8 million securitisation under difficult market conditions, the Group's first since 2007.

FINANCIAL REVIEW

CONSOLIDATED RESULTS

For the year ended 30 September 2011

	2011 £m	2010 £m
Interest receivable	**258.0**	275.6
Interest payable and similar charges	**(122.2)**	(142.2)
Net interest income	**135.8**	133.4
Other operating income	**15.1**	14.5
Total operating income	**150.9**	147.9
Operating expenses	**(45.4)**	(42.6)
Provisions for losses	**(24.4)**	(39.2)
Underlying profit	**81.1**	66.1
Gains on debt repurchases	**-**	5.7
Fair value net (losses)	**(0.3)**	-
Operating profit being profit on ordinary activities before taxation	**80.8**	71.8
Tax charge on profit on ordinary activities	**(21.2)**	(17.9)
Profit on ordinary activities after taxation	**59.6**	53.9
Dividend – Rate per share for the year	**4.0p**	3.6p
Basic earnings per share	**20.2p**	18.3p
Diluted earnings per share	**19.6p**	17.8p

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. Both divisions include internally originated and acquired assets. 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.

	2011 £m	2010 £m
Underlying operating profit		
First Mortgages	**67.3**	50.6
Consumer Finance	**13.8**	15.5
	81.1	66.1

Net interest income increased by 1.8% to £135.8 million (2010: £133.4 million), reflecting improved margins and the impact of new loan assets, both acquired and originated, on the balance sheet, partially offset by a 2.1% reduction in the size of the loan book during the year. At 30 September 2011, 95.8% (2010: 95.1%) of the Group's loan assets were first mortgages.

Other operating income was £15.1 million for the year, an increase of 4.1% from £14.5 million in 2010, increased income from third party account servicing and insurance commissions being partially offset by lower levels of account fees.

Operating expenses during the year were 6.6% higher at £45.4 million (2010: £42.6 million). The increase is primarily due to staff costs, following the recruitment of additional staff to support loan administration and increasing lending volumes, and increased expenditure on enhancing the Group's IT capabilities to support future growth. The cost:income ratio was in line with our expectations at 30.1% for the year (Appendix A) and remains significantly below the industry average. Notwithstanding the strong growth in profits, the Board will remain focused on controlling operating costs through the application of rigorous budgeting and monitoring procedures.

The charge for impairment provisions of £24.4 million was 37.8% lower than the charge of £39.2 million for 2010, reflecting an improvement in arrears performance. As a percentage of loans to customers (note 32) the charge has reduced to 0.28% from 0.44% in 2010. 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.

During 2010 gains on repurchases of the Group's own debt securities of £5.7 million were made. No such repurchases took place during the year ended 30 September 2011 as increased bond prices made similar transactions less attractive.

Yield curve movements during the year resulted in hedging instrument fair value net losses of £0.3m (2010: £nil), which do not affect cash flow. As the fair value movements of hedged assets or liabilities are expected to trend to zero over time, this item is merely a timing difference. The Group remains economically and appropriately hedged.

Cash generation has remained strong over the period, with free cash balances increasing to £195.0 million at 30 September 2011 from £147.8 million a year earlier.

Corporation tax has been charged at an effective tax rate of 26.2%, compared to 24.9% last year.

Profits after taxation of £59.6 million (2010: £53.9 million) have been transferred to shareholders' funds, which totalled £742.0 million at the year-end (2010 (restated – note 2): £692.0 million), representing 250p per share (2010: 234p per share) (Appendix C).

"Net interest income increased by 1.8% to £135.8 million (2010: £133.4 million), reflecting improved margins and the impact of new loan assets, both acquired and originated, on the balance sheet"

BUSINESS REVIEW

New business volumes

Year ended 30 September 2011

	2011 £m	2010 £m	2011 Number	2010 Number
First Mortgages				
Buy-to-let	**132.8**	14.6	**841**	254
Consumer Finance				
Secured lending	**0.1**	0.5	**5**	34
	132.9	15.1	**846**	288

First Mortgages

Following the Group's return to new lending in September 2010, application levels have increased as the distribution base has been expanded and the product range widened. By 30 September 2011 business agreements were in place with the major mortgage adviser networks, directly authorised mortgage intermediaries and buy-to-let specialist advisers and the Group's product range had been widened to optimise the value of those arrangements.

By 30 September 2011, £127.0 million of loans had been advanced under the Group's new products and a further £5.8 million (2010: £14.6 million) of further advances had been made to existing borrowers. The credit quality of the new lending business written in the year has been excellent, with an average loan to value ratio of 69.2% and no loans in arrears.

At 30 September 2011, the buy-to-let portfolio was £8,231.7 million, compared with £8,323.9 million a year earlier. The credit performance of the portfolio over the year has again been exemplary, with the percentage of loans three months or more in arrears standing at 0.63%, including acquired loans and receivership cases, at 30 September 2011 (30 September 2010: 0.94%) and remains considerably better than the market average of 1.91% as recorded by the Council of Mortgage Lenders at that date. This improved performance is reflected in the reduction in the impairment charge attributable to first mortgages, to £5.6 million for the year ended 30 September 2011 from £18.6 million in the previous year. At 30 September 2011 there were 1,483 properties across all portfolios where a receiver had been appointed (30 September 2010: 1,398). Of those available for letting, 93.9% were let (30 September 2010: 93.5%) with rental income comfortably covering the mortgage payments.

> **"Following the Group's return to new lending in September 2010, application levels have increased and the product range widened...by 30 September 2011, £127.0 million of loans had been advanced under the Group's new products"**

The buy-to-let portfolio redemption rate has fallen to 2.2% for the year (2010: 3.0%). This is a consequence of market conditions: landlords continue to display a long-term commitment to property investment; and alternative offerings from other lenders remain unattractive as a result of generally higher funding and capital costs. At a broader level, the performance of the housing market continues to be characterised by historically low transaction levels, weak first-time buyer demand and flat-to-falling house prices. There are significant regional variations, with the market generally performing better in the South, particularly in London, and less well in the North where low demand is impacting both transactions and house prices. With the social rented sector constrained, demand has inevitably focussed on the private rented sector. The Royal Institute of Chartered Surveyors noted in its latest Residential Lettings Survey that rents continue to increase, driven by high tenant demand and a shortage in the supply of homes available to rent. This was supported by the Association of Residential Letting Agents who, in their third quarter 2011 report, noted that tenant demand remained high and that in some regions the sector is nearing capacity.

This high demand is benefitting landlords who are seeing rental levels improve and are experiencing little in the way of void periods. Nevertheless, landlords are not expanding the supply of rented property rapidly for a variety of reasons: there remain supply constraints on the finance available; house price weakness and tight lending criteria mean that they do not have access to the same levels of equity that were available for new purchases prior to the credit crunch; and landlords are cautious in the current economic environment and are not compelled to buy when prices are flat or indeed trending down marginally. The buy-to-let mortgage market has, however, returned to growth with the Council of Mortgage Lenders reporting that the value of buy-to-let advances increased by 37% to £12.5 billion in the course of the financial year (2010: £9.1 billion) whilst credit quality in the sector continues to improve with industry-wide buy-to-let arrears once again lower than in the owner-occupied market (note 6).

The owner-occupied book reduced to £128.7 million from £151.7 million during the year ended 30 September 2011 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, portfolio acquisitions and other sources of revenue generation.

Consumer Finance

At 30 September 2011, the total loans outstanding on the Consumer Finance books were £363.8 million, compared with £435.6 million at 30 September 2010. The redemption rate remains low relative to pre credit crunch rates as a result of the shortage of alternative offerings from other lenders, itself a consequence of tight credit conditions and the low level of housing activity. Lending during the period has been limited to a small number of further advances to existing customers.

The Group's secured loan portfolio at 30 September 2011 was £340.1 million (2010: £391.9 million). The percentage of accounts in this book with arrears of two months and over, excluding the portfolio acquired in August 2011, has increased from 10.03% at 30 September 2010 to 12.36% at 30 September 2011, reflecting both the effects of economic conditions on borrower performance and the contraction in the size of the portfolio. The arrears performance continues to compare favourably with the industry data recorded by the Finance & Leasing Association ("FLA") of 19.3% at 30 September 2011 (2010: 18.8%).

The residual unsecured loan, retail finance and car finance portfolios, totalling £23.7 million at 30 September 2011 (30 September 2010: £43.7 million) performed satisfactorily and in line with expectations.

"The buy-to-let mortgage market has returned to growth with the Council of Mortgage Lenders reporting that the value of buy-to-let advances increased by 37% to £12.5 billion in the course of the financial year (2010: £9.1 billion)"

During the financial year Idem invested a total of £22.7 million in three consumer loan transactions

PORTFOLIO OPPORTUNITIES

A major area of strategic focus for the Group has been the development of new sources of recurring income with the acquisition of loan portfolios through Idem Capital and the servicing of third party loan portfolios through Moorgate Loan Servicing. Progress has been excellent and has resulted in an increase in operating profits in these areas to £7.6 million (2010: £4.9 million) during the financial year and the prospect of significant growth in profit in the future. These initiatives take advantage of the opportunities being created by the de-leveraging activities of the larger banks and financial institutions.

Idem Capital

Idem Capital invests in loan portfolios either as principal, where Idem acquires pools in its own right or as co-investor alongside other investors with, typically, Moorgate Loan Servicing appointed to act as servicer. Co-investing has the potential for higher returns where the Group also derives income from servicing the loans within the underlying portfolio.

During the financial year Idem invested a total of £22.7 million in three consumer loan transactions and the transfer of the servicing of two of these portfolios to our systems has now been completed and is in progress with the other. In addition, in October 2011 Idem Capital acquired a portfolio of unsecured loans from Royal Bank of Scotland for £43.2 million, paid from the Group's cash resources, bringing the total of portfolio investments since 2009 to £89.5 million. 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 portfolios of second mortgages and buy-to-let loans acquired in previous years have continued to perform well.

Our view remains that a number of loan portfolios owned by banks and other financial institutions will become available for sale as these institutions de-leverage and restructure their balance sheets. This is an important strategic opportunity for the Group, with the potential to deliver excellent returns to shareholders. We will continue to pursue opportunities in this area.

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. Moorgate Loan Servicing assumed servicing of a further 49,768 accounts during the year with the result that 58.6% of accounts under management by the Group at 30 September 2011 were managed on behalf of third parties (2010: 54.3%). A further agreement is in place whereby approximately 33,000 accounts will come under the Group's management during the year ended 30 September 2012. Moorgate is well placed to take advantage of other opportunities that may arise over the coming years, particularly as portfolio disposals take place as part of the wider financial sector de-leveraging process.

FUNDING

On 10 November 2011 the Group completed a £163.8 million securitisation of buy-to-let loans, through Paragon Mortgages (No. 16) PLC, despite very poor market conditions. This securitisation, the Group's first securitisation since 2007, released warehouse capacity to accommodate further lending growth. Notes, rated Aaa by Moody's Investors Service and AAA by Fitch Ratings, totalling £131.7 million were sold to investors with the Group retaining the remaining unrated notes. This was the Group's 54th securitisation since first pioneering the methodology in 1987 and was an important landmark for the Group, being the first buy-to-let securitisation by any issuer in the UK since the credit crunch.

The notes were priced at LIBOR plus 275 basis points, reflecting bond market conditions. Whilst the notes match-fund the collateralised loans to maturity, we have the ability to call the notes after three years, should more attractive funding rates be achievable at that time.

The Group funds its mortgage originations through a £200.0 million revolving warehouse provided by Macquarie Bank, in which loans are warehoused prior to arranging term funding in the securitisation markets and, following the successful completion of the issuance by Paragon Mortgages (No.16), we plan to return to the securitisation markets regularly as business volumes increase. Dependant on volume and market conditions, additional warehousing capacity may be sought in due course.

REGULATION

Further consultation and rules flowing from the FSA's Mortgage Market Review, including the provision of enhanced prudential supervision of non-bank lenders, had been expected during the Summer but have been delayed and are still awaited. Certain of the Group's operations are already authorised by the FSA in respect of residential mortgage and insurance activity and we expect the Group to be well placed to comply with any changes in the regulatory framework.

The European Commission has recently published its proposed directive on credit agreements relating to residential property, which proposes additional disclosure and underwriting requirements for all mortgage lending to consumers secured on residential property. It is unclear at this stage whether regulation will be extended to buy-to-let lending and we are engaged with the authorities on their proposal.

We will continue to maintain an active dialogue with the UK and European regulatory authorities as any proposals develop.

CONCLUSION

The performance of the Group has been strong across the year, with great progress also evident in the delivery of valuable new opportunities. Through Idem Capital we have made a number of portfolio investments during the year and after the year end, all of which should be immediately earnings enhancing. Further, we have successfully re-established our buy-to-let new lending business and completed a securitisation of buy-to-let assets originated during the year, our first since 2007. This augurs well for a strong start to 2012.

NIGEL S TERRINGTON
Chief Executive
22 November 2011

Board of Directors

Robert G Dench

Nigel S Terrington

Nicholas Keen

John A Heron

Terence C Eccles

Edward A Tilly

Alan K Fletcher

Peter J N Hartill

Robert G Dench Chairman

Age 61

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 Chairman of AXA Ireland Limited.

Nigel S Terrington Chief Executive

Age 51

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 is Deputy Chairman of the Council of Mortgage Lenders and is also currently a member of HM Treasury's Home Finance Forum. 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.

Nicholas Keen Finance Director

Age 53

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 New Business

Age 52

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 Intermediary Mortgage Lenders Association and the CML buy-to-let panel.

Terence C Eccles Non-Executive Director

Age 65

Terry Eccles joined Paragon as a Non-Executive Director on 1 February 2007. 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. Mr Eccles also continues to be a Director of charitable body, The Royal Parks Foundation.

Edward A Tilly Non-Executive Director

Age 68

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. He is the Senior Independent Director.

Alan K Fletcher Non-Executive Director

Age 61

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. He is Chairman of the Paragon Remuneration Committee.

Peter J N Hartill Non-Executive Director

Age 62

Peter Hartill was appointed as a Non-Executive Director on 11 February 2011. Mr Hartill, a Chartered Accountant, is currently Non-Executive Chairman of Deeley Group and a non-executive director of Scott Bader Limited. Previously, he spent forty years with Deloitte, becoming a Senior Audit Partner and a Business Advisor with experience across a wide range of industries and business issues. Specifically he has considerable experience in acquisitions and disposals, capital raising, risk control and corporate governance in the financial services sector. He is Chairman of the Paragon Audit and Compliance Committee.

Directors' report

The directors submit their Report and the Accounts for the year ended 30 September 2011 which were approved by the Board on 22 November 2011.

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 48. The directors recommend a final dividend of 2.65p per share (2010: 2.40p per share) which, taken with the interim dividend of 1.35p per share (2010: 1.20p per share) paid on 29 July 2011, would give a total dividend for the year of 4.00p per share (2010: 3.60p per share). Before dividends, retained profits of £59.6 million (2010: £53.9 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 2011, 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 12;
- The Corporate Social Responsibility Report on pages 20 to 24;
- The Corporate Governance Statement on pages 39 to 43; and
- The principal risks and uncertainties to which the Group is exposed on pages 44 and 45

Events occurring after the balance sheet date are described in note 30 and note 50, and discussed in the Chief Executive's Review.

Pages 16 to 19 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 2011 Ordinary Shares	At 30 September 2010 or on appointment Ordinary Shares
R G Dench	**117,000**	117,000
N S Terrington	**647,972**	647,972
N Keen	**368,679**	368,679
J A Heron	**252,680**	252,680
C D Newell*	**78,000**	78,000
T C Eccles*	**80,000**	80,000
E A Tilly*	**30,000**	30,000
A K Fletcher*	**125,000**	125,000
P J N Hartill* (appointed 11 February 2011)	**7,000**	7,000

*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 25 to 35.

There have been no changes in the directors' interests in the share capital of the Company since 30 September 2011.

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

Mr C D Newell resigned from the Board on 31 October 2011.

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 39 to 43.

In accordance with the Articles of Association Mr P J N Hartill will retire from the Board at the end of the forthcoming Annual General Meeting, and, being eligible, will offer himself for re-election.

In addition, the UK Corporate Governance Code recommends that all directors should be subject to re-appointment annually and therefore the remaining directors: Mr R G Dench, Mr N S Terrington, Mr N Keen, 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 40 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 £99,500,000 and to make market purchases of up to 29,800,000 £1 ordinary shares, granted at the Annual General Meeting on 10 February 2011. These authorities expire at the conclusion of the forthcoming Annual General Meeting on 9 February 2012.

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 2011 and 30 September 2010 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 2011, 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
BlackRock	33,810,289	11.30%
Old Mutual Asset Managers	18,461,205	6.17%
M & G Investment Management	17,644,718	5.90%
Schroder Investment Management	16,326,052	5.46%
Standard Life Investments	15,752,894	5.27%
Legal & General Investment Management	15,162,182	5.07%
Hof Hoorneman Bankiers	15,112,632	5.05%
Aviva Investors	12,278,146	4.11%

DONATIONS

Company law requires the disclosure of political donations and expenditure by any Group company. During the year ended 30 September 2011 no such payments were made (2010: £nil).

Contributions to charitable institutions in the United Kingdom amounted to £36,902 (2010: £60,963).

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.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will take place on 9 February 2012 in London. A notice convening the Annual General Meeting is being circulated to shareholders with this Annual Report and Accounts,

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

JOHN G GEMMELL
Company Secretary
22 November 2011

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 8.2 days training in the year (2010: 8.5 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:

	2011	2010
Female employees	**58.4%**	59.0%
Female management grade employees	**45.1%**	41.5%
Ethnic minority employees	**9.2%**	10.3%
Ethnic minority management grade employees	**3.5%**	2.5%

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 recycle 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	
		2011	2010	**2011**	2010
Gas	Emissions from utility boilers	**321**	363	**2.1**	2.5
Vehicle fuel	Petrol and diesel used by staff and company cars	**496**	422	**3.3**	2.9

Waste	Definition	Absolute tonnes		Normalised tonnes per £m income	
		2011	2010	**2011**	2010
Landfill	General office waste, which includes a mixture of paper, card, wood plastics and metal	**124**	154	**0.8**	1.0
Recycled	General office waste recycled, primarily paper and cardboard	**175**	164	**1.2**	1.1

Indirect inputs (supply chain)

Greenhouse gases	Definition	Absolute tonnes CO^2		Normalised tonnes CO^2 per £m income	
		2011	2010	**2011**	2010
Energy use	Directly purchased electricity, which generates greenhouse gas emissions	**1,254**	1,465	**8.3**	9.9

Water	Definition	Absolute cubic metres		Normalised cubic metres per £m income	
		2011	2010	**2011**	2010
Supplied water	Consumption of piped water. No water is extracted directly by the Group	**7,231**	6,697	**47.9**	45.2

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.

CO^2 values above are calculated based on the DEFRA / DECC guidelines published in August 2011. CO^2 values for the year ended 30 September 2010 have been restated for the revised conversion factors published by DEFRA / DECC. Normalised data is based on total operating income of £150.9m (2010: £147.9m).

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 12 months.

A six monthly health and safety report is produced by the 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 £22,592 (2010: £46,453) 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: Handicapped Children's Action Group, Rotary Club of St Alphege - Sponsorship of Youth Speaks for Solihull Schools, Royal Marsden Cancer Care, Pathway Project, Disability Law Service, Zoe's Place Baby Hospice, Action for Sick Children, 3H Fund, Second Chance, Shelter, Special Needs Adventure Playground - Kenilworth, Kids Out, Life & Hope, County Air Ambulance Trust, Happy Days, Reality Adventure Works, NSPCC, Children with Leukaemia, Orchid, Marie Curie Solihull, Muscle Help Foundation, the One Foundation, Little Angels Day Nursery, Guys & St Thomas Hospital for Sick Children, Brainwave, Chicks, Lowe Syndrome Trust.

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 £9,000 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 Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and also sets out how the principles of the UK Corporate Governance Code 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 until 27 July 2011 but remained a member after that date), Alan Fletcher (who chaired the Committee from 27 July 2011), Terence Eccles, Christopher Newell and Peter Hartill (from 1 June 2011), all of whom were 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 New Bridge Street ('NBS'), a brand of Aon Hewitt Limited, as its independent advisor on remuneration matters. NBS also advised the Company on various sundry remuneration matters during the year, which did not conflict with its advice to the Committee.

Aon Hewitt provided administration services to the trustees of the Paragon Pension Scheme during the year.

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 UK Corporate Governance Code 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 size, there now being no directly comparable financial services businesses in the UK.

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 invitations to participate 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.

Following the recent return to new lending and because of other developments within the business, the Committee believes it now to be an appropriate time to conduct a fundamental review of whether the executive remuneration arrangements remain appropriate to the Company's circumstances and strategy. This may result in consultation with major shareholders, to ensure that any new arrangements are acceptable.

The review and consultation process is currently in progress.

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 4% from 1 October 2011. This is in line with increases for the Group's wider workforce.

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. Mr Terrington and Mr Heron 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.

Following an offer by the Company to senior personal to contain the volatility of costs associated with the provision of benefits under the pension scheme, Mr Keen ceased pension accrual from 1 April 2011 in return for a cash supplement calculated to equate to the cost of the Company's contributions towards future service benefits had he stayed with 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 31 and 32. Other than as reported above in respect of Mr Keen, 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 development of the Group's new lending business, borrower retention and the development and delivery of new strategies to enhance existing income streams. 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).

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 the development of new lending and refreshing the Group's systems capabilities to increase business capacity, competitiveness and broaden capabilities.

A bonus of 175% of salary has been earned by each of Mr Terrington and Mr Keen for the year. This bonus reflects very strong individual performance and the exceeding of stretch company performance targets in terms of profits, cash generated, arrears performance, portfolio acquisition and servicing contracts and customer retention. A bonus of 125% of salary has been earned by Mr Heron following strong individual performance, the success of the recommencement of lending and the building up of business volumes during the year whilst concentrating on high quality borrowers.

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.

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 further 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.

In 2009, 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') were not appropriate. After consultation with major shareholders, the Committee determined that the most appropriate target was 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 are 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.

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 previous 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 200% of salary.

Paragon Matching Share Plan ('MSP')

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.

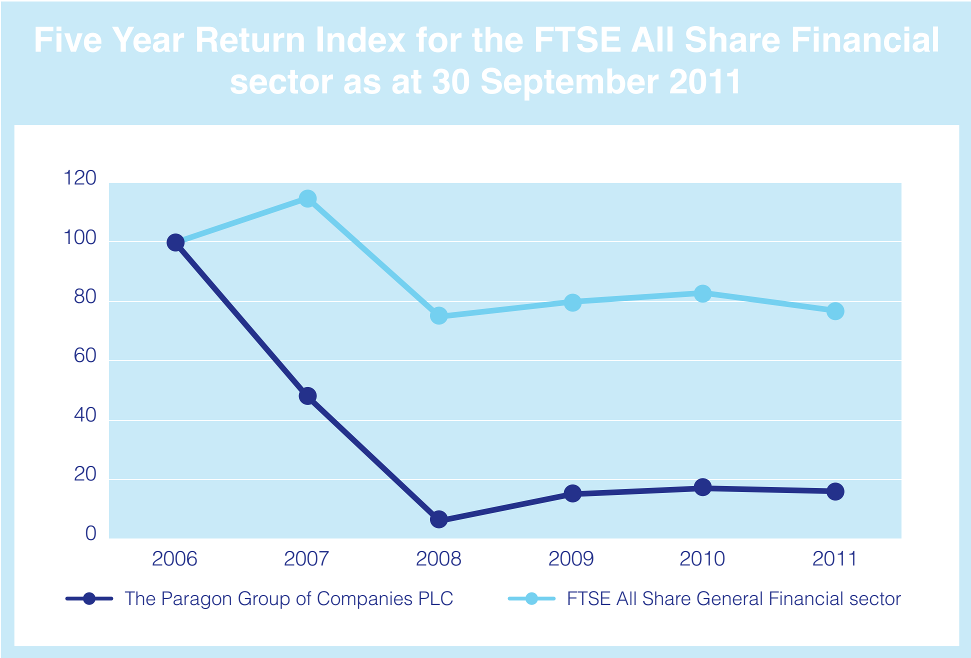
Executive directors will be invited to invest the after-tax equivalent of up to 25% of salary; at such a level, their award is over 'free' performance-linked matching shares worth 50% of salary.

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 previous 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.



This graph shows the value, by 30 September 2011, of £100 invested in The Paragon Group of Companies PLC on 30 September 2006, 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.

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 £34,450 plus £2,150 for membership of each committee, £10,800 for Remuneration Committee and Audit and Compliance Committee chairmanship (inclusive of membership) and £6,500 for acting as the Senior Independent Director.

Current terms of engagement apply for the following periods:

T C Eccles - 1 February 2010 to 1 February 2013

E A Tilly - 1 April 2011 to 1 April 2014

A K Fletcher - 25 February 2009 to 25 February 2012

P J N Hartill - 11 February 2011 to 11 February 2014

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.

Alan Fletcher, 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	**2011 Total £000**	2010 Total £000
Chairman					
R G Dench	201	-	-	**201**	198
Executive					
N S Terrington	418	3	545	**966**	864
N Keen	316	7	411	**734**	656
J A Heron	226	2	215	**443**	471
Non-executive					
C D Newell	48	-	-	**48**	46
E A Tilly	49	-	-	**49**	46
T C Eccles	46	-	-	**46**	44
A K Fletcher	42	-	-	**42**	38
P J N Hartill	26	-	-	**26**	-
2011	**1,372**	**12**	**1,171**	**2,555**	2,363
2010	1,300	14	1,049	2,363	

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

The Company car allowance paid to executive directors (£10,000-£12,000) is included in salary and fees.

Directors' pensions

The total amount charged to the profit and loss account of the Group in respect of pension provision for directors was £435,000 (2010: £375,000).

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 2011 £000**	Accumulated total accrued pension at 30 September 2010 £000
N S Terrington	(2)	(44)	**156**	151
N Keen	1	2	**91**	87
J A Heron	(2)	(25)	**88**	85

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2011 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 values have 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 statutory minimum 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 2010 £000	**Transfer value of accrued benefits at 30 September 2011 £000**	Difference in transfer values less contributions £000
N S Terrington	51	-	5	156	2,599	**2,818**	219
N Keen	53	6	5	91	1,534	**1,695**	155
J A Heron	52	-	3	88	1,515	**1,639**	124

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2011 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) largely reflect the changes in assumptions underlying the transfer value basis as at 30 September 2011 and 30 September 2010, 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 2011 has been calculated on the basis of the Occupational Pensions Schemes (Transfer Values) (Amendment) Regulations 2008. 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 statutory minimum 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 either paid or currently payable to the individual director by the Group or the scheme. Instead they represent a potential liability of the pension scheme should the director request a transfer, calculated at the balance sheet date.

During the year the Group made contributions in respect of further pension provision of £134,000 (2010: £130,000) for Mr N S Terrington, £157,000 (2010: £127,000) for Mr N Keen and £67,000 (2010: £65,000) for Mr J A Heron.

Details of share-based awards

No aggregate gains before taxation made by directors on the exercise of share based awards were recorded during the year (2010: £109,000). At 30 September 2011 the share price of The Paragon Group of Companies PLC was 153.5p per share (2010: 163.6p per share) and the range during the year then ended was 131.0p to 207.0p per share (2010: 113.3p to 182.7p 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 grant 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 2010 and 30 September 2011 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 2010:					
14/06/2010	14/06/2017	543.00p *	9,947	7,454	4,244
26/09/2010	26/09/2017	296.50p *	21,127	15,834	7,430
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
04/01/2013§	04/01/2020	135.20p #	451,145	337,786	240,458
			2,220,606	1,663,196	1,178,985
Awards made in the year:					
Granted on 17 December 2010					
17/12/2013§	16/12/2020	182.00p #	450,661	337,424	240,200
Awards exercised in the year:			-	-	-
Awards lapsing in the year:					
26/11/2010†	26/11/2017	130.50p *	(20,703)	(15,514)	(11,042)
29/09/2011‡	29/09/2018	66.50p #	(126,186)	(94,555)	(67,299)
At 30 September 2011			**2,524,378**	**1,890,551**	**1,340,844**

* 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 with performance measured against a peer group comprising the following companies: Alliance & Leicester (until its delisting on 10 October 2008), Barclays, Bradford & Bingley (until its nationalisation on 29 September 2008), Cattles (until its delisting on 7 March 2011), 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. 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 awards maturing during the year achieved 58.63% and 85.05% vesting after the application of the performance criteria.

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.

Share option schemes

Details of individual options held by the directors at 30 September 2010 and 30 September 2011 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 2010:					
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
			476,077	222,716	145,089
Options granted in the year:			-	-	-
Options lapsing in the year:			-	-	-
At 30 September 2011			**476,077**	**222,716**	**145,089**

Deferred bonus shares

Details of individual entitlements of the directors to Deferred Bonus Shares at 30 September 2010 and 30 September 2011 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 2010:					
11/01/2010	01/10/2012	130.60p	60,098	42,802	27,952
			60,098	42,802	27,952
Awards made in the year:					
20/01/2011	01/10/2013	184.00p	82,248	59,672	40,288
Shares transferred in the year:			-	-	-
At 30 September 2011			**142,346**	**102,474**	**68,240**

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

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 2011. 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 2014, subject to the recipient being employed by the Company at that time:

N S Terrington	108,198
N Keen	78,952
J A Heron	36,117

Matching share plan

The individual interests of the directors in the Matching Share Plan at 30 September 2010 and 30 September 2011 are:

Award date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number
Awards outstanding at 30 September 2010:				
05/01/2010§	133.40p	43,249	32,422	22,868
		43,249	32,422	22,868
Awards made in the year:		-	-	-
Awards exercised in the year:		-	-	-
Awards lapsing in the year:		-	-	-
At 30 September 2011		**43,249**	**32,422**	**22,868**

§ 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.

Signed on behalf of the Board of Directors

ALAN K FLETCHER
Chairman of the Remuneration Committee
22 November 2011

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 2011, 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
22 November 2011

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 2011 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 62. 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 accounting records have not been kept by the parent company, or returns 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 43 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 UK Corporate Governance Code specified for our review;
- certain elements of the report to shareholders by the Board on directors' remuneration.

MATTHEW PERKINS (SENIOR STATUTORY AUDITOR)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham, United Kingdom

22 November 2011

Corporate governance

The Board of Directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council in May 2010 and which is publicly available on their website at www.frc.org. Throughout the year ended 30 September 2011 the Company complied with the provisions of the Code.

DIRECTORS

At the beginning of the year the Board of Directors comprised the Chairman, three executive and four non-executive directors. A further independent non-executive director was appointed during the year.

All of the directors bring to the Company a broad and valuable range of experience. All of the then directors were re-elected at the Annual General Meeting on 10 February 2010 and 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 14 and 15.

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 Edward Tilly, 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 14 and there have been no significant changes during the period to those commitments.

There were nine regular Board meetings during the year. Robert Dench, Nigel Terrington, Nicholas Keen, John Heron and Alan Fletcher attended all nine of the Board meetings during the year ended 30 September 2011, Edward Tilly attended eight meetings, Terence Eccles and Christopher Newell attended seven meetings and Peter Hartill attended all meetings from the date of his appointment to the Board.

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. In November 2010 Christopher Newell's appointment, following nine years on the Board, was 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. Mr Newell resigned from the Board on 31 October 2011. The Board considers that Mr Newell remained independent throughout the year.

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 until 27 July 2011), Alan Fletcher (who chaired the Committee from 27 July 2011), Terence Eccles, Christopher Newell and Peter Hartill (from 1 June 2011), all of whom are independent non-executive directors, and the Chairman of the Company, Robert Dench.

During the year ended 30 September 2011 there were five meetings of the Remuneration Committee. All meetings were attended by Alan Fletcher, four meetings were attended by Robert Dench, Christopher Newell and Edward Tilly, three meetings were attended by Terence Eccles and all meetings were attended by Peter Hartill following his appointment to the Committee.

Further information about the Remuneration Committee is given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 25 to 35.

- The Audit and Compliance Committee, which during the year consisted of Christopher Newell (who chaired the Committee until 27 July 2011), Peter Hartill (from 1 June 2011 and who chaired the Committee from 27 July 2011), 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.

  During the year ended 30 September 2011 there were three meetings of the Audit and Compliance Committee, all of which were attended by Alan Fletcher and, two of which were attended by Terence Eccles, Christopher Newell and Edward Tilly. Peter Hartill attended the meeting of the Committee held following his appointment to the Committee.

  Further information about the work of the Audit and Compliance Committee is given below.

- The Nomination Committee, consisting of Robert Dench, who chairs the Committee, Nigel Terrington and all of the non-executive directors, 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 was one meeting of the Committee during the year to consider the appointment of a new non-executive director. All members of the Committee attended the meeting. 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. Further information on the Group's financial risk management procedures and the Committee's part in them is given in note 6 to the accounts.

- 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, which was conducted internally. All Board directors participated and discussed a list of questions on Board and Committee performance. An externally facilitated evaluation had been carried out during the previous year.

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 25 to 35.

RELATIONS WITH SHAREHOLDERS

The Board encourages communication with the Company's institutional and private investors. All shareholders have at least 20 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 16 to 19 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 36.

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 2011 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.

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee 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 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, who have served since 1985, 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 Committee considers the independence of the external auditors annually and 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 precludes the appointment of the external auditors to provide any service where there is involvement in management functions or decision making, or any service on which management may place primary reliance in determining the adequacy of internal controls, financial systems or financial reporting. The external auditors may only provide corporate finance and similar services, where there is no significant advocacy role, or tax services with the prior consent of the Committee, if the advice given or the position taken would be material to the Group. Internal audit services may only be provided by the external auditor where acting under the instruction of Internal Audit management and with the prior consent of the Committee. Other services may be procured by management without the prior consent of the Committee, but are reported to the Committee on an on-going basis.

Fees paid to the external auditors are shown in note 16 to the Accounts. Other than services required to be provided by external auditors by legislation or regulation, non-audit services relate to taxation. The Committee has considered the services provided and concluded that the understanding of the Group and the industry demonstrated by the advisers make them well placed to meet the Group's needs. During the course of the year accounting firms other than the external auditors 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 and other representatives from the external auditors normally attend meetings of the Committee.

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 and 6 and Chief Executive's review on pages 7 to 12. The principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described on pages 44 and 45.

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.

The securitisation funding structures described in note 6 ensure that substantially all of the Group's remaining loan portfolios are match-funded to maturity. Repayment of the securitisation borrowings is restricted to funds generated by the underlying assets and there is no recourse to the Group's general funds. The Group's only working capital debt is the £110.0 million corporate bond which does not mature until 2017. 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 39 to 43.

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

ECONOMIC ENVIRONMENT

A 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 and 6 and the Chief Executive's review on pages 7 to 12.

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. As described in the Chief Executive's Review, during the year the Group has enhanced its IT capabilities. 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 12. 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 20 and 21.

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.

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The Accounts

Consolidated income statement

For the year ended 30 September 2011

	Note	2011 £m	2010 £m
Interest receivable	9	**258.0**	275.6
Interest payable and similar charges	10	**(122.2)**	(142.2)
Net interest income		**135.8**	133.4
Other operating income	11	**15.1**	14.5
Total operating income		**150.9**	147.9
Operating expenses	12	**(45.4)**	(42.6)
Provisions for losses	17	**(24.4)**	(39.2)
Operating profit before gains and fair value items		**81.1**	66.1
Gains on debt repurchase	18	**-**	5.7
Fair value net (losses)	19	**(0.3)**	-
Operating profit being profit on ordinary activities before taxation		**80.8**	71.8
Tax charge on profit on ordinary activities	20	**(21.2)**	(17.9)
Profit on ordinary activities after taxation for the financial year		**59.6**	53.9

	Note	2011	2010
Earnings per share			
- basic	22	**20.2p**	18.3p
- diluted	22	**19.6p**	17.8p

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

Consolidated statement of comprehensive income

For the year ended 30 September 2011

	Note	2011 £m	2011 £m	2010 £m	2010 £m
Profit for the year			**59.6**		53.9
Other comprehensive income					
Actuarial (loss) on pension scheme	52	**(0.3)**		(5.7)	
Cash flow hedge gains taken to equity	44	**0.4**		0.3	
Tax on items taken directly to equity	23	**(0.3)**		1.3	
Other comprehensive income for the year net of tax			**(0.2)**		(4.1)
Total comprehensive income for the year			**59.4**		49.8

Consolidated balance sheet

30 September 2011

	Note	2011 £m	2010 (restated) £m	2009 (restated) £m
Assets employed				
Non-current assets				
Intangible assets	24	**9.3**	9.2	9.6
Property, plant and equipment	26	**11.4**	12.2	15.5
Financial assets	29	**9,891.2**	10,080.1	10,640.8
Deferred tax asset	53	**-**	1.5	2.8
		9,911.9	10,103.0	10,668.7
Current assets				
Current tax assets	37	**-**	-	1.7
Other receivables	38	**4.7**	5.9	5.5
Cash and cash equivalents	39	**571.6**	536.7	480.4
		576.3	542.6	487.6
Total assets		**10,488.2**	10,645.6	11,156.3
Financed by				
Equity shareholders' funds				
Called-up share capital	40	**299.7**	299.4	299.1
Reserves	41	**490.7**	445.8	408.1
Share capital and reserves		**790.4**	745.2	707.2
Own shares	48	**(48.4)**	(53.2)	(56.7)
Total equity		**742.0**	692.0	650.5
Current liabilities				
Financial liabilities	49	**1.8**	1.2	1.3
Current tax liabilities	54	**10.7**	16.2	-
Provisions	55	**-**	-	0.5
Other liabilities	56	**38.3**	32.4	30.4
		50.8	49.8	32.2
Non-current liabilities				
Financial liabilities	49	**9,674.5**	9,885.7	10,459.6
Retirement benefit obligations	52	**14.4**	16.5	11.5
Deferred tax	53	**5.0**	-	-
Other liabilities	56	**1.5**	1.6	2.5
		9,695.4	9,903.8	10,473.6
Total liabilities		**9,746.2**	9,953.6	10,505.8
		10,488.2	10,645.6	11,156.3

Comparative amounts are restated as described in note 2.

Approved by the Board of Directors on 22 November 2011. Signed on behalf of the Board of Directors

N S TERRINGTON
Chief Executive

N KEEN
Finance Director

Company balance sheet

30 September 2011

	Note	2011 £m	2010 (restated) £m	2009 (restated) £m
Assets employed				
Non-current assets				
Property, plant and equipment	26	**7.7**	8.8	9.9
Investment in subsidiary undertakings	27	**746.9**	764.4	769.9
Financial assets	29	**4.0**	8.0	8.7
		758.6	781.2	788.5
Current assets				
Other receivables	38	**80.0**	125.8	88.5
Cash and cash equivalents	39	**189.2**	143.6	78.8
		269.2	269.4	167.3
Total assets		**1,027.8**	1,050.6	955.8
Financed by				
Equity shareholders' funds				
Called-up share capital	40	**299.7**	299.4	299.1
Reserves	41	**322.2**	269.4	234.8
Share capital and reserves		**621.9**	568.8	533.9
Own shares	48	**(39.5)**	(39.5)	(39.5)
Total equity		**582.4**	529.3	494.4
Current liabilities				
Financial liabilities	49	**1.2**	1.1	1.0
Current tax liabilities	54	**3.3**	1.5	1.0
Other liabilities	56	**316.5**	389.2	317.6
		321.0	391.8	319.6
Non-current liabilities				
Financial liabilities	49	**123.6**	128.6	140.7
Other liabilities	56	**0.8**	0.9	1.1
		124.4	129.5	141.8
Total liabilities		**445.4**	521.3	461.4
		1,027.8	1,050.6	955.8

Comparative amounts are restated as described in note 2.

Approved by the Board of Directors on 22 November 2011. 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 2011

	Note	2011 £m	2010 (restated) £m
Net cash generated by operating activities	57	**246.1**	470.5
Net cash (utilised) / generated by investing activities	58	**(2.1)**	0.3
Net cash (utilised) by financing activities	59	**(209.6)**	(414.3)
Net increase in cash and cash equivalents		**34.4**	56.5
Opening cash and cash equivalents		**536.6**	480.1
Closing cash and cash equivalents		**571.0**	536.6
Represented by balances within:			
Cash and cash equivalents		**571.6**	536.7
Financial liabilities		**(0.6)**	(0.1)
		571.0	536.6

Comparative amounts are restated as described in note 2.

Company cash flow statement

For the year ended 30 September 2011

	Note	2011 £m	2010 (restated) £m
Net cash generated by operating activities	57	**41.5**	71.7
Net cash generated by investing activities	58	**16.0**	3.8
Net cash (utilised) by financing activities	59	**(11.9)**	(10.7)
Net increase in cash and cash equivalents		**45.6**	64.8
Opening cash and cash equivalents		**143.6**	78.8
Closing cash and cash equivalents		**189.2**	143.6
Represented by balances within:			
Cash and cash equivalents		**189.2**	143.6
Financial liabilities		**-**	-
		189.2	143.6

Comparative amounts are restated as described in note 2.

Statement of movements in equity

For the year ended 30 September 2011

	Note	The Group		The Company	
		2011	2010 (restated)	**2011**	2010 (restated)
		£m	£m	**£m**	£m
Total comprehensive income for the year		**59.4**	49.8	**61.9**	43.2
Dividends paid	46	**(11.1)**	(10.0)	**(11.1)**	(10.0)
Net movement in own shares		**4.8**	3.5	**-**	-
(Deficit) / surplus on transactions in own shares	47	**(5.2)**	(3.5)	**0.3**	0.3
Charge for share based remuneration	13	**2.0**	1.4	**2.0**	1.4
Tax on share based remuneration	23	**0.1**	0.3	**-**	-
Net movement in equity in the year		**50.0**	41.5	**53.1**	34.9
Equity at 30 September 2010		**692.0**	650.5	**529.3**	494.4
Equity at 30 September 2011		**742.0**	692.0	**582.4**	529.3

Comparative amounts are restated as described in note 2.

Notes to the accounts

for the year ended 30 September 2011

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 46. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 16 to 19.

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 the only reporting standard being applied for the first time is the amendment to IAS 17 - Leases in respect of accounting for leases of land included in the IASB 'Improvements to IFRSs' issued in April 2009.

As a result of the retrospective adoption of the amendment to IAS 17, as required by the Standard, one lease of land held in the Company which has been previously accounted for as an operating lease is now accounted for as a finance lease. The changes in the consolidated and company financial statement line items as a result of the change in policy are as follows:

	30 Sept 2011 £m	30 Sept 2010 £m	30 Sept 2009 £m
Balance sheets			
Fixed assets	**1.5**	1.8	2.0
Finance lease liability			
Current	**(0.2)**	(0.2)	(0.2)
Non-current	**(1.6)**	(1.9)	(2.1)
Equity	**(0.3)**	(0.3)	(0.3)
Cash flow statements			
Net cash generated by operating activities	**0.2**	0.2	
Net cash utilised by financing activities	**(0.2)**	(0.2)	
Net increase in cash and cash equivalents	**-**	-	

The change in policy caused no change in the amounts reported on the face of the income statement, although the analysis of operating expenses given in note 12 is amended.

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'
- IFRS 10 – 'Consolidated Financial Statements'
- IFRS 11 – 'Joint Arrangements'
- IFRS 12 – 'Disclosure of Interests in Other Entities'

- IFRS 13 – 'Fair Value Measurement'
- IAS 24 (Revised) – 'Related Party Disclosures'
- IAS 27 (Revised) – 'Separate Financial Statements'
- IAS 28 (Revised) – 'Investments in Associates and Joint Ventures'
- Amendment to IFRS 7 – 'Financial Instruments: Disclosures'
- Amendment to IAS 19 – 'Employee benefits'
- Amendment to IFRIC 14 – 'Prepayments of a Minimum Funding Requirement'

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 Standards 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 currently intended to come into force for the financial year ending 30 September 2014, if the Standard is endorsed by the European Union. However, the IASB has proposed that the implementation date should be delayed, meaning that the Standard would first apply to the Group's accounts for the year ending 30 September 2016. The European Union has 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.

IFRS 10, 11 and 12 and the revised IAS 27 and 28 form the new IFRS regime for consolidation. The directors do not expect that the entities included within the consolidated accounts will differ under the new standards from those presently consolidated, nor that the consolidated results will be changed, although the disclosures provided under the new standards may differ. These standards, if endorsed by the European Union, are expected to be applied for the first time in the Group's accounts for the year ending 30 September 2014.

IFRS 13, which, if endorsed by the European Union is expected to apply to the Group's accounts from the year ending 30 September 2014 sets out new guidance on the establishment of fair value for accounting purposes and enhanced disclosures. It will apply to all amounts in the Group's financial statements presented at fair value, but is unlikely, in the view of the directors, to have a material impact on the Group's results or financial position.

The revision to IAS 19, which, if endorsed by the European Union, is expected to apply to the Group's accounts for the year ending 30 September 2014, will change the amounts presented in the income statement in respect of the Group's pension plan, without affecting the surplus or deficit shown in the balance sheet. If that Standard had been in force for the financial year ended 30 September 2011 it is estimated that the effect would be to reduce profit before tax by £0.6m.

The directors anticipate that the adoption of the other Standards and Interpretations listed above in future periods will have no material impact on the financial statements of the Group.

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 been 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 2011. 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) Going Concern

The consolidated financial statements have been prepared on the going concern basis. The directors' reasons for the adoption of this basis are given in the Corporate Governance Statement on page 43.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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

(i) Investments in subsidiaries

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.

(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) Investments in securities

Investments in securities are intended to be held to maturity and are therefore accounted for on the amortised cost basis. The return from such investments is calculated on the EIR basis.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) 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.

(z) 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.

(aa) 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.

(bb) 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.

(cc) 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.

(dd) 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 customers' 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 52. 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 2011 and at 30 September 2010 were as follows:

	2011	2010 (restated)
	£m	£m
Debt		
Corporate bond	**110.0**	110.0
Bank overdraft	**0.6**	0.1
Less: Applicable free cash	**(110.6)**	(110.1)
Net debt	**-**	-
Equity		
Total equity	**742.0**	692.0
Less: cash flow hedging reserve	**(1.8)**	(1.4)
Adjusted equity	**740.2**	690.6
Total working capital	**740.2**	690.6
Debt	**-**	-
Equity	**100.0%**	100.0%
Total working capital	**100.0%**	100.0%

In addition the Group held £84.4m of free cash in excess of that shown above (2010: £37.7m).

Comparative figures above are restated as described in note 2.

The increased proportion of working capital represented by equity during 2011 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 39 to 43, 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 pre-payable 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:

	Note	The Group		The Company	
		2011	2010	**2011**	2010
		£m	£m	**£m**	£m
Loans to customers	32	**8,724.2**	8,911.2	**-**	-
Investments in securities	35	**11.8**	-	**-**	-
Derivative financial assets	36	**1,151.8**	1,160.3	**4.0**	8.0
Amounts owed by Group companies	38	**-**	-	**79.9**	125.2
Accrued interest	38	**0.5**	0.5	**0.1**	0.6
Cash	39	**571.6**	536.7	**189.2**	143.6
Maximum exposure to credit risk		**10,459.9**	10,608.7	**273.2**	277.4

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

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 2011 are analysed as follows:

	2011 £m	2011 %	2010 £m	2010 %
Buy-to-let mortgages	**8,231.7**	**94.3%**	8,323.9	93.4%
Owner occupied mortgages	**128.7**	**1.5%**	151.7	1.7%
Total first mortgages	**8,360.4**	**95.8%**	8,475.6	95.1%
Secured loans	**340.1**	**3.9%**	391.9	4.4%
Loans secured on property	**8,700.5**	**99.7%**	8,867.5	99.5%
Car loans	**7.5**	**0.1%**	21.0	0.2%
Retail finance loans	**2.9**	**-**	4.8	0.1%
Other loans	**13.3**	**0.2%**	17.9	0.2%
Total loans to customers	**8,724.2**	**100.0%**	8,911.2	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.

Investments in securities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by third parties to purchase pools of loan assets. All such investments are denominated in sterling and the underlying loans are made to United Kingdom borrowers. Cash generated by the assets is distributed to investors in accordance with a specified priority of payments. The Group has no obligation to make further contributions to the SPV companies concerned.

The management has considered the position of the underlying assets and concluded that they will generate sufficient cash flows to repay the amount of the investment.

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 36.

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 2011 is set out below. For acquired accounts the effect of any discount on purchase is allowed for.

	2011 First Mortgages %	2011 Secured Loans %	2010 First Mortgages %	2010 Secured Loans %
Loan to value ratio				
Less than 70%	**23.2**	**28.2**	23.8	29.3
70% to 80%	**21.6**	**14.8**	23.0	15.2
80% to 90%	**29.7**	**15.0**	30.1	14.5
90% to 100%	**21.0**	**13.9**	19.2	14.2
Over 100%	**4.5**	**28.1**	3.9	26.8
	100.0	**100.0**	100.0	100.0
Average loan to value ratio	**80.2**	**88.4**	79.2	86.1

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 2011 and 30 September 2010, compared to the industry averages at those dates published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was:

	2011 %	2010 %
First mortgages		
Accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	**0.63**	0.94
Buy-to-Let accounts excluding receiver of rent cases	**0.10**	0.21
Owner-Occupied accounts	**4.24**	4.00
CML data for mortgage accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	**1.91**	2.45
Buy-to-Let accounts excluding receiver of rent cases	**1.45**	1.71
Owner-Occupied accounts	**2.14**	2.21
All mortgages	**2.05**	2.15
Secured loans		
Accounts more than 2 months in arrears	**12.96**	10.83
FLA data for secured loans	**19.30**	18.80
Car loans		
Accounts more than 2 months in arrears	**8.11**	5.85
FLA data for all personal loans	**9.30**	9.90
Other loans		
Accounts more than 2 months in arrears	**75.09**	59.75

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2010 has been published by the FLA or CML, the comparative industry figures above have been amended.

The portfolio of buy-to-let mortgage assets acquired on 30 September 2010 which was not included in arrears statistics at 30 September 2010 originally published has been integrated into the Group figures above, as the administration of the portfolio has been integrated with the other mortgage assets of the Group. The comparative has been amended accordingly. The portfolio of secured loan assets acquired in August 2011 has not been included above. This portfolio was acquired at a discount to the total of its current balances and was only brought within the Group's collections processes at the end of September 2011, so its performance is not directly comparable to the Group's other secured loan assets. 88.71% of these assets were more than two 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.

The payment status of the carrying balances of the Group's loan assets, before provision for impairment, at 30 September 2011 and at 30 September 2010 split between those accounts considered as performing and those included in the population for impairment testing, is shown below.

First Mortgages

	2011 £m	2010 £m
Not past due	**7,941.5**	8,024.9
Arrears less than 3 months	**325.7**	323.4
Performing accounts	**8,267.2**	8,348.3
Arrears 3 to 6 months	**11.5**	22.6
Arrears 6 to 12 months	**17.2**	27.2
Arrears over 12 months	**43.6**	52.5
Possessions and similar cases	**43.4**	49.6
Impairment population	**115.7**	151.9
	8,382.9	8,500.2

Consumer Finance

	Secured loans £m	Car loans £m	Retail finance loans £m	Total £m
30 September 2011				
Not past due	**252.7**	**5.6**	**0.9**	**259.2**
Arrears less than 2 months	**33.6**	**0.8**	**-**	**34.4**
Performing accounts	**286.3**	**6.4**	**0.9**	**293.6**
Arrears 2 to 6 months	**25.6**	**0.2**	**0.1**	**25.9**
Arrears 6 to 9 months	**8.7**	**0.1**	**0.1**	**8.9**
Arrears 9 to 12 months	**6.3**	**-**	**0.1**	**6.4**
Arrears over 12 months	**20.9**	**0.7**	**2.7**	**24.3**
Impairment population	**61.5**	**1.0**	**3.0**	**65.5**
	347.8	**7.4**	**3.9**	**359.1**
30 September 2010				
Not past due	299.3	17.3	1.9	318.5
Arrears less than 2 months	48.9	1.3	0.1	50.3
Performing accounts	348.2	18.6	2.0	368.8
Arrears 2 to 6 months	26.0	0.3	0.1	26.4
Arrears 6 to 9 months	7.3	-	0.2	7.5
Arrears 9 to 12 months	5.0	0.1	0.2	5.3
Arrears over 12 months	8.4	0.9	2.7	12.0
Impairment population	46.7	1.3	3.2	51.2
	394.9	19.9	5.2	420.0

Other loans

	2011 £m	2010 £m
Not past due	**3.3**	5.1
Arrears less than 1 month	**0.1**	0.3
Performing accounts	**3.4**	5.4
Arrears 1 to 3 months	**0.1**	0.2
Arrears 3 to 6 months	**0.3**	0.4
Arrears 6 to 12 months	**1.0**	1.1
Arrears over 12 months	**41.9**	45.4
Impairment population	**43.3**	47.1
	46.7	52.5

In the accounts for the year ended 30 September 2010 an analysis of current balances by arrears band was provided, but the directors believe that, with the increased value represented by acquired balances, the alternative measure is more informative. Amounts above for 2010 are presented on the new basis.

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 30 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 matching of the maturities of the assets and the related funding substantially reduces the Group's exposure to liquidity risk. Details of Notes in issue are given in note 50 and the assets backing the Notes are shown in notes 30 and 31.

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 also provides funding to the SPV at inception, subordinated to the Notes, which means that credit risk on the pool assets is retained within the Group. The Group 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 £66.0m of additional cash would be retained in those companies (2010: £65.7m). The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 39.

Newly originated mortgage loans are initially funded by a revolving loan facility or 'warehouse' 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.

On 29 February 2008 the warehouse facility provided to Paragon Second Funding Limited 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 Macquarie Bank and Paragon Fourth Funding Limited signed a new warehouse facility agreement. This warehouse is available for drawing and redrawing until 13 December 2012 and is used to fund new first charge mortgage loans. After that date 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 either through repayment, securitisation or asset sales, even after the two year period. There is no further recourse to other assets of the Group in respect of either interest or principal on the borrowing.

As with the SPVs, the Group provides subordinated funding to the warehouse companies and restricted cash balances are held within them. Further details of the warehouse facilities are given in note 50 and details of the loan assets within the warehouses are given in note 30.

Between 29 February 2008 and 4 October 2010 the only advances made by the Group were consumer loans and further advances on existing mortgage accounts, which were funded from 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. New first mortgage lending commenced on 5 October 2010.

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 2011 under the SPV and warehouse 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 £8,404.4m (2010: £8,598.3m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date would be £17,947.4m (2010: £19,550.9m). 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 56 are shown below.

	Corporate bond £m	Other accruals £m	Total £m
30 September 2011			
Payable in less than one year	**7.7**	**11.7**	**19.4**
Payable in one to two years	**7.8**	**0.1**	**7.9**
Payable in two to five years	**23.1**	**-**	**23.1**
Payable in over five years	**117.7**	**-**	**117.7**
	156.3	**11.8**	**168.1**
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

The cash flows described above will include those for interest on borrowings accrued at 30 September 2011 disclosed in note 56.

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:

	2011 Total cash outflow / (inflow) £m	2010 Total cash outflow / (inflow) £m
On derivative liabilities		
Payable in less than one year	**2.5**	7.5
Payable in one to two years	**2.3**	4.0
Payable in two to five years	**1.6**	5.0
Payable in over five years	**5.9**	14.6
	12.3	31.1
On derivative assets		
Payable in less than one year	**(5.0)**	(6.1)
Payable in one to two years	**(4.6)**	(5.8)
Payable in two to five years	**(11.5)**	(12.3)
Payable in over five years	**(8.2)**	(17.8)
	(29.3)	(42.0)
	(17.0)	(10.9)

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 loan 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 return to the Group from its investments in securities is primarily attributable to the cash generation of the underlying portfolio. There is no direct exposure to market interest rate risk.

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 2011, 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 2011 by £4.2m (2010: £4.3m) and increase profit before tax by £7.0m (2010: £5.1m).

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 (2010: £1.4m) and £2.3m (2010: £2.4m) 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. Assets and liabilities with other group companies 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 50. 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 2011 and 30 September 2010 are:

	2011 Equivalent sterling principal £m	**2011 Carrying value £m**	2010 Equivalent sterling principal £m	2010 Carrying value £m
US dollar notes	**2,956.0**	**3,573.7**	3,054.8	3,652.3
Euro notes	**2,038.5**	**2,571.6**	2,108.2	2,663.9
	4,994.5	**6,145.3**	5,163.0	6,316.2

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 36. The Group had no financial assets or liabilities in the year ended 30 September 2011 or the year ended 30 September 2010 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 RESULTS

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, the residual car, retail finance and unsecured loan assets, and other sources of income derived from consumer loans. Both of these divisions include assets originated internally and assets acquired from third parties.

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 2011

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	214.7	43.3	258.0
Interest payable	(114.0)	(8.2)	(122.2)
Net interest income	100.7	35.1	135.8
Other operating income	7.0	8.1	15.1
Total operating income	107.7	43.2	150.9
Operating expenses	(34.8)	(10.6)	(45.4)
Provisions for losses	(5.6)	(18.8)	(24.4)
	67.3	13.8	81.1
Gains on debt repurchases	-	-	-
Fair value net (losses) / gains	(0.2)	(0.1)	(0.3)
Operating profit	67.1	13.7	80.8
Tax charge			(21.2)
Profit after tax			59.6

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
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
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

The assets and liabilities attributable to each of the segments at 30 September 2011, 30 September 2010 and 30 September 2009 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2011			
Segment assets	**10,009.3**	**478.9**	**10,488.2**
Segment liabilities	**(9,400.2)**	**(346.0)**	**(9,746.2)**
	609.1	**132.9**	**742.0**
30 September 2010 (restated)			
Segment assets	10,083.0	562.6	10,645.6
Segment liabilities	(9,531.6)	(422.0)	(9,953.6)
	551.4	140.6	692.0
30 September 2009 (restated)			
Segment assets	10,445.3	711.0	11,156.3
Segment liabilities	(9,931.8)	(574.0)	(10,505.8)
	513.5	137.0	650.5

Comparative amounts above have been restated as described in note 2.

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

The total additions to non-current assets, excluding financial instruments and deferred tax assets, attributable to each segment during the years ended 30 September 2011 and 30 September 2010 was:

	First Mortgages £m	Consumer Finance £m	Total £m
2011	**2.9**	**0.1**	**3.0**
2010	1.2	0.1	1.3

Being:	Intangible Assets (Note 24) £m	Property, Plant and Equipment (Note 26) £m	Total £m
2011	**1.0**	**2.0**	**3.0**
2010	0.3	1.0	1.3

8. REVENUE

	2011 £m	2010 £m
Interest receivable	**258.0**	275.6
Other income	**15.1**	14.5
Total revenue	**273.1**	290.1
Arising from:		
First Mortgages	**221.7**	234.9
Consumer Finance	**51.4**	55.2
Total revenue	**273.1**	290.1

9. INTEREST RECEIVABLE

	2011 £m	2010 £m
Interest on loans to customers	**250.9**	269.1
Other interest receivable	**2.8**	2.9
Income from investments in securities	**0.7**	-
Total interest on financial assets	**254.4**	272.0
Return on pension scheme assets	**3.6**	3.6
	258.0	275.6

Interest on loans to customers includes £10.7m (2010: £11.7m) charged on accounts where an impairment provision has been made.

10. INTEREST PAYABLE AND SIMILIAR CHARGES

	2011 £m	2010 £m
On asset backed loan notes	**90.6**	110.3
On corporate bond	**3.6**	3.4
On bank loans and overdrafts	**22.8**	22.6
Total interest on financial liabilities	**117.0**	136.3
On pension scheme liability	**3.8**	3.6
On finance leases	**1.1**	1.1
Other finance costs	**0.3**	1.2
	122.2	142.2

11. OTHER OPERATING INCOME

	2011 £m	2010 £m
Loan account fee income	**5.7**	6.5
Insurance income	**1.9**	0.7
Third party servicing	**5.8**	5.6
Other income	**1.7**	1.7
	15.1	14.5

12. OPERATING EXPENSES

	Note	2011 £m	2010 (restated) £m
Employment costs	13	**27.9**	26.2
Auditor remuneration	16	**0.9**	0.7
Amortisation of intangible assets	24	**0.9**	0.7
Depreciation	26	**2.0**	2.5
Operating lease rentals	60	**2.5**	3.0
Other administrative costs		**11.2**	9.5
		45.4	42.6

Comparative amounts above have been restated as described in note 2.

13. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 651 (2010: 611). The number of employees at the end of the year was 691 (2010: 636).

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

	2011 £m	2011 £m	2010 £m	2010 £m
Share based remuneration	**2.0**		1.4	
Other wages and salaries	**22.4**		20.4	
Total wages and salaries		**24.4**		21.8
National Insurance on share based remuneration	**0.5**		0.9	
Other social security costs	**1.9**		1.7	
Total social security costs		**2.4**		2.6
Defined benefit pension cost	**0.9**		1.6	
Other pension costs	**0.2**		0.2	
Total pension costs		**1.1**		1.8
Total staff costs		**27.9**		26.2

Details of the pension schemes operated by the Group are given in note 52

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 30 to 35.

	2011 £m	2010 £m
Short-term employee benefits	**2.8**	2.7
Post-employment benefits	**0.4**	0.4
Termination benefits	**-**	-
Share based payment	**1.2**	1.0
	4.4	4.1

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 30 to 35.

(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 2011 and the year ended 30 September 2010 is shown below.

	2011 Number	**2011 Weighted average exercise price p**	2010 Number	2010 Weighted average exercise price p
Options outstanding				
At 1 October 2010	**4,751,394**	**177.17**	4,214,600	190.70
Granted in the year	**-**	**-**	712,869	100.32
Exercised in the year	**(1,122,985)**	**63.00**	(6,845)	525.52
Lapsed during the year	**(243,021)**	**350.10**	(169,230)	194.66
At 30 September 2011	**3,385,388**	**202.63**	4,751,394	177.17
Options exercisable	**1,688,482**	**326.87**	1,500,460	405.32

The weighted average remaining contractual life of options outstanding at 30 September 2011 was 12.7 months (2010: 17.1 months). The weighted average market price at exercise for share options exercised in the year was 150.29p (2010: 138.50p).

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

Grant date	Period exercisable	Exercise price	**Number 2011**	Number 2010
Executive schemes				
27/11/2001	27/11/2004 to 27/11/2011	395.34p	**313,650**	319,923
29/07/2002	29/07/2005 to 29/07/2012	297.30p	**238,374**	244,647
14/03/2003	14/03/2006 to 14/03/2013	297.30p	**336,348**	413,110
18/12/2003	18/12/2006 to 18/12/2013	540.40p	**188,190**	225,199
01/06/2004	01/06/2007 to 01/06/2014	514.10p	**-**	25,092
01/12/2004	01/12/2007 to 01/12/2014	555.34p	**236,942**	264,672
			1,313,504	1,492,643
Sharesave schemes				
23/06/2005	01/08/2010 to 01/02/2011	520.89p	**-**	4,880
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
20/06/2007	01/08/2012 to 01/02/2013	685.84p	**4,006**	4,006
18/07/2008	01/09/2011 to 01/03/2012	63.00p	**374,787**	1,512,873
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	**471,104**	505,908
20/07/2010	01/09/2015 to 01/03/2016	100.32p	**190,036**	196,196
			2,071,884	3,258,751
			3,385,388	4,751,394

The numbers of share options outstanding and the exercise prices under each of the arrangements shown above which was outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

A number of the above options were granted to former employees whose rights terminate at the later of 12 months following redundancy or 42 months after the issue of the options.

The fair value of options granted is determined using a Binomial model. No awards were made in the year ended 30 September 2011. 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.

Grant date	20/07/10	20/07/10
Number of awards granted	516,673	196,196
Market price at date of grant	120.0p	120.0p
Contractual life (years)	3.0	5.0
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 2011 and 30 September 2010 were:

Grant date	Period exercisable	**Number 2011**	Number 2010
09/01/2007	09/01/2010 to 09/01/2017 †	**3,294**	3,294
28/03/2007	28/03/2010 to 28/03/2017 †	**3,164**	3,514
14/06/2007	14/06/2010 to 14/06/2017 †	**27,964**	36,550
26/09/2007	26/09/2010 to 26/09/2017 †	**54,423**	64,545
26/11/2007	26/11/2010 to 26/11/2017 †	**97,578**	312,421
18/03/2008	18/03/2011 to 18/03/2018 †	**103,345**	725,000
29/09/2008	29/09/2011 to 29/09/2018 †	**1,638,646**	1,926,686
21/05/2009	21/05/2012 to 21/05/2019 *	**3,221,335**	3,221,335
04/01/2010	04/01/2013 to 04/01/2020 *	**1,797,822**	1,797,822
02/09/2010	02/09/2013 to 02/09/2020 *	**141,844**	141,844
17/12/2010	17/12/2013 to 17/12/2020 *	**1,906,736**	-
		8,996,151	8,233,011

† These awards, which were conditional on the achievement of performance based criteria, have now vested.

* 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 share options outstanding and the exercise price under each of the arrangements shown above which were outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

During the year ended 30 September 2010 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 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 2011 and the year ended 30 September 2010 are shown below:

Grant date	**17/12/10**	02/09/10	04/01/10
Number of awards granted	**1,907,443**	141,844	1,903,737
Market price at date of grant	**182.00p**	140.00p	135.20p
Fair value per share at date of grant	**123.86p**	103.35p	99.36p
Inputs to valuation model			
Expected volatility	**72.58%**	85.51%	84.76%
Risk-free interest rate	**1.98%**	1.51%	2.04%
Expected dividend yield	**1.69%**	2.43%	2.44%

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 2011 and 30 September 2010 were:

Grant date	Transfer date	**Number 2011**	Number 2010
28/12/2007	01/10/2010	**-**	21,120
05/01/2010	01/10/2012	**169,287**	169,287
11/01/2011	01/10/2013	**215,654**	-
		384,941	190,407

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

The number of share options outstanding and the exercise price under the arrangement shown above which was outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the applicable scheme rules.

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 2011 and the year ended 30 September 2010 are shown below.

Grant date	**11/01/11**	05/01/10
Number of awards granted	**215,654**	169,287
Market price at date of grant	**188.50p**	133.40p
Fair value per share at date of grant	**178.00p**	124.64p
Inputs to valuation model		
Risk-free interest rate	**2.16%**	2.04%
Expected dividend yield	**1.91%**	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 2011 and at 30 September 2010 were:

Grant date	Transfer date	**Number 2011**	Number 2010
09/01/2007	09/01/2010 †	**5,625**	5,625
02/01/2008	02/01/2011 †	**22,329**	56,680
05/01/2010	05/01/2013 *	**142,347**	142,347
		170,301	204,652

† These awards, which were conditional on the achievement of performance based criteria, have now vested.

* 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 numbers of share options outstanding and the exercise prices under each of the arrangements shown above which was outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

During the year ended 30 September 2010 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. No awards were made in the year ended 30 September 2011. Details of the awards over £1 ordinary shares made in the year ended 30 September 2010 are shown below.

Grant date	05/01/10
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.

	2011 £000	**2011**	2010 £000	2010
Group audit fee	**157**	**21%**	157	25%
Other services				
Audit of associated undertakings pursuant to legislation				
Subsidiary audit fees	**293**	**39%**	230	36%
Total audit fees	**450**	**60%**	387	61%
Other services pursuant to legislation				
Interim review	**40**	**5%**	40	6%
Other	**10**	**2%**	-	-
	50	**7%**	40	6%
Other services related to taxation				
Compliance services	**130**	**17%**	116	18%
Advisory services	**120**	**16%**	96	15%
	250	**33%**	212	33%
Total fees	**750**	**100%**	639	100%
Irrecoverable VAT	**141**		110	
Total cost to the Group (note 12)	**891**		749	

In addition to the amounts above, the auditors received fees of £7,000 (2010: £7,000), excluding VAT, in respect of the audit of the Group pension scheme.

17. PROVISIONS FOR LOSSES

	2011 £m	2010 £m
Impairment of financial assets (note 33)		
First mortgage loans	**5.6**	18.6
Other secured loans	**11.1**	7.6
Finance lease receivables	**1.3**	3.5
Retail finance loans	**0.2**	0.5
Other loans	**6.2**	9.0
	24.4	39.2

18. GAINS ON DEBT REPURCHASE

	2011 £m	2010 £m
On asset backed loan notes	-	5.7
On corporate bond	-	-
	-	5.7

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:

	2011 £m	2010 £m
On asset backed loan notes	-	8.3
On corporate bond	-	-
	-	8.3

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 (LOSSES) / GAINS

	2011 £m	2010 £m
Net gain on derivatives designated as fair value hedges	5.2	30.3
Fair value adjustments from hedge accounting	(5.2)	(30.4)
Ineffectiveness of fair value hedges	-	(0.1)
Ineffectiveness of cash flow hedges	-	-
Net (losses) / gains on other derivatives	(0.3)	0.1
	(0.3)	-

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

	2011 £m	2010 £m
Current tax		
UK Corporation Tax on profits of the period	**14.6**	16.1
Adjustment in respect of prior periods	**0.3**	(1.1)
Total current tax	**14.9**	15.0
Deferred tax	**6.3**	2.9
Tax charge on profit on ordinary activities	**21.2**	17.9

(b) Deferred tax charge for the year

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

	2011 £m	2010 £m
Accelerated tax depreciation	**0.2**	0.2
Retirement benefit obligations	**0.6**	0.2
Impairment and other provisions	**1.0**	0.2
Utilisation of tax losses	**6.1**	3.2
Other timing differences	**(0.8)**	0.9
Deferred tax charge for the year	**7.1**	4.7
Recognition of asset not previously recognised	**-**	(1.6)
Change in tax rate	**(0.8)**	(0.2)
Deferred tax charge (note 53)	**6.3**	2.9

During the year ended 30 September 2010 the United Kingdom Government enacted provisions reducing the standard rate of corporation tax from 28% to 27% with effect from 1 April 2011. During the year ended 30 September 2011 it enacted further provisions reducing the rate to 26% with effect from 1 April 2011 and 25% from 1 April 2012. Therefore, the standard rate of corporation tax applicable to the Group for the year ended 30 September 2011 is 27% and the rate is expected to be 25.5% in the year ending 30 September 2012 and 25% thereafter. The expected impact of the change to 27% on the values at which deferred tax amounts are expected to crystallise was accounted for in the year ended 30 September 2010, while the expected impacts of the changes to 26% and 25% have been accounted for in the year ended 30 September 2011.

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 27% (2010: 28%). The differences are explained below:

	2011 £m	2010 £m
Profit on ordinary activities before taxation	**80.8**	71.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 27% (2010: 28%)	**21.8**	20.1
Effects of:		
Permanent differences	**(0.1)**	0.7
Share-based payments	**-**	-
Recognition of deferred tax asset not previously recognised	**-**	(0.3)
Change in rate of taxation on deferred tax assets and liabilities	**(0.8)**	(0.2)
Other movements in unprovided deferred taxation	**-**	0.5
Prior year charge / (credit)	**0.3**	(2.9)
Tax charge for the year	**21.2**	17.9

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

The Company's profit after tax for the financial year amounted to £61.9m (2010: £43.2m). 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 2011 or 30 September 2010.

22. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2011	2010
Profit for the year (£m)	**59.6**	53.9
Basic weighted average number of ordinary shares ranking for dividend during the year (million)	**295.3**	295.3
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)	**8.2**	8.3
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)	**303.5**	303.6
Earnings per ordinary share		
- basic	**20.2p**	18.3p
- diluted	**19.6p**	17.8p

23. TAX CHARGED TO EQUITY

	The Group		The Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
On actuarial (loss) on pension scheme (note 52)	**(0.3)**	1.4	**-**	-
On gains on cash flow hedges (note 44)	**-**	(0.1)	**-**	-
Tax on items taken to equity	**(0.3)**	1.3	**-**	-
On share based payment (note 45)	**0.1**	0.3	**-**	-
Total tax credited to equity	**(0.2)**	1.6	**-**	-
Of which:				
Current tax	**-**	-	**-**	-
Deferred tax (note 53)	**(0.2)**	1.6	**-**	-
	(0.2)	1.6	**-**	-

Included in tax charged to equity in the year ended 30 September 2011 is £0.4m (2010: £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) £m	Computer Software £m	Other intangible assets £m	Total £m
Cost				
At 1 October 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
Additions	-	1.0	-	1.0
Disposals	-	(0.3)	-	(0.3)
At 30 September 2011	7.6	3.3	8.1	19.0
Accumulated amortisation				
At 1 October 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
Amortisation charge for the year	-	0.3	0.6	0.9
On disposals	-	(0.3)	-	(0.3)
At 30 September 2011	6.0	2.2	1.5	9.7
Net book value				
At 30 September 2011	**1.6**	**1.1**	**6.6**	**9.3**
At 30 September 2010	1.6	0.4	7.2	9.2
At 30 September 2009	1.6	0.3	7.7	9.6

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. Further reviews were undertaken at 30 September 2010 and 30 September 2011, 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 four year period. The discount rate applied to the cash flow projection is 6.62% and cash flows beyond the four year budget are extrapolated using a 2.40% growth rate, being the average long term growth rate in the United Kingdom economy over a 20 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 reasonable 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 2009 (restated)	23.6	13.8	37.4
Additions	0.7	0.3	1.0
Disposals	-	(4.3)	(4.3)
At 30 September 2010 (restated)	24.3	9.8	34.1
Additions	0.4	1.6	2.0
Disposals	(0.4)	(4.3)	(4.7)
At 30 September 2011	24.3	7.1	31.4
Accumulated depreciation			
At 1 October 2009 (restated)	12.9	9.0	21.9
Charge for the year (restated)	1.2	1.3	2.5
On disposals	-	(2.5)	(2.5)
At 30 September 2010 (restated)	14.1	7.8	21.9
Charge for the year	1.2	0.8	2.0
On disposals	(0.4)	(3.5)	(3.9)
At 30 September 2011	14.9	5.1	20.0
Net book value			
At 30 September 2011	**9.4**	**2.0**	**11.4**
At 30 September 2010 (restated)	10.2	2.0	12.2
At 30 September 2009 (restated)	10.7	4.8	15.5

The net book value of land and buildings includes £7.7m in respect of land and buildings held under finance leases (2010: £8.8m (restated), 2009: £9.9m (restated)).

Comparative amounts above have been restated as described in note 2.

(b) The Company

	Land and Buildings £m
Cost	
At 1 October 2009, 30 September 2010 (restated) and 30 September 2011	20.8
Accumulated depreciation	
At 1 October 2009 (restated)	10.9
Charge for the year (restated)	1.1
At 30 September 2010 (restated)	12.0
Charge for the year	1.1
At 30 September 2011	13.1
Net book value	
At 30 September 2011	**7.7**
At 30 September 2010 (restated)	8.8
At 30 September 2009 (restated)	9.9

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

Comparative amounts above have been restated as described in note 2.

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 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
Loans advanced	-	17.4	1.5	18.9
Loans repaid	-	(34.9)	-	(34.9)
Provision movements	(0.2)	-	(1.3)	(1.5)
At 30 September 2011	**252.3**	**490.2**	**4.4**	**746.9**

During the year ended 30 September 2010 the Company received £54.8m in dividend income from its subsidiaries (2010: £27.7m) and £31.7m of interest on loans to Group companies (2010: £30.3m).

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

28. PRINCIPAL OPERATING SUBSIDIARIES

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
Paragon Fourth Funding Limited	100%	Residential mortgages
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
Subsidiaries of Idem Capital Limited		
Idem (No. 1) Limited	100%	Asset investment
Idem (No. 3) Limited	100%	Asset investment
Idem Capital Securities 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 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.

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 non-controlling interest in this company is not material.

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. FINANCIAL ASSETS

(a) The Group

	Note	**2011**	2010	2009
		£m	£m	£m
Loans and receivables	30	**8,716.7**	8,890.2	9,266.0
Finance lease receivables	31	**7.5**	21.0	48.3
Loans to customers	32	**8,724.2**	8,911.2	9,314.3
Fair value adjustments from portfolio hedging	34	**3.4**	8.6	39.0
Investments in securities	35	**11.8**	-	-
Derivative financial assets	36	**1,151.8**	1,160.3	1,287.5
		9,891.2	10,080.1	10,640.8

(b) The Company

	Note	**2011**	2010	2009
		£m	£m	£m
Derivative financial assets	36	**4.0**	8.0	8.7
		4.0	8.0	8.7

30. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2011, 30 September 2010 and 30 September 2009, which are all denominated and payable in sterling, were:

	2011	2010	2009
	£m	£m	£m
First mortgage loans	**8,360.4**	8,475.6	8,764.3
Secured loans	**340.1**	391.9	467.4
Retail finance loans	**2.9**	4.8	9.0
Other unsecured loans	**13.3**	17.9	25.3
	8,716.7	8,890.2	9,266.0

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:

	2011 £m	2010 £m
First mortgage loans	**83.1**	113.3
Secured loans	**46.2**	32.6
	129.3	145.9

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 2011 the Group's commitment in respect of such facilities was £37.0m (2010: £43.3m).

The loans shown above pledged as collateral for the liabilities described in note 51 at 30 September 2011 and 30 September 2010 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2011			
In respect of:			
Asset backed loan notes	6,714.0	333.9	7,047.9
Warehouse facilities	1,604.1	-	1,604.1
Total pledged as collateral	8,318.1	333.9	8,652.0
Not pledged as collateral	42.3	22.4	64.7
	8,360.4	356.3	8,716.7
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

On 27 October 2011 the Group acquired an additional portfolio of unsecured consumer loans from Royal Bank of Scotland PLC. The consideration for the purchase was £43.2 million. The acquisition was financed from the Group's cash.

31. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans. The average contractual life of such loans is 56 months (2010: 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:

	2011	2010	2009
	£m	£m	£m
Amounts receivable			
Within one year	**5.2**	12.4	21.8
Within two to five years	**3.0**	9.5	28.8
After five years	**0.2**	0.7	1.7
	8.4	22.6	52.3
Less: future finance income	**(0.5)**	(1.4)	(4.6)
Present value	**7.9**	21.2	47.7

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

	2011	2010	2009
	£m	£m	£m
Amounts receivable			
Within one year	**4.9**	11.6	19.9
Within two to five years	**2.8**	8.9	26.3
After five years	**0.2**	0.7	1.5
	7.9	21.2	47.7
Allowance for uncollectible amounts	**(1.4)**	(1.8)	(2.4)
Provision for recoveries	**1.0**	1.6	3.0
	7.5	21.0	48.3

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 2011 and 30 September 2010 were:

	2011	2010
	£m	£m
In respect of:		
Asset backed loan notes	**6.4**	19.3
Warehouse facilities	**-**	-
Total pledged as collateral	**6.4**	19.3
Not pledged as collateral	**1.1**	1.7
	7.5	21.0

32. LOANS TO CUSTOMERS

The movements in the Group's investment in loans to customers in the year ended 30 September 2011 and the year ended 30 September 2010 were:

	2011	2010
	£m	£m
Cost		
At 1 October 2010	**8,911.2**	9,314.3
Additions	**151.7**	52.5
Effective Interest Rate ('EIR') adjustments	**(17.3)**	(22.5)
Other debits	**279.2**	296.7
Provision charge (note 33)	**(24.4)**	(39.2)
Repayments and redemptions	**(576.2)**	(690.6)
At 30 September 2011	**8,724.2**	8,911.2

'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.

33. 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	Other loans and receivables	Finance leases	Total
	£m	£m	£m	£m
At 1 October 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
Charge for the year (note 17)	5.6	17.5	1.3	24.4
Amounts written off	-	(11.9)	(0.6)	(12.5)
Amounts recovered	0.2	(1.6)	(0.5)	(1.9)
At 30 September 2011	**70.7**	**45.2**	**0.4**	**116.3**

34. 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.

35. INVESTMENT IN SECURITIES

Investments in securities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by unrelated third parties to purchase pools of loan assets. All such investments are denominated in sterling, unlisted and are considered to be debt investments as defined by IFRS. The underlying loans are unsecured loans made to United Kingdom borrowers.

The movements in the Group's investment in securities in the year ended 30 September 2011 and the year ended 30 September 2010 were:

	2011	2010
	£m	£m
Cost		
At 1 October 2010	**-**	-
Additions	**11.7**	-
Effective Interest Rate ('EIR') income	**0.7**	-
Payments received	**(0.6)**	-
At 30 September 2011	**11.8**	-

The fair values of investments in securities are considered to be not materially different to the amortised cost value at which they are disclosed.

36. 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 29) and Financial Liabilities (note 49) respectively.

(a) The Group

	2011 Notional Amount £m	2011 Assets £m	2011 Liabilities £m	2010 Notional Amount £m	2010 Assets £m	2010 Liabilities £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	**209.6**	**4.0**	**(3.8)**	410.0	8.0	(9.8)
	209.6	**4.0**	**(3.8)**	410.0	8.0	(9.8)
Cash flow hedges						
Foreign exchange basis swaps	**4,994.5**	**1,145.8**	**-**	5,163.0	1,148.7	-
Interest rate swaps	**0.6**	**-**	**-**	4.9	-	(0.1)
	4,995.1	**1,145.8**	**-**	5,167.9	1,148.7	(0.1)
	5,204.7	**1,149.8**	**(3.8)**	5,577.9	1,156.7	(9.9)
Other derivatives						
Interest rate swaps	**178.2**	**2.0**	**(5.3)**	283.5	3.5	(7.4)
Interest rate caps	**15.8**	**-**	**-**	48.7	0.1	-
Interest rate floors	**-**	**-**	**-**	10.5	-	-
	194.0	**2.0**	**(5.3)**	342.7	3.6	(7.4)
Total recognised derivative assets / (liabilities)	**5,398.7**	**1,151.8**	**(9.1)**	5,920.6	1,160.3	(17.3)

At 30 September 2011 cash deposits of £146.0m had been pledged as collateral in respect of swaps shown above by the respective swap counterparties (2010: £145.9m) as described in note 6.

(b) The Company

	2011 Notional Amount £m	2011 Assets £m	2011 Liabilities £m	2010 Notional Amount £m	2010 Assets £m	2010 Liabilities £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	**110.0**	**4.0**	**-**	110.0	8.0	-
	110.0	**4.0**	**-**	110.0	8.0	-
Total recognised derivative assets	**110.0**	**4.0**	**-**	110.0	8.0	-

Of the interest rate swap agreements used for fair value hedging, swaps of a notional value of £110.0m (2010: £110.0m), recognised as assets of £4.0m (2010: assets of £8.0m) 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.

37. CURRENT TAX ASSETS

	The Group		
	2011	2010	2009
	£m	£m	£m
UK Corporation Tax	**-**	-	1.7
	-	-	1.7

38. OTHER RECEIVABLES

(a) The Group

	2011	2010	2009
	£m	£m	£m
Current assets			
Accrued interest income	**0.5**	0.5	0.5
Prepayments	**1.0**	1.0	1.4
Other debtors	**3.2**	4.4	3.6
	4.7	5.9	5.5

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

	2011	2010	2009
	£m	£m	£m
Current assets			
Amounts owed by Group companies	**79.9**	125.2	88.5
Accrued interest income	**0.1**	0.6	-
	80.0	125.8	88.5

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.

39. 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:

	2011 £m	2010 £m	2009 £m
Free cash	**195.0**	147.8	84.0
Securitisation cash	**374.1**	387.2	394.7
ESOP cash	**2.5**	1.7	1.7
	571.6	536.7	480.4

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.

40. 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:

	2011 Number	2010 Number
Ordinary shares of £1 each		
At 1 October 2010	**299,454,078**	299,159,605
Shares issued	**291,367**	294,473
At 30 September 2011	**299,745,445**	299,454,078

During the year the Company issued 291,367 shares at par (2010: 294,473) to the trustees of its ESOP Trusts in order that they could fulfil their obligations under the Group's share based award arrangements.

41. RESERVES

(a) The Group

	Note	2011 £m	2010 (restated) £m	2009 (restated) £m
Share premium account	42	**64.1**	64.1	64.1
Merger reserve	43	**(70.2)**	(70.2)	(70.2)
Cash flow hedging reserve	44	**1.8**	1.4	1.2
Profit and loss account	45	**495.0**	450.5	413.0
		490.7	445.8	408.1

Comparative amounts above have been restated as described in note 2.

(b) The Company

	Note	2011 £m	2010 (restated) £m	2009 (restated) £m
Share premium account	42	**64.1**	64.1	64.1
Merger reserve	43	**(23.7)**	(23.7)	(23.7)
Profit and loss account	45	**281.8**	229.0	194.4
		322.2	269.4	234.8

Comparative amounts above have been restated as described in note 2.

42. SHARE PREMIUM ACCOUNT

	The Group		The Company	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Balance at 1 October 2010	**64.1**	64.1	**64.1**	64.1
Balance at 30 September 2011	**64.1**	64.1	**64.1**	64.1

43. MERGER RESERVE

	The Group		The Company	
	2011 £m	2010 £m	**2011 £m**	2010 £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.

44. CASHFLOW HEDGING RESERVE

		The Group		The Company	
		2011	2010	**2011**	2010
	Note	**£m**	£m	**£m**	£m
At 1 October 2010		**1.4**	1.2	**-**	-
Movement in fair value of hedging derivatives		**0.4**	0.3	**-**	-
Deferred tax thereon	23	**-**	(0.1)	**-**	-
At 30 September 2011		**1.8**	1.4	**-**	-

The cash flows to which these amounts relate are expected to take place, and to affect profit, over the next 33 years (2010: 34 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 £3.2m on asset backed loan notes denominated in US dollars and euros (2010: gains of £124.8m) 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.

45. PROFIT AND LOSS ACCOUNT

		The Group		The Company	
		2011	2010	**2011**	2010
			(restated)		(restated)
	Note	**£m**	£m	**£m**	£m
At 1 October 2010		**450.5**	413.0	**229.0**	194.4
Dividends paid	46	**(11.1)**	(10.0)	**(11.1)**	(10.0)
Share options exercised	47	**(5.5)**	(3.8)	**-**	-
Charge for share based remuneration	13	**2.0**	1.4	**2.0**	1.4
Tax on share based remuneration	23	**0.1**	0.3	**-**	-
Actuarial (loss) on retirement benefit obligation	52	**(0.6)**	(4.3)	**-**	-
Profit for the year		**59.6**	53.9	**61.9**	43.2
At 30 September 2011		**495.0**	450.5	**281.8**	229.0

Comparative amounts above have been restated as described in note 2.

46. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	2011 Per share	2010 Per share	**2011 £m**	2010 £m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2010	**2.40p**	2.20p	**7.1**	6.5
Interim dividend for the year ended 30 September 2011	**1.35p**	1.20p	**4.0**	3.5
	3.75p	3.40p	**11.1**	10.0

Amounts paid and proposed in respect of the year:

	2011 Per share	2010 Per share	**2011 £m**	2010 £m
Interim dividend for the year ended 30 September 2011	**1.35p**	1.20p	**4.0**	3.5
Proposed final dividend for the year ended 30 September 2011	**2.65p**	2.40p	**7.9**	7.1
	4.00p	3.60p	**11.9**	10.6

Dividends of £0.0m (2010: £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 2011 will be paid on 13 February 2012, subject to approval at the Annual General Meeting, with a record date of 13 January 2012. The dividend will be recognised in the accounts when it is paid.

47. TRANSACTIONS IN SHARES

	The Group		The Company	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Awards from ESOP schemes				
Proceeds	**0.8**	-	**-**	-
Cost of shares transferred (note 48)	**(6.3)**	(3.8)	**-**	-
(Deficit) on exercise (note 45)	**(5.5)**	(3.8)	**-**	-
Shares issued				
Nominal value (note 40)	**0.3**	0.3	**0.3**	0.3
Premium on issue (note 42)	**-**	-	**-**	-
Proceeds of issue	**0.3**	0.3	**0.3**	0.3
(Deficit) / surplus on transactions in own shares	**(5.2)**	(3.5)	**0.3**	0.3

48. OWN SHARES

	The Group		The Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Treasury shares				
At 1 October 2010	**39.5**	39.5	**39.5**	39.5
Shares purchased	**-**	-	**-**	-
At 30 September 2011	**39.5**	39.5	**39.5**	39.5
ESOP shares				
At 1 October 2010	**13.7**	17.2	**-**	-
Shares purchased	**1.2**	-	**-**	-
Shares subscribed for (note 40)	**0.3**	0.3	**-**	-
Options exercised (note 47)	**(6.3)**	(3.8)	**-**	-
At 30 September 2011	**8.9**	13.7	**-**	-
Balance at 30 September 2011	**48.4**	53.2	**39.5**	39.5
Balance at 1 October 2010	**53.2**	56.7	**39.5**	39.5

At 30 September 2011 the number of the Company's own shares held in treasury was 668,900 (2010: 668,900). These shares had a nominal value of £668,900 (2010: £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 2011, the trusts held 2,487,688 ordinary shares (2010: 3,366,361) with a nominal value of £2,487,688 (2010: £3,366,361) and a market value of £3,828,552 (2010: £5,507,366). Options, or other share-based awards, were outstanding against 2,487,688 of these shares at 30 September 2011 (2010: 3,366,361). The dividends on 2,078,613 of these shares have been waived (2010: 2,821,549).

49. FINANCIAL LIABILITIES

(a) The Group

	Note	2011 £m	2010 (restated) £m	2009 (restated) £m
Current liabilities				
Finance lease liability	51	**1.2**	1.1	1.0
Bank loans and overdrafts		**0.6**	0.1	0.3
		1.8	1.2	1.3
Non-current liabilities				
Asset backed loan notes		**8,049.7**	8,336.2	8,819.2
Corporate bond		**112.0**	115.8	116.8
Finance lease liability	51	**11.6**	12.8	13.9
Bank loans and overdrafts		**1,492.1**	1,403.6	1,453.1
Derivative financial instruments	36	**9.1**	17.3	56.6
		9,674.5	9,885.7	10,459.6

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 50.

Comparative amounts above have been restated as described in note 2.

(b) The Company

	Note	2011 £m	2010 (restated) £m	2009 (restated) £m
Current liabilities				
Finance lease liability	51	**1.2**	1.1	1.0
Non-current liabilities				
Corporate bond		**112.0**	115.8	126.8
Finance lease liability	51	**11.6**	12.8	13.9
Derivative financial instruments	36	**-**	-	-
		123.6	128.6	140.7

A maturity analysis of the above borrowings is given in note 50.

Comparative amounts above have been restated as described in note 2.

50. BORROWINGS

Set out below is the contractual maturity profile of the Group's borrowings at 30 September 2011 and 30 September 2010:

	Financial liabilities falling due: In one year or less, or on demand	In more than one year, but not more than two years	In more than two years, but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
30 September 2011					
Bank overdrafts	**0.6**	**-**	**-**	**-**	**0.6**
Bank loans	**-**	**-**	**121.3**	**1,370.8**	**1,492.1**
Corporate bond	**-**	**-**	**-**	**112.0**	**112.0**
Asset backed loan notes	**-**	**-**	**-**	**8,049.7**	**8,049.7**
	0.6	**-**	**121.3**	**9,532.5**	**9,654.4**
30 September 2010					
Bank overdrafts	0.1	-	-	-	0.1
Bank loans	-	-	-	1,403.6	1,403.6
Corporate bond	-	-	-	115.8	115.8
Asset backed loan notes	-	-	-	8,336.2	8,336.2
	0.1	-	-	9,855.6	9,855.7

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 2011 comprised £7,681.7m (2010: £7,877.8m, 2009: £8,225.9m) in respect of mortgage backed notes and £368.0m (2010: £458.4m, 2009: £593.3m) in respect of notes backed by other loan assets. The details of the assets backing these securities are given in notes 30 and 31.

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

Notes in issue at 30 September 2011 and 30 September 2010 were:

Issuer	Maturity date	Call date	Principal Outstanding 2011 £m	Principal Outstanding 2010 £m	Average Interest Margin 2011 %	Average Interest Margin 2010 %
Sterling notes						
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**86.1**	88.5	**0.42**	0.42
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**242.8**	251.4	**0.61**	0.30
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**146.4**	149.9	**0.38**	0.38
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**183.4**	187.5	**0.56**	0.28
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**92.1**	96.0	**0.28**	0.14
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**131.5**	134.7	**0.37**	0.19
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**148.5**	150.9	**0.17**	0.17
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**161.6**	164.4	**0.16**	0.16
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**186.5**	190.4	**0.14**	0.14
First Flexible No. 4 PLC	01/07/36	01/07/08	**80.1**	86.3	**1.10**	1.09
First Flexible No. 5 PLC	01/06/34	01/07/09	**92.1**	98.2	**0.99**	0.99
First Flexible No. 6 PLC	01/12/35	01/03/08	**78.7**	82.5	**1.28**	1.28
First Flexible No. 7 PLC	15/09/33	15/03/11	**95.2**	110.7	**0.13**	0.13
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**92.7**	119.0	**0.95**	0.89
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	**138.0**	162.1	**1.00**	0.95
US dollar notes			**$m**	$m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**248.9**	255.7	**0.74**	0.74
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**23.8**	24.3	**0.36**	0.36
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**192.7**	204.2	**0.09**	0.09
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**501.6**	527.3	**0.10**	0.10
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**1,118.4**	1,157.5	**0.14**	0.12
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**1,176.6**	1,211.6	**0.11**	0.11
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**1,363.0**	1,406.7	**0.10**	0.10
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**930.3**	951.8	**0.09**	0.09
First Flexible No. 6 PLC	01/12/35	01/03/08	**11.9**	12.5	**0.56**	0.56
Euro notes			**€m**	€m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**253.1**	260.0	**0.66**	0.66
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**317.5**	328.7	**0.48**	0.24
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**227.2**	235.6	**0.56**	0.57
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**266.7**	269.0	**0.41**	0.21
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**281.8**	287.5	**0.52**	0.25
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**383.3**	388.6	**0.51**	0.25
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**365.3**	371.3	**0.20**	0.19
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**400.8**	406.4	**0.21**	0.21
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**285.0**	287.0	**0.33**	0.33
First Flexible No. 6 PLC	01/12/35	01/03/08	**43.9**	46.1	**1.05**	1.05
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**159.8**	206.0	**0.84**	0.79

During the year, Group companies issued £nil (2010: £nil) of mortgage backed floating rate notes at par and £nil (2010: £nil) of asset backed floating rate notes at par.

On 10 November 2011 a Group company, Paragon Mortgages (No. 16) PLC, issued £131.7m of AAA rated, sterling mortgage backed floating rate notes at par. The interest margin above LIBOR on the notes was 2.75% and the proceeds were used to pay down existing warehouse debt.

(b) Bank borrowings

Prior to the recent difficulties in the capital markets, assets were typically securitised within 12 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 (2010: 0.675% above LIBOR).

The principal amount outstanding on the facility at 30 September 2011, which was also the maximum available amount, was £1,370.8m (2010: £1,403.6m). The carrying value of the borrowing in the balance sheet was £1,370.8m (2010: £1,403.6m).

Details of assets held within the old warehouse are given in note 30. 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. Loans originated in the new warehouse are refinanced in the mortgage backed securitisation market from time to time 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.

The principal amount outstanding on the facility at 30 September 2011 was £123.0m (2010: £nil). The maximum available drawing at that date was £77.0m (2010: £200.0m) and the carrying value of the borrowing in the balance sheet was £121.3m (2010: £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 £64.1m (2010: £64.8m) of sterling revolving credit facilities to fund, where necessary, the purchase of mortgage redraws in certain subsidiary companies. At 30 September 2011 £nil (2010: £nil) had been drawn down under these facilities.

The weighted average margin above LIBOR on bank borrowings at 30 September 2011 was 0.856% (2010: 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 2011 £112.0m (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 and 30 September 2011 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 2011 and 30 September 2010 was the same as that for the Company.

51. 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:

	2011	2010 (restated)	2009 (restated)
	£m	£m	£m
Amounts payable			
Within one year	**2.2**	2.2	2.2
Within two to five years	**9.5**	9.3	9.1
After five years	**5.4**	7.8	10.2
	17.1	19.3	21.5
Less: future finance charges	**(4.3)**	(5.4)	(6.6)
Present value of lease obligations	**12.8**	13.9	14.9

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

	2011	2010 (restated)	2009 (restated)
	£m	£m	£m
Amounts payable			
Within one year	**1.2**	1.1	1.0
Within two to five years	**6.7**	6.0	5.3
After five years	**4.9**	6.8	8.6
	12.8	13.9	14.9

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 7.99% (2010: 7.99%)

At 30 September 2011 the minimum amount of payments expected to be received in respect of non-cancellable sub-leases in respect of this building was £400,000 (2010: £1,100,000).

Comparative amounts above have been restated as described in note 2.

52. 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 2010 and updated to 30 September 2011 by a qualified independent actuary.

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 2011	30 September 2010	30 September 2009
In determining net pension cost for the year			
Discount rate	**5.20%**	5.70%	6.50%
Expected long term rate of return on scheme assets	**6.30%**	6.60%	7.70%
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)	**3.00%**	2.50%	2.50%
in deferment	**3.00%**	3.20%	3.35%
In determining benefit obligations			
Discount rate	**5.25%**	5.20%	5.70%
Rate of compensation increase	**4.10%**	4.00%	4.20%
Rate of increase of pensions			
in payment (accrued before 6 April 2006)	**3.10%**	3.00%	3.20%
in payment (accrued after 5 April 2006)	**3.10%**	2.50%	2.50%
in deferment	**3.00%**	3.00%	3.20%
Further life expectancy at age 60			
Pensioner (male)	**30**	30	30
Pensioner (female)	**32**	33	33
Non-retired member (male)	**32**	31	31
Non-retired member (female)	**34**	35	35

The assets in the Plan at 30 September 2011, 30 September 2010 and 30 September 2009 and the expected rates of return were:

	At 30 September 2011		At 30 September 2010		At 30 September 2009	
	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	**6.75%**	**34.0**	7.25%	35.2	7.60%	33.0
Bonds	**4.65%**	**19.3**	4.40%	16.8	4.80%	13.7
Other	**5.30%**	**5.8**	5.80%	5.2	4.80%	5.3
Total market value of assets	**5.90%**	**59.1**	6.28%	57.2	6.90%	52.0
Present value of scheme liabilities		**(73.5)**		(73.7)		(63.5)
(Deficit) in the scheme		**(14.4)**		(16.5)		(11.5)

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 2011 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 2012 are 50% equities, 30% 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 2010 actuarial valuation, the trustees put in place a recovery plan. The trustees' recovery plan aims to meet the statutory funding objective within seven years and three months from the date of valuation, i.e. by 30 June 2017.

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:

	2011	2010
	£m	£m
At 1 October 2010	**57.2**	52.0
Movement in year		
Contributions by the Group	**3.5**	2.3
Contributions by scheme members	**0.3**	0.3
Benefits paid	**(1.1)**	(1.4)
Expected return on scheme assets	**3.6**	3.6
Actuarial (loss) / gain	**(4.4)**	0.4
At 30 September 2011	**59.1**	57.2

The actual return on scheme assets in the year ended 30 September 2011 was £(0.8)m (2010: £4.0m).

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

	2011	2010
	£m	£m
At 1 October 2010	**73.7**	63.5
Movement in year		
Current service cost	**1.6**	1.6
Past service costs	**-**	-
Contributions by scheme members	**0.3**	0.3
Plan curtailments	**(0.7)**	-
Benefits paid	**(1.1)**	(1.4)
Finance cost	**3.8**	3.6
Actuarial (gain) / loss	**(4.1)**	6.1
At 30 September 2011	**73.5**	73.7

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 2010, when the valuation on that basis was £85.6m.

The sensitivity of the valuation of the scheme liabilities to the principal assumptions disclosed above at 30 September 2011 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 2.1%
Rate of salary growth	0.1% p.a.	Increase by 0.5%
Rates of mortality	1 year of life expectancy	Increase by 1.8%

* maintaining a 1% real increase in salary growth

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

	2011 Years	2010 Years
Category of member		
Active members	**28**	28
Deferred pensioners	**29**	27
Current pensioners	**15**	14
All members	**28**	27

The agreed rate of employer contributions was 27.4% of gross salaries for participating employees up to and including 26 June 2011. With effect from 27 June 2011, the employer contribution rate decreased to 26.6% of gross salaries, following the finalisation of the 31 March 2010 actuarial valuation.

Since 1 July 2008 an additional contribution of £500,000 per annum has been paid by monthly instalments. During the year this was increased to £1,500,000 per annum, backdated to 1 July 2010.

The present best estimate of the contributions to be made to the plan by the Group in the year ending 30 September 2012 is £3.0m.

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

	Note	**2011 £m**	2010 £m
Current service cost		**1.6**	1.6
Past service cost		**-**	-
Plan curtailments		**(0.7)**	-
Included within operating expenses	13	**0.9**	1.6
Expected return on scheme assets	9	**(3.6)**	(3.6)
Funding cost of scheme liability	10	**3.8**	3.6
Total expense recognised in profit		**1.1**	1.6

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

	Note	**2011 £m**	2010 £m
(Loss) / gain on scheme assets		**(4.4)**	0.4
Gain / (loss) on scheme liabilities		**4.1**	(6.1)
Total actuarial (loss)		**(0.3)**	(5.7)
Tax thereon	23	**(0.3)**	1.4
Net actuarial (loss)	45	**(0.6)**	(4.3)

The tax shown above is disproportionate to the actuarial losses recorded in the periods due to the effect on deferred tax of the changes in tax rate described in note 20.

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 £33.7m (2010: £33.4m).

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	**59.1**	57.2	52.0	43.9	49.2
Present value of scheme obligations	**(73.5)**	(73.7)	(63.5)	(48.9)	(45.0)
(Deficit) / surplus in the scheme	**(14.4)**	(16.5)	(11.5)	(5.0)	4.2
Experience adjustments on scheme assets:					
Amount (£m)	**(4.4)**	0.4	2.8	(10.4)	0.9
Percentage of scheme assets	**(7.5)%**	0.6%	5.3%	(23.8)%	1.8%
Experience adjustments on scheme liabilities:					
Amount (£m)	**2.8**	-	-	0.2	2.5
Percentage of scheme liabilities	**3.8%**	0.0%	0.0%	0.4%	5.6%

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 2011 were £0.2m (2010: £0.2m).

53. DEFERRED TAX

(a) The Group

The movements in the net deferred tax liability / (asset) are as follows:

	Note	**2011 £m**	2010 £m	2009 £m
Net (asset) at 1 October 2010		**(1.5)**	(2.8)	(10.3)
Acquisition		**-**	-	(0.8)
Income statement charge	20	**6.3**	2.9	11.3
Charge / (credit) to equity	23	**0.2**	(1.6)	(3.0)
Net liability / (asset) at 30 September 2011		**5.0**	(1.5)	(2.8)

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

	2011 £m	2010 £m	2009 £m
Accelerated tax depreciation	**(1.0)**	(1.4)	(1.7)
Retirement benefit obligations	**(3.6)**	(4.5)	(3.2)
Impairment and other provisions	**16.2**	16.5	17.0
Tax losses	**(6.6)**	(13.2)	(16.8)
Other timing differences	**-**	1.1	1.9
Net deferred tax liability / (asset)	**5.0**	(1.5)	(2.8)

(b) The Company

No provision for deferred tax was required in the Company at 30 September 2011, 30 September 2010 or 30 September 2009.

54. CURRENT TAX LIABILITIES

(a) The Group

	2011 £m	2010 £m	2009 £m
UK Corporation Tax	**10.7**	16.2	-
	10.7	16.2	-

(b) The Company

	2011 £m	2010 £m	2009 £m
UK Corporation Tax	**3.3**	1.5	1.0
	3.3	1.5	1.0

55. PROVISIONS

	2011 **£m**	2010 £m
Provision at 1 October 2010	**-**	0.5
Utilised in the year	**-**	(0.5)
Provision at 30 September 2011	**-**	-

Provisions at 1 October 2010 included committed future lease costs for properties no longer occupied by the Group, and were expected to be settled within one year of that date.

56. OTHER LIABILITIES

(a) The Group

	2011 **£m**	2010 £m	2009 £m
Current liabilities			
Accrued interest	**25.4**	21.1	17.8
Deferred income	**0.3**	0.4	0.9
Other accruals	**11.7**	10.1	10.9
Other taxation and social security	**0.9**	0.8	0.8
	38.3	32.4	30.4
Non-current liabilities			
Deferred income	**1.4**	1.5	1.9
Other accruals	**0.1**	0.1	0.6
	1.5	1.6	2.5

Accrued interest and other accruals fall within the definition of ‘other financial liabilities’ set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

(b) The Company

	2011	2010	2009
	£m	£m	£m
Current liabilities			
Amounts owed to Group companies	**312.9**	385.6	313.7
Accrued interest	**3.5**	3.5	3.8
Deferred income	**0.1**	0.1	0.1
	316.5	389.2	317.6
Non-current liabilities			
Deferred income	**0.8**	0.9	1.1
	0.8	0.9	1.1

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

57. NET CASH FLOW FROM OPERATING ACTIVITIES

(a) The Group

	2011	2010 (restated)
	£m	£m
Profit before tax	**80.8**	71.8
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	**2.0**	2.5
Amortisation of intangible assets	**0.9**	0.7
Profit on repurchase of debt	**-**	(5.7)
Foreign exchange movement on borrowings	**(3.2)**	(124.8)
Other non-cash movements on borrowings	**(1.2)**	0.6
Impairment losses on loans to customers	**24.4**	39.2
Charge for share based remuneration	**2.0**	1.4
(Profit) / loss on disposal of property, plant and equipment	**(0.1)**	0.2
Net decrease / (increase) in operating assets:		
Loans to customers	**150.8**	363.9
Derivative financial instruments	**8.5**	127.2
Fair value of portfolio hedges	**5.2**	30.4
Other receivables	**1.2**	(0.4)
Net (decrease) / increase in operating liabilities:		
Derivative financial instruments	**(8.2)**	(39.3)
Other liabilities	**3.4**	(0.1)
Cash generated by operations	**266.5**	467.6
Income taxes (paid) / received	**(20.4)**	2.9
	246.1	470.5

Comparative amounts above have been restated as described in note 2.

(b) The Company

	2011 £m	2010 (restated) £m
Profit before tax	**65.1**	45.8
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	**1.1**	1.1
Non-cash movements on borrowings	**(3.8)**	(1.0)
Impairment losses on investments in subsidiaries	**1.5**	1.7
Cancellation of debt (note 50)	**-**	(10.0)
Charge for share based remuneration	**2.0**	1.4
Net (increase) / decrease in operating assets:		
Other receivables	**45.8**	(37.3)
Derivative financial instruments	**4.0**	0.7
Net increase / (decrease) in operating liabilities:		
Derivative financial instruments	**-**	-
Other liabilities	**(72.8)**	71.4
Cash generated by operations	**42.9**	73.8
Income taxes paid	**(1.4)**	(2.1)
	41.5	71.7

Comparative amounts above have been restated as described in note 2.

58. NET CASH FLOW FROM INVESTING ACTIVITIES

	The Group		The Company	
	2011 **£m**	2010 £m	**2011** **£m**	2010 £m
Proceeds on disposal of property, plant and equipment	**0.9**	1.6	**-**	-
Purchases of property, plant and equipment	**(2.0)**	(1.0)	**-**	-
Purchases of intangible assets	**(1.0)**	(0.3)	**-**	-
Investment in subsidiary undertakings	**-**	-	**16.0**	3.8
Net cash (utilised) / generated by investing activities	**(2.1)**	0.3	**16.0**	3.8

59. NET CASH FLOW FROM FINANCING ACTIVITIES

	The Group		The Company	
	2011	2010 (restated)	**2011**	2010 (restated)
	£m	£m	**£m**	£m
Shares issues	**-**	-	**0.3**	0.3
Dividends paid (note 46)	**(11.1)**	(10.0)	**(11.1)**	(10.0)
Repayment of asset backed floating rate notes	**(284.1)**	(345.5)	**-**	-
Repurchase of debt (note 18)	**-**	(8.3)	**-**	-
Capital element of finance lease payments	**(1.1)**	(1.0)	**(1.1)**	(1.0)
Movement on bank facilities	**87.1**	(49.5)	**-**	-
Purchase of shares (note 48)	**(1.2)**	-	**-**	-
Sale of shares (note 48)	**0.8**	-	**-**	-
Net cash (utilised) by financing activities	**(209.6)**	(414.3)	**(11.9)**	(10.7)

Comparative amounts above have been restated as described in note 2.

60. OPERATING LEASE ARRANGEMENTS

(a) As lessee

	The Group		The Company	
	2011	2010 (restated)	**2011**	2010 (restated)
	£m	£m	**£m**	£m
Minimum lease payments under operating leases recognised in income for the year				
Office buildings	**2.3**	3.0	**-**	-
Motor vehicles	**0.2**	-	**-**	-
	2.5	3.0	**-**	-

At 30 September 2011 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2011	2010 (restated)	**2011**	2010 (restated)
	£m	£m	**£m**	£m
Amounts falling due:				
Within one year	**2.6**	2.2	**-**	-
Between two and five years	**7.3**	7.1	**-**	-
After more than five years	**2.0**	3.1	**-**	-
	11.9	12.4	**-**	-

Operating lease payments represent rents payable by the Group in respect of certain of its office premises and lease payments on company vehicles. The average term of the current building leases is 11 years (2010 (restated): 12 years) with rents subject to review every five years, while the average term of the vehicle leases is three years (2010: no leases in place).

Comparative amounts above have been restated as described in note 2.

(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 2011 was:

	The Group		The Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Rental income	**1.2**	1.7	**1.2**	1.3

At 30 September 2011 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	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Amounts receivable:				
Within one year	**0.4**	0.7	**0.4**	0.7
Between two and five years	**-**	0.4	**-**	0.4
	0.4	1.1	**0.4**	1.1

61. CAPITAL COMMITMENTS

At 30 September 2011 the Group had commitments in respect of £0.9m of capital expenditure contracted but not provided for (2010: £nil).

62. 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 £10,000 in the year ended 30 September 2011 by Paragon Finance plc, the sponsoring company of the Plan (2010: £3,000).

The Group had no other transactions with related parties other than the key management compensation disclosed in note 14.

(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 40.

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 38 and 56.

During the year the Company incurred interest costs of £15.4m in respect of borrowings from its subsidiaries (2010: £16.6m).

Appendices to the Annual Report

for the year ended 30 September 2011

A. COST : INCOME RATIO

Cost : income ratio is derived as follows:

	2011 £m	2010 £m
Cost - operating expenses	**45.4**	42.6
Total operating income	**150.9**	147.9
Cost / Income	**30.1%**	28.8%

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.

	2011 £m	2010 £m
First Mortgages		
Profit before tax for the period (note 7)	**67.1**	56.1
Less: Gain on debt repurchase	**-**	(5.7)
Fair value losses / (gains)	**0.2**	0.2
	67.3	50.6
Consumer Finance		
Profit before tax for the period (note 7)	**13.7**	15.7
Less: Gain on debt repurchase	**-**	-
Fair value losses / (gains)	**0.1**	(0.2)
	13.8	15.5
Total		
Profit before tax for the period (note 7)	**80.8**	71.8
Less: Gain on debt repurchase	**-**	(5.7)
Fair value losses / (gains)	**0.3**	-
	81.1	66.1

C. NET ASSET VALUE PER SHARE

Net asset value per share is derived as follows:

	Note	2011	2010 (restated)
Total equity (£m)		**742.0**	692.0
Outstanding issued shares (m)	40	**299.7**	299.5
Treasury shares (m)	48	**(0.7)**	(0.7)
Shares held by ESOP schemes (m)	48	**(2.5)**	(3.4)
		296.5	295.4
Net asset value per £1 ordinary share		**250p**	234p

Comparative figures above are restated as described in note 2.

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