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Accounts 2008

## CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2008

	Notes	2008		2007	
		£m	£m	£m	£m
Interest receivable	9		<b>820.9</b>		747.5
Interest payable and similar charges	10		<b>(680.5)</b>		(591.7)
<b>Net interest income</b>			<b>140.4</b>		155.8
Share of results of associate	27		<b>(0.5)</b>		0.2
Other operating income	11		<b>27.0</b>		28.9
<b>Total operating income</b>			<b>166.9</b>		184.9
<b>Operating expenses</b>					
Underlying operating expenses	12	<b>(37.8)</b>		(47.7)	
Exceptional operating expenses	13	<b>(7.8)</b>		-	
Total operating expenses			<b>(45.6)</b>		(47.7)
Provisions for losses	18		<b>(62.2)</b>		(50.5)
			<b>59.1</b>		86.7
Fair value net (losses) / gains	19		<b>(5.4)</b>		4.3
<b>Operating profit being profit on ordinary activities before taxation</b>			<b>53.7</b>		91.0
Tax charge on profit on ordinary activities	20		<b>(16.6)</b>		(28.2)
<b>Profit on ordinary activities after taxation for the financial year</b>			<b>37.1</b>		62.8
			<b>2008</b>		2007
			<b>£m</b>		(restated)
					£m
<b>Earnings per share</b>					
- basic	22		<b>17.9p</b>		90.5p
- diluted	22		<b>17.9p</b>		87.2p

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

## CONSOLIDATED BALANCE SHEET

30 September 2008

	Notes	2008		2007	
		£m	£m	£m	£m
<b>Assets employed</b>					
<b>Non-current assets</b>					
Intangible assets	23	0.4		0.6	
Property, plant and equipment	24	18.5		21.9	
Interest in associate	27	-		0.5	
Financial assets	28	10,647.6		11,119.5	
Retirement benefit obligations	52	-		4.2	
Deferred tax asset	36	10.3		16.1	
			10,676.8		11,162.8
<b>Current assets</b>					
Other receivables	37	6.6		6.7	
Cash and cash equivalents	38	826.3		927.7	
			832.9		934.4
Total assets			11,509.7		12,097.2
<b>Financed by</b>					
<b>Equity shareholders' funds</b>					
Called-up share capital	39		299.1		12.1
Reserves	40		378.7		358.0
Share capital and reserves			677.8		370.1
Own shares	48		(56.3)		(56.8)
Total equity			621.5		313.3
<b>Current liabilities</b>					
Financial liabilities	49	0.9		280.9	
Current tax liabilities	53	6.3		3.1	
Provisions	54	0.3		1.4	
Other liabilities	55	79.4		111.1	
			86.9		396.5
<b>Non-current liabilities</b>					
Financial liabilities	49	10,791.5		11,379.6	
Retirement benefit obligations	52	5.0		-	
Provisions	54	0.2		0.6	
Other liabilities	55	4.6		7.2	
			10,801.3		11,387.4
Total liabilities			10,888.2		11,783.9
			11,509.7		12,097.2

Approved by the Board of Directors on 25 November 2008.

Signed on behalf of the Board of Directors

**N S Terrington**

Chief Executive

**N Keen**

Finance Director

## COMPANY BALANCE SHEET

30 September 2008

	Notes	2008		2007	
		£m	£m	£m	£m
<b>Assets employed</b>					
<b>Non-current assets</b>					
Property, plant and equipment	24	8.7		9.6	
Investment in subsidiary undertakings	25	782.0		495.6	
Interest in associate	27	-		0.3	
Financial assets	28	15.5		15.4	
			806.2		520.9
<b>Current assets</b>					
Other receivables	37	102.0		85.6	
Cash and cash equivalents	38	64.8		-	
			166.8		85.6
Total assets			973.0		606.5
<b>Financed by</b>					
<b>Equity shareholders' funds</b>					
Called-up share capital	39		299.1		12.1
Reserves	40		208.5		217.0
Share capital and reserves			507.6		229.1
Own shares	48		(39.5)		(39.5)
Total equity			468.1		189.6
<b>Current liabilities</b>					
Financial liabilities	49	0.8		0.5	
Current tax liabilities	53	1.0		1.0	
Other liabilities	55	369.4		280.9	
			371.2		282.4
<b>Non-current liabilities</b>					
Financial liabilities	49	132.5		133.2	
Other liabilities	55	1.2		1.3	
			133.7		134.5
Total liabilities			504.9		416.9
			973.0		606.5

Approved by the Board of Directors on 25 November 2008.

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 2008

	Notes	2008 £m	2007 £m
Net cash generated / (utilised) by operating activities	56	1,019.9	(2,511.6)
Net cash (utilised) by investing activities	57	(0.8)	(6.2)
Net cash (utilised) / generated by financing activities	58	(1,120.1)	2,822.7
Net (decrease) / increase in cash and cash equivalents		(101.0)	304.9
Opening cash and cash equivalents		927.2	622.3
<b>Closing cash and cash equivalents</b>		<b>826.2</b>	927.2
Represented by balances within:			
Cash and cash equivalents		826.3	927.7
Financial liabilities		(0.1)	(0.5)
		<b>826.2</b>	927.2

## COMPANY CASH FLOW STATEMENT

For the year ended 30 September 2008

	Notes	2008 £m	2007 £m
Net cash generated by operating activities	56	93.9	79.7
Net cash (utilised) by investing activities	57	(305.3)	(50.5)
Net cash generated / (utilised) by financing activities	58	276.2	(29.2)
Net increase in cash and cash equivalents		64.8	-
Opening cash and cash equivalents		-	-
<b>Closing cash and cash equivalents</b>		<b>64.8</b>	-
Represented by balances within:			
Cash and cash equivalents		64.8	-
Financial liabilities		-	-
		<b>64.8</b>	-

## STATEMENT OF RECOGNISED INCOME AND EXPENDITURE

For the year ended 30 September 2008

	Notes	The Group		The Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Profit for the year		<b>37.1</b>	62.8	<b>1.2</b>	72.9
Actuarial (loss) / gain on pension scheme	52	<b>(10.4)</b>	3.4	-	-
Cash flow hedge gains / (losses) taken to equity	43	<b>3.3</b>	(1.4)	-	-
Tax on items taken directly to equity	46	<b>1.9</b>	(0.5)	-	-
<b>Total recognised income and expenditure for the year</b>		<b>31.9</b>	64.3	<b>1.2</b>	72.9

## RECONCILIATION OF MOVEMENTS IN EQUITY

For the year ended 30 September 2008

	Notes	The Group		The Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Total recognised income and expenditure for the year		<b>31.9</b>	64.3	<b>1.2</b>	72.9
Dividends paid	45	<b>(2.9)</b>	(20.1)	<b>(2.9)</b>	(20.8)
Net proceeds of rights issue		<b>279.6</b>	-	<b>279.6</b>	-
Net movement in own shares (Deficit) / surplus on transactions in own shares	47	<b>0.5</b>	(9.1)	-	(8.1)
	47	<b>(0.6)</b>	(1.5)	-	0.1
Charge for share based remuneration	14	<b>0.6</b>	2.6	<b>0.6</b>	2.6
Tax on share based remuneration	46	<b>(0.9)</b>	(1.9)	-	-
<b>Net movement in equity in the year</b>		<b>308.2</b>	34.3	<b>278.5</b>	46.7
Equity at 30 September 2007		<b>313.3</b>	279.0	<b>189.6</b>	142.9
<b>Closing equity</b>		<b>621.5</b>	313.3	<b>468.1</b>	189.6

## NOTES TO THE ACCOUNTS

For the year ended 30 September 2008

### 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 1985. The address of the registered office is given on page 49. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 16 to 21.

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 presenting these financial statements the Group has adopted International Financial Reporting Standard 7 – 'Financial Instruments: Disclosures', and the related amendment to International Accounting Standard 1 – 'Presentation of Financial Statements'. The impact of the introduction of these standards has been to vary the disclosures provided in the financial statements, relating to the Group's financial instruments and management of capital.

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 8 – 'Operating Segments'
- IAS 1 (revised) – 'Presentation of Financial Information'
- IFRIC 10 – 'Interim Financial Reporting and Impairment'
- IFRIC 11 – 'Group and Treasury Share Transactions'
- IFRIC 14 – 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for;

- (a) amended disclosures in respect of segmental information when IFRS 8 comes into effect, expected to be for the financial year ending 30 September 2009.
- (b) amended presentation of the financial statements when the revision to IAS 1 comes into effect, expected to be for the financial year ending 30 September 2010, if the Standard is endorsed by the European Union.

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

The provisions of the Companies Act 2006 relating to the preparation of financial statements will apply to the Group with effect from its financial year ending 30 September 2009. The directors do not anticipate that the application of these provisions will have any material impact on the financial statements of the Group.

### 3. ACCOUNTING POLICIES

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

The particular policies adopted are described below.

#### (a) Accounting convention

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

#### (b) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2008. Subsidiaries comprise all those entities over which the Group has control. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

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

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

#### (c) Goodwill

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

Negative goodwill is written off as it arises.

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

#### (d) Intangible assets

Intangible assets comprise purchased computer software, which is capitalised where it has a sufficiently enduring nature. This is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

#### (e) Leases

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

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

#### (f) Contract hire

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

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

#### (g) Property, plant and equipment

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

Depreciation is provided on cost in equal annual instalments over the lives of the assets. The rates of depreciation are as follows:

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



**(h) Associates**

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

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

**(i) Investments**

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

**(j) Loans to customers**

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

Such loans are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procurement fees paid to brokers or other business providers and less initial fees paid by the customer. Thereafter they are valued at this 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) Amounts owed by or to group companies**

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

**(n) Cash and cash equivalents**

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

**(o) Own shares**

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

**(p) Taxation**

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

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

### 3. ACCOUNTING POLICIES (continued)

#### (q) Borrowings

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

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

#### (r) Finance lease payables

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

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

#### (s) Derivative financial instruments

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

The Group does not enter into speculative derivative contracts.

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

#### (t) Hedging

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

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

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

#### (u) Deferred taxation

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

**(v) Retirement benefit obligations**

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

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.

**(w) Provisions**

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

**(x) Fee and commission income**

Other income includes administration fees charged to borrowers, which are credited when the related service is 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.

**(y) 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.

**(z) 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.

**(aa) 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.

**(bb) Segmental reporting**

Costs attributed to each segment represent the direct costs incurred by the segment operations and an allocation of the costs of areas of the business which serve all segments. Such allocations are weighted by the value of loan assets in each segment, adjusted for the relative effort involved in the administration of each asset class.

## 4. CRITICAL ACCOUNTING ESTIMATES

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

### (a) Impairment losses on loans to customers

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

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

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

### (b) Effective interest rates

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

### (c) Fair values

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

### (d) Retirement benefits

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions. These are listed in note 52. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

## 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. 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 2008 and at 30 September 2007 were as follows:

	2008 £m	2007 £m
<b>Debt</b>		
Paragon Finance bank facility	-	280.0
Corporate bond	<b>120.0</b>	120.0
Bank overdraft	<b>0.1</b>	0.5
Less: Free cash	<b>(73.2)</b>	(50.4)
Net debt	<b>46.9</b>	350.1
Total equity	<b>621.5</b>	313.3
Less: cash flow hedging reserve	<b>0.1</b>	2.4
Adjusted capital	<b>621.6</b>	315.7
Total working capital	<b>668.5</b>	665.8
Debt	<b>7.0%</b>	52.6%
Equity	<b>93.0%</b>	47.4%
Total working capital	<b>100.0%</b>	100.0%

The increased proportion of working capital represented by equity during 2008 resulted primarily from the operation of the policy described above.

## 6. FINANCIAL RISK MANAGEMENT

The principal 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 Asset and Liability Committee to review and agree policies for managing each of these risks 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, as described above.

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

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

- (a) hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis. The Group believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Group to these assets.
- (b) hedging the interest rate risk of fixed rate corporate bond borrowings with a designated fixed to floating interest rate swap, which was taken out for this specific purpose.

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

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

## Credit risk

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

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

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

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Loans to customers (note 31)	10,053.2	11,034.9	-	-
Loans to associates (note 34)	15.5	15.4	15.5	15.4
Derivative financial assets (note 35)	590.9	92.0	-	-
Amounts owed by Group companies (note 37)	-	-	101.4	85.3
Amounts owed by associates (note 37)	0.5	0.3	0.5	0.3
Accrued interest (note 37)	2.8	2.8	0.1	-
Cash (note 38)	826.3	927.7	64.8	-
<b>Maximum exposure to credit risk</b>	<b>11,489.2</b>	<b>12,073.1</b>	<b>182.3</b>	<b>101.0</b>

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

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 2008 are analysed as follows:

	2008 £m	2008 %	2007 £m	2007 %
Buy-to-let mortgages	9,196.9	91.5%	10,031.3	90.9%
Owner-occupied mortgages	221.8	2.2%	293.8	2.7%
Total first mortgages	9,418.7	93.7%	10,325.1	93.6%
Secured loans	487.4	4.8%	448.9	4.0%
<b>Loans secured on property</b>	<b>9,906.1</b>	<b>98.5%</b>	<b>10,774.0</b>	<b>97.6%</b>
Car loans	86.8	0.9%	142.2	1.3%
Retail finance loans	25.6	0.3%	61.8	0.6%
Other loans	34.7	0.3%	56.9	0.5%
<b>Total loans to customers</b>	<b>10,053.2</b>	<b>100.0%</b>	<b>11,034.9</b>	<b>100.0%</b>

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

## 6. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk (continued)

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 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.

The Group's cash balances are held in sterling at London banks in current accounts and as fixed term deposits. Credit risk on these balances, and the interest accrued thereon, is considered to be immaterial. Further information on the Group's associated undertaking is given in note 27.

An analysis of the indexed loan to value ratio for those loan accounts secured on property by value at 30 September 2008 is set out below.

	<b>2008</b> <b>First</b> <b>Mortgages</b> %	<b>2008</b> <b>Secured</b> <b>Loans</b> %	2007 First Mortgages %	2007 Secured Loans %
<b>Loan to value ratio</b>				
Less than 70%	<b>19.3</b>	<b>22.5</b>	40.9	34.3
70% to 80%	<b>17.3</b>	<b>13.7</b>	39.1	17.4
80% to 90%	<b>32.5</b>	<b>16.9</b>	19.3	17.2
90% to 100%	<b>25.2</b>	<b>15.7</b>	0.6	14.9
Over 100%	<b>5.7</b>	<b>31.2</b>	0.1	16.2
	<b>100.0</b>	<b>100.0</b>	100.0	100.0
 Average loan to value ratio	 <b>80.7</b>	 <b>89.5</b>	 68.8	 79.1



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 2008 and 30 September 2007, compared to the most recent available industry averages published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was:

	2008 %	2007 %
<b>First mortgages</b>		
Buy-to-Let accounts more than 3 months in arrears	<b>0.53</b>	0.18
Owner-Occupied accounts more than 3 months in arrears	<b>3.53</b>	3.63
CML data at 30 September 2008		
Buy-to-Let	<b>1.71</b>	0.66
All mortgages	<b>1.44</b>	-
CML data at 30 June 2007	<b>-</b>	1.02
<b>Secured loans</b>		
Accounts more than 2 months in arrears	<b>4.61</b>	5.00
FLA data for secured loans at 31 August 2008	<b>11.80</b>	8.20
<b>Car loans</b>		
Accounts more than 2 months in arrears	<b>2.17</b>	1.55
FLA data for all personal loans at 31 August 2008	<b>4.20</b>	-
FLA data for car loans at 31 August 2007	<b>-</b>	4.70
<b>Retail finance loans</b>		
Accounts more than 2 months in arrears	<b>5.72</b>	2.89
<b>Other loans</b>		
Accounts more than 2 months in arrears	<b>67.61</b>	66.57

No published industry data for asset classes comparable to the Group's retail finance and other books has been identified. The FLA discontinued their car finance arrears index in the year. No CML data for 'all mortgages' at 30 September 2007 is available.

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 current balances of the Group's loan assets, at 30 September 2008 and at 30 September 2007 split between those accounts considered as performing and those included in the population for impairment testing, is shown below.

#### FIRST MORTGAGES

	2008 £m	2007 £m
Not past due	<b>8,758.1</b>	9,809.1
Arrears less than 3 months	<b>401.3</b>	364.0
Performing accounts	<b>9,159.4</b>	10,173.1
Arrears 3 to 6 months	<b>41.1</b>	14.7
Arrears 6 to 12 months	<b>24.8</b>	16.0
Arrears over 12 months	<b>41.6</b>	32.5
Possessions	<b>2.7</b>	2.7
Impairment population	<b>110.2</b>	65.9
	<b>9,269.6</b>	10,239.0

## 6. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk (continued)

#### CONSUMER FINANCE

	Secured loans	Car loans	Retail finance loans	Total
	£m	£m	£m	£m
<b>30 September 2008</b>				
Not past due	<b>396.9</b>	<b>75.5</b>	<b>17.7</b>	<b>490.1</b>
Arrears less than 2 months	<b>37.0</b>	<b>3.1</b>	<b>0.2</b>	<b>40.3</b>
Performing accounts	<b>433.9</b>	<b>78.6</b>	<b>17.9</b>	<b>530.4</b>
Arrears 2 to 6 months	<b>18.6</b>	<b>1.7</b>	<b>0.4</b>	<b>20.7</b>
Arrears 6 to 9 months	<b>4.5</b>	<b>0.3</b>	<b>0.2</b>	<b>5.0</b>
Arrears 9 to 12 months	<b>3.8</b>	<b>0.1</b>	<b>0.3</b>	<b>4.2</b>
Arrears over 12 months	<b>5.6</b>	<b>0.4</b>	<b>2.1</b>	<b>8.1</b>
Impairment population	<b>32.5</b>	<b>2.5</b>	<b>3.0</b>	<b>38.0</b>
	<b>466.4</b>	<b>81.1</b>	<b>20.9</b>	<b>568.4</b>
<b>30 September 2007</b>				
Not past due	364.3	127.6	44.3	536.2
Arrears less than 2 months	35.6	3.1	0.3	39.0
Performing accounts	399.9	130.7	44.6	575.2
Arrears 2 to 6 months	14.6	1.3	0.4	16.3
Arrears 6 to 9 months	5.8	0.4	0.2	6.4
Arrears 9 to 12 months	3.8	0.3	0.2	4.3
Arrears over 12 months	3.5	0.6	1.7	5.8
Impairment population	27.7	2.6	2.5	32.8
	427.6	133.3	47.1	608.0

#### OTHER LOANS

	2008 £m	2007 £m
Not past due	<b>17.1</b>	30.6
Arrears less than 1 month	<b>0.4</b>	1.0
Performing accounts	<b>17.5</b>	31.6
Arrears 1 to 3 months	<b>0.5</b>	1.0
Arrears 3 to 6 months	<b>0.8</b>	1.3
Arrears 6 to 12 months	<b>1.8</b>	3.3
Arrears over 12 months	<b>63.2</b>	204.9
Impairment population	<b>66.3</b>	210.5
	<b>83.8</b>	242.1

## Liquidity risk

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

The Group's loan assets are principally financed by asset backed loan notes ('Notes') issued through the securitisation process. In a securitisation deal a Group company, referred to as a Special Purpose Vehicle ('SPV') will issue Notes secured on a pool of mortgage or other loan assets owned by the SPV. The Notes have a maturity date later than the final repayment date for any asset in the pool, typically over thirty years from the issue date. The noteholders are entitled to receive repayment of the Note principal out of principal funds generated by the loan assets from time to time, but their right to the repayment of principal is limited to the cash available in the SPV. There is no requirement for any Group company other than the issuing SPV to make principal payments in respect of the Notes. This has the effect of matching the maturities of the assets and the related funding, substantially reducing the Group's exposure to liquidity risk. Details of Notes in issue are given in note 50 and the assets backing the Notes are shown in notes 29 and 30.

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

Cash received in each SPV is held until the next interest payment date, after which the remaining balances become available to the Group. Cash balances are also held within each SPV to provide credit enhancement for the particular securitisation, allowing principal payments to be made even if loans default. These cash balances are included within the restricted cash balances disclosed in note 38.

New loan originations made before 29 February 2008 were held within the revolving 'warehouse' facility provided to Paragon Second Funding Limited, from the point of origination until their inclusion in a securitisation deal. This warehouse functioned in a similar way to an SPV, except that funds were drawn down as advances were made and repaid when loans were securitised. On 29 February 2008 the warehouse ceased to be available for new drawings, although assets held within it at that time continued to be funded. Repayment of the principal on these assets is not required unless amounts are realised from them. The final repayment date of the facility is later than the final due date of the assets it is used to fund. As with the SPVs, the Group provides funding to this company and restricted cash balances are held within it. Further details of the warehouse facility are given in note 50 and details of the loan assets within the warehouse are given in notes 29 and 30.

Since 29 February 2008 the only advances made by the Group have been Consumer Loans and further advances on existing mortgage accounts, which are funded using the existing drawings in the SPV companies.

The securitisation process and the terms of the warehouse facility 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 and warehouse borrowings 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 2008 under these arrangements, allowing for the effect of the cross currency basis swaps, described under currency risk below, which are net settled with the loan payments, was £10,090.8m (2007: £11,200.7m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date would be £24,917.2m (2007: £29,356.9m). 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.

## 6. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity risk (continued)

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 55 are shown below:

	Bank loans £m	Corporate bond £m	Other accruals £m	Total £m
<b>30 September 2008</b>				
Payable in less than one year	-	8.4	9.0	17.4
Payable in one to two years	-	8.4	1.9	10.3
Payable in two to five years	-	25.2	0.6	25.8
Payable in over five years	-	153.7	-	153.7
	-	195.7	11.5	207.2
<b>30 September 2007</b>				
Payable in less than one year	288.4	8.4	12.7	309.5
Payable in one to two years	-	8.4	2.2	10.6
Payable in two to five years	-	25.2	1.9	27.1
Payable in over five years	-	162.1	-	162.1
	288.4	204.1	16.8	509.3

The cash flows described above will include those for interest on borrowings accrued at 30 September 2008 disclosed in note 55.

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:

	2008 Total cash outflow / (inflow) £m	2007 Total cash outflow / (inflow) £m
<b>On derivative liabilities</b>		
Payable in less than one year	(0.5)	1.2
Payable in one to two years	9.8	11.3
Payable in two to five years	9.9	10.0
Payable in over five years	82.3	100.8
	101.5	123.3
<b>On derivative assets</b>		
Payable in less than one year	(20.4)	(34.4)
Payable in one to two years	(0.6)	(5.5)
Payable in two to five years	(6.8)	(8.3)
Payable in over five years	(79.6)	(97.4)
	(107.4)	(145.6)
	(5.9)	(22.3)

## Interest rate risk

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

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

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

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

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

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

To assess the Group's exposure to interest rate movements the notional impact of a 1% change in UK interest rates on the equity of the Group at 30 September 2008, 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 2008 by £5.2m (2007: £7.1m) and increase profit before tax by £3.1m (2007: reduce profit before tax by £5.3m).

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 £1.5m (2007: £1.7m) and £2.6m (2007: £2.8m) respectively.

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

## 6. FINANCIAL RISK MANAGEMENT (continued)

### 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 2008 and 30 September 2007 are:

	<b>2008</b> <b>Equivalent</b> <b>Sterling</b> <b>Principle</b> <b>£m</b>	<b>2008</b> <b>Carrying</b> <b>value</b> <b>£m</b>	2007 Equivalent Sterling Principle £m	2007 Carrying value £m
US dollar notes	<b>3,587.3</b>	<b>3,794.8</b>	4,551.0	4,177.5
Euro notes	<b>2,362.3</b>	<b>2,751.5</b>	2,699.3	2,773.5
	<b>5,949.6</b>	<b>6,546.3</b>	7,250.3	6,951.0

### 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. The fair values of cash and cash equivalents, bank loans and overdrafts and asset backed loan notes 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.

Derivative financial instruments are stated at their fair values. The fair values of the interest rate swaps and caps have been determined by reference to prices available from the markets on which these instruments are traded.

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

## 7. SEGMENTAL INFORMATION

For management purposes the Group is organised into two major operating divisions, First Mortgages and Consumer Finance, which includes secured lending, car and retail finance and the residual unsecured loans book. These divisions are the basis on which the Group reports primary segmental information. All of the Group's operations are conducted in the United Kingdom.

Financial information about these business segments is shown below.

### Year ended 30 September 2008

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	<b>712.7</b>	<b>108.2</b>	<b>820.9</b>
Interest payable	<b>(627.7)</b>	<b>(52.8)</b>	<b>(680.5)</b>
Net interest income	<b>85.0</b>	<b>55.4</b>	<b>140.4</b>
Share of associate result	<b>(0.5)</b>	<b>-</b>	<b>(0.5)</b>
Other operating income	<b>17.6</b>	<b>9.4</b>	<b>27.0</b>
Total operating income	<b>102.1</b>	<b>64.8</b>	<b>166.9</b>
Operating expenses	<b>(35.2)</b>	<b>(10.4)</b>	<b>(45.6)</b>
Provisions for losses	<b>(10.9)</b>	<b>(51.3)</b>	<b>(62.2)</b>
	<b>56.0</b>	<b>3.1</b>	<b>59.1</b>
Fair value net (losses)	<b>(5.2)</b>	<b>(0.2)</b>	<b>(5.4)</b>
Operating profit	<b>50.8</b>	<b>2.9</b>	<b>53.7</b>
Tax charge			<b>(16.6)</b>
Profit after tax			<b>37.1</b>

### Year ended 30 September 2007

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	629.2	118.3	747.5
Interest payable	(534.6)	(57.1)	(591.7)
Net interest income	94.6	61.2	155.8
Share of associate result	0.2	-	0.2
Other operating income	14.7	14.2	28.9
Total operating income	109.5	75.4	184.9
Operating expenses	(28.1)	(19.6)	(47.7)
Provisions for losses	(3.7)	(46.8)	(50.5)
	77.7	9.0	86.7
Fair value net gains	4.1	0.2	4.3
Operating profit	81.8	9.2	91.0
Tax charge			(28.2)
Profit after tax			62.8

## 7. SEGMENTAL INFORMATION (continued)

The assets and liabilities attributable to each of the segments at 30 September 2008 and 30 September 2007 were:

	First Mortgages £m	Consumer Finance £m	Total £m
<b>30 September 2008</b>			
Segment assets	<b>10,580.8</b>	<b>928.9</b>	<b>11,509.7</b>
Segment liabilities	<b>(10,095.4)</b>	<b>(792.8)</b>	<b>(10,888.2)</b>
	<b>485.4</b>	<b>136.1</b>	<b>621.5</b>
<b>30 September 2007</b>			
Segment assets	11,133.9	963.3	12,097.2
Segment liabilities	(10,939.3)	(844.6)	(11,783.9)
	194.6	118.7	313.3

The capital expenditure attributable to each segment during the years ended 30 September 2008 and 30 September 2007 was:

	First Mortgages £m	Consumer Finance £m	Total £m
<b>2008</b>	<b>0.4</b>	<b>1.7</b>	<b>2.1</b>
2007	1.4	5.8	7.2

## 8. REVENUE

	<b>2008</b> £m	2007 £m
Interest receivable	<b>820.9</b>	747.5
Other income	<b>27.0</b>	28.9
Total revenue	<b>847.9</b>	776.4
<b>Arising from:</b>		
First Mortgages	<b>730.3</b>	643.9
Consumer Finance	<b>117.6</b>	132.5
Total revenue	<b>847.9</b>	776.4



## 9. INTEREST RECEIVABLE

	2008 £m	2007 £m
Interest on loans to customers	762.8	692.7
Interest on loans to associate	1.8	1.2
Other interest receivable	52.7	50.8
Total interest on financial assets	817.3	744.7
Return on pension scheme assets	3.6	2.8
	820.9	747.5

Interest on loans to customers includes £46.8m (2007: £46.4m) charged on accounts where an impairment provision has been made.

## 10. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £m	2007 £m
On asset backed loan notes	558.7	511.3
On corporate bond	9.9	9.2
On bank loans and overdrafts	105.8	64.2
Total interest on financial liabilities	674.4	584.7
On pension scheme liability	2.8	2.3
On finance leases	1.3	1.3
Other finance costs	2.0	3.4
	680.5	591.7

## 11. OTHER OPERATING INCOME

	2008 £m	2007 £m
Loan account fee income	17.2	15.6
Insurance income	7.4	9.2
Other income	2.4	4.1
	27.0	28.9

## 12. UNDERLYING OPERATING EXPENSES

	2008 £m	2007 £m
Underlying employment costs (note 14)	22.9	29.3
Underlying auditor remuneration (note 17)	0.8	0.8
Amortisation of intangible assets (note 23)	0.3	0.2
Depreciation (note 24)	4.0	3.9
Operating lease rentals (note 59)	3.4	3.4
Other administrative costs	6.4	10.1
	<u>37.8</u>	<u>47.7</u>

## 13. EXCEPTIONAL OPERATING EXPENSES

Exceptional operating expenses are costs of a one-off nature which do not result from the underlying business activities of the Group and are shown separately from its ongoing expenses. These comprise:

	2008 £m	2008 £m	2007 £m	2007 £m
Standby underwriting fee		4.1		-
Exceptional professional costs				
Proposed financing transactions				
Paid to auditors (note 17)	0.5		-	
Other	1.1		-	
Bid approach	0.5		-	
		<u>2.1</u>		-
Redundancy costs				
Redundancy payments (note 14)	1.4		-	
Other costs	0.2		-	
		<u>1.6</u>		-
		<u>7.8</u>		-
<b>Of which:</b>				
First Mortgages		6.3		-
Consumer Finance		1.5		-
		<u>7.8</u>		-

The standby underwriting fee was charged in respect of the standby underwriting agreement with UBS entered into on 19 November 2007, whereby the Company had the right to require UBS to underwrite, in full, a rights issue of up to £280.0 million, before 27 February 2008.

Exceptional professional costs relate to services provided in respect of proposed financing transactions in the period which did not proceed and in respect of an approach from a third party leading to a rejected offer for the shares of the Company.

## 14. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 627 (2007: 763). The number of employees at the end of the year was 534 (2007: 768).

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

	2008 £m	2008 £m	2007 £m	2007 £m
Share based remuneration	0.6		2.6	
Other wages and salaries	<u>21.0</u>		<u>23.8</u>	
Total wages and salaries		<b>21.6</b>		26.4
National Insurance on share based remuneration	(0.6)		(1.2)	
Other social security costs	<u>1.7</u>		<u>2.0</u>	
Total social security costs		<b>1.1</b>		0.8
Defined benefit pension cost	1.5		2.0	
Other pension costs	<u>0.1</u>		<u>0.1</u>	
Total pension costs		<u>1.6</u>		<u>2.1</u>
Total staff costs		<u>24.3</u>		<u>29.3</u>
<b>Of which</b>				
Underlying costs (note 12)		<b>22.9</b>		29.3
Redundancy costs (note 13)		<u>1.4</u>		<u>-</u>
		<u>24.3</u>		<u>29.3</u>

The credits in the year and the preceding period in respect of National Insurance on share based remuneration relate to the partial reversal of accruals made on unvested awards which are now unlikely to vest.

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 15.

## 15. 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 31 to 38.

	2008 £m	2007 £m
Short-term employee benefits	2.3	2.8
Post-employment benefits	0.4	0.5
Termination benefits	-	0.1
Share based payment	<b>(0.4)</b>	0.7
	<b>2.3</b>	4.1

The credit in respect of share based remuneration relates to the reversal of charges made in respect of share based payment arrangements with non-market based vesting conditions which are not now expected to vest.

The figures shown above for 2007 have been adjusted to include the bonus payments in respect of that year which were accrued during the period, but the payment of which had been deferred to the discretion of the Remuneration Committee, and was approved after the financial statements for the year had been approved. More details of this arrangement are given in the Report of the Board to the Shareholders on Directors’ Remuneration on page 31.

## 16. 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 14.

Further details of share based payment arrangements are given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 31 to 38.

### (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. It is not the present intention of the Group that any further awards should be made under the Executive schemes.

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 during the year ended 30 September 2008 and the year ended 30 September 2007 is shown below.

	2008 Number	2008 Weighted average exercise price p	2007 Number	2007 Weighted average exercise price p
<b>Options outstanding</b>				
<b>10p ordinary shares</b>				
At 1 October 2007	4,062,440	255.78	4,385,684	246.54
Granted in the year	-	-	337,004	430.24
Exercised in the year	-	-	(452,380)	184.95
Lapsed during the year	(276,744)	410.45	(207,868)	497.78
Share conversion and rights issue	(3,785,696)	244.47	-	-
At 30 September 2008	-	-	4,062,440	255.78
Options exercisable	-	-	2,878,938	213.45
<b>£1 ordinary shares</b>				
At 1 October 2007	-	-	-	-
Share conversion and rights issue	2,374,606	389.69	-	-
Granted in the year	2,808,211	63.00	-	-
Exercised in the year	-	-	-	-
Lapsed during the year	(342,559)	454.79	-	-
At 30 September 2008	4,840,258	159.36	-	-
Options exercisable	2,047,955	373.10	-	-

No share options were exercised in the year. The weighted average share price at date of exercise for share options exercised during the year ended 30 September 2007 was 585.48p.

The weighted average remaining contractual life of options outstanding at 30 September 2008 was 23.5 months (2007: 5.4 months).

## 16. SHARE BASED REMUNERATION (continued)

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

Grant date	Period exercisable	Exercise price		Ordinary shares of £1 each Number	Ordinary shares of 10p each Number
		2008	2007	2008	2007
<b>Executive Schemes</b>					
31/03/1998	31/03/2001 to 31/03/2008	-	218.00p	-	279,000
11/01/1999	11/01/2002 to 11/01/2009	<b>235.13p</b>	147.50p	<b>301,104</b>	480,000
17/02/2000	17/02/2003 to 17/02/2010	<b>234.33p</b>	147.00p	<b>94,095</b>	150,000
27/11/2001	27/11/2004 to 27/11/2011	<b>395.34p</b>	248.00p	<b>319,923</b>	510,000
29/07/2002	29/07/2005 to 29/07/2012	<b>297.30p</b>	186.50p	<b>244,647</b>	390,000
14/03/2003	14/03/2006 to 14/03/2013	<b>297.30p</b>	186.50p	<b>413,110</b>	658,552
18/12/2003	18/12/2006 to 18/12/2013 †	<b>540.40p</b>	339.00p	<b>225,199</b>	371,386
01/06/2004	01/06/2007 to 01/06/2014 †	<b>514.10p</b>	322.50p	<b>25,092</b>	40,000
01/12/2004	01/12/2007 to 01/12/2014 †	<b>555.34p</b>	348.38p	<b>264,672</b>	434,552
				<b>1,887,842</b>	3,313,490
<b>Sharesave Schemes</b>					
18/06/2003	01/08/2008 to 01/02/2009	<b>291.78p</b>	183.04p	<b>71,372</b>	123,018
23/06/2005	01/08/2008 to 01/02/2009	<b>520.89p</b>	326.76p	<b>58,741</b>	140,916
23/06/2005	01/08/2010 to 01/02/2011	<b>520.89p</b>	326.76p	<b>5,196</b>	95,654
28/07/2006	01/09/2009 to 01/03/2010	<b>837.73p</b>	525.52p	<b>8,883</b>	48,132
28/07/2006	01/09/2011 to 01/03/2012	<b>837.73p</b>	525.52p	<b>574</b>	13,227
20/06/2007	01/08/2010 to 01/02/2011	<b>685.84p</b>	430.24p	<b>11,189</b>	226,937
20/06/2007	01/08/2012 to 01/02/2013	<b>685.84p</b>	430.24p	<b>4,960</b>	101,066
18/07/2008	01/09/2011 to 01/03/2012	<b>63.00p</b>	-	<b>1,698,776</b>	-
18/07/2008	01/09/2013 to 01/03/2014	<b>63.00p</b>	-	<b>1,092,725</b>	-
				<b>2,952,416</b>	748,950
				<b>4,840,258</b>	4,062,440

† The exercise of these options is conditional upon the Company's total shareholder return ('TSR') exceeding the TSR for at least half of a specified group of comparator companies.

The number of share options outstanding and the exercise price under each of the arrangements shown above was adjusted in accordance with the respective scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 39.

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

All grants in the period were made under the Sharesave scheme. The fair value of options granted is determined using a Binomial model. Details of the awards made in the year ended 30 September 2008 and the year ended 30 September 2007 are shown below:

Grant date	18/07/08	18/07/08	20/06/07	20/06/07
Number of awards granted	<b>1,715,486†</b>	<b>1,092,725†</b>	235,938*	101,066*
Market price at date of grant	<b>82.25p</b>	<b>82.25p</b>	535.00p	535.00p
Contractual life (years)	<b>3.0</b>	<b>5.0</b>	3.0	5.0
Fair value per share at date of grant	<b>19.83p</b>	<b>18.38p</b>	142.64p	143.53p
<b>Inputs to valuation model</b>				
Expected volatility	<b>29.03%</b>	<b>29.03%</b>	27.02%	27.02%
Expected life at grant date (years)	<b>3.42</b>	<b>5.41</b>	3.42	5.39
Risk-free interest rate	<b>4.97%</b>	<b>4.97%</b>	5.67%	5.67%
Expected dividend yield	<b>4.86%</b>	<b>4.86%</b>	2.74%	2.74%
Expected annual departures	<b>5.00%</b>	<b>5.00%</b>	5.00%	5.00%

\* 10p ordinary shares

† £1 ordinary shares

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 after this date is calculated using the same method but using daily changes in price over the six years preceding the grant date.

## 16. SHARE BASED REMUNERATION (continued)

### (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 2008 and 30 September 2007 were:

Grant date	Period exercisable	Ordinary shares of £1 each Number 2008	Ordinary shares of 10p each Number 2007
22/06/2004	22/06/2007 to 22/12/2007 *	-	53,511
02/12/2004	02/12/2007 to 02/06/2008 *	-	295,389
02/06/2005	02/06/2008 to 02/12/2008 *	-	261,178
07/03/2006	07/03/2009 to 07/09/2009 †	<b>110,008</b>	177,412
25/05/2006	25/05/2009 to 25/11/2009 †	<b>56,377</b>	90,981
25/09/2006	25/09/2009 to 25/03/2010 †	<b>54,298</b>	87,606
09/01/2007	09/01/2010 to 09/07/2010 †	<b>76,551</b>	123,082
28/03/2007	28/03/2010 to 28/09/2010 †	<b>56,118</b>	89,459
14/06/2007	14/06/2010 to 14/12/2010 †	<b>98,540</b>	157,086
26/09/2007	26/09/2010 to 26/03/2011 †	<b>130,534</b>	208,088
26/11/2007	26/11/2010 to 26/05/2011 †	<b>383,713</b>	-
18/03/2008	18/03/2011 to 18/09/2011 §	<b>860,000</b>	-
29/09/2008	29/09/2011 to 29/03/2012 ‡	<b>2,331,830</b>	-
		<b>4,157,969</b>	<b>1,543,792</b>

\* The receipt of these shares was subject to the Company's TSR exceeding the TSR of a relevant proportion of the constituents of the FTSE All Share Banks and General Financial sectors. No part of an award vested for below median performance, 25% vested for median performance and 100% vested for upper quartile performance. Between median and upper quartile performance, awards vested on a straight line basis.

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

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



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

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 39.

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 made in the year ended 30 September 2008 and the year ended 30 September 2007 are shown below:

Grant date	26/11/07	18/03/08	29/09/08	
Number of awards granted	611,690*	860,000†	2,331,830†	
Market price at date of grant	130.50p	94.00p	72.00p	
Fair value per share at date of grant	<u>37.46p</u>	<u>29.90p</u>	<u>5.28p</u>	
<b>Inputs to valuation model</b>				
Expected volatility	54.50%	31.19%	33.58%	
Risk-free interest rate	4.26%	3.59%	3.97%	
Expected dividend yield	<u>4.00%</u>	<u>8.78%</u>	<u>5.51%</u>	
Grant date	09/01/07	28/03/07	14/06/07	26/09/07
Number of awards granted	124,132*	89,459*	157,086*	208,088*
Market price at date of grant	655.00p	576.50p	543.00p	296.50p
Fair value per share at date of grant	<u>456.00p</u>	<u>393.00p</u>	<u>362.00p</u>	<u>192.00p</u>
<b>Inputs to valuation model</b>				
Expected volatility	25.74%	26.60%	26.73%	36.75%
Risk-free interest rate	5.07%	5.18%	5.80%	4.93%
Expected dividend yield	<u>2.56%</u>	<u>2.61%</u>	<u>2.73%</u>	<u>3.11%</u>

\* 10p ordinary shares

† £1 ordinary shares

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 after this date is calculated using the same method but using daily changes in price over the six years preceding the grant date.

## 16. SHARE BASED REMUNERATION (continued)

### (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 2008 and 30 September 2007 were:

Grant date	Transfer date	Ordinary shares of £1 each Number 2008	Ordinary shares of 10p each Number 2007
27/02/2005	01/10/2007	-	184,962
13/03/2006	01/10/2008	47,468	75,671
15/01/2007	01/10/2009	42,793	68,217
28/12/2007	01/10/2010	29,121	-
		<b>119,382</b>	<b>328,850</b>

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

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 39.

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards made in the year ended 30 September 2008 and the year ended 30 September 2007 are shown below:

Grant date	28/12/07	15/01/07
Number of awards granted	46,423*	69,342*
Market price at date of grant	132.00p	631.00p
Fair value per share at date of grant	114.11p	584.44p
<b>Inputs to valuation model</b>		
Risk-free interest rate	4.30%	5.07%
Expected dividend yield	4.85%	2.56%

\* 10p ordinary shares

### (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 2008 and at 30 September 2007 were:

Grant date	Transfer date	Ordinary shares of £1 each Number 2008	Ordinary shares of 10p each Number 2007
22/03/2006	22/06/2009 †	93,875	149,649
09/01/2007	09/01/2010 †	84,081	134,037
02/01/2008	02/01/2011 †	56,680	-
		<b>234,636</b>	<b>283,686</b>

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

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 39.

The fair value of awards granted under the Matching Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards made in the year ended 30 September 2008 and the year ended 30 September 2007 are shown below:

Grant date	02/01/08	09/01/07
Number of awards granted	90,355*	140,785*
Market price at date of grant	132.25p	655.00p
Fair value per share at date of grant	<u>36.88p</u>	<u>456.00p</u>
<b>Inputs to valuation model</b>		
Expected volatility	55.04%	25.74%
Risk-free interest rate	4.19%	5.07%
Expected dividend yield	<u>4.93%</u>	<u>2.56%</u>

\* 10p ordinary shares

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 after this date is calculated using the same method but using daily changes in price over the six years preceding the grant date.

## 17. 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.

	2008 £000	2008	2007 £000	2007
<b>Group audit fee</b>	<b>191</b>	<b>14%</b>	188	28%
<b>Other services</b>				
Audit of associated undertakings				
pursuant to legislation				
Subsidiary audit fees	<b>255</b>	<b>19%</b>	221	33%
Total audit fees	<b>446</b>	<b>33%</b>	409	61%
Other services pursuant to legislation				
Interim review	<b>40</b>	<b>3%</b>	40	6%
Other services related to taxation				
Compliance services	<b>100</b>	<b>7%</b>	151	22%
Advisory services	<b>82</b>	<b>6%</b>	76	11%
	<b>182</b>	<b>13%</b>	227	33%
Services relating to corporate finance transactions				
Rights issue	<b>251</b>	<b>18%</b>	-	-
Financing	<b>437</b>	<b>32%</b>	-	-
	<b>688</b>	<b>50%</b>	-	-
Other services	<b>9</b>	<b>1%</b>	-	-
Total fees	<b>1,365</b>	<b>100%</b>	676	100%
Irrecoverable VAT	<b>239</b>		118	
Total cost to the Group	<b>1,604</b>		794	
Of which:				
Included in underlying operating expenses (note 12)	<b>796</b>		794	
Included in exceptional operating expenses (note 13)	<b>513</b>		-	
Deducted from share premium account	<b>295</b>		-	
	<b>1,604</b>		794	

In addition to the amounts above, the auditors received fees of £7,000 (2007: £6,000), excluding VAT, in respect of the audit of the Group pension scheme.

## 18. PROVISIONS FOR LOSSES

	2008 £m	2007 £m
Impairment of financial assets		
First mortgage loans	10.8	3.6
Other secured loans	9.3	4.7
Finance lease receivables	3.9	1.9
Retail finance loans	0.9	1.0
Other loans	37.2	39.2
On loans to customers	62.1	50.4
Other provisions (note 54)	0.1	0.1
	<b>62.2</b>	50.5

## 19. FAIR VALUE NET (LOSSES) / GAINS

	2008 £m	2007 £m
Net (loss) / gain on derivatives designated as fair value hedges	(15.6)	13.5
Fair value adjustments from hedge accounting	10.8	(10.2)
Ineffectiveness of fair value hedges	(4.8)	3.3
Ineffectiveness of cash flow hedges	-	-
Net (losses) / gains on other derivatives	(0.6)	1.0
	<b>(5.4)</b>	4.3

The fair value net gain 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.

## 20. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

### (a) Analysis of charge in the year

	2008 £m	2007 £m
<b>Current tax</b>		
UK Corporation Tax on profits of the period	9.2	15.2
Adjustment in respect of prior periods	0.6	(1.2)
Total current tax	9.8	14.0
Deferred tax	6.8	14.2
Tax charge on profit on ordinary activities	16.6	28.2

### (b) Deferred tax charge for the year

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

	2008 £m	2007 £m
Accelerated tax depreciation	0.5	0.3
Retirement benefit obligations	1.4	1.3
Impairment and other provisions	23.4	18.3
Utilisation of tax losses	(17.3)	(8.8)
Other timing differences	0.9	2.3
Deferred tax charge for the year	8.9	13.4
Recognition of asset not previously recognised	(2.1)	(0.2)
Change in tax rate	-	1.0
Deferred tax charge (note 36)	6.8	14.2

The United Kingdom Government enacted provisions reducing the standard rate of corporation tax to 28% with effect from 1 April 2008. Therefore the standard rate of corporation tax applicable to the Group is 29% in the year ending 30 September 2008 and will be 28% thereafter. The expected impact of this change on the values at which deferred tax amounts are expected to crystallise was accounted for in the year ended 30 September 2007.

**(c) Factors affecting tax charge for the year**

The tax assessed for the year is higher than the standard rate of corporation tax in the United Kingdom of 29% (2007: 30%). The differences are explained below:

	<b>2008</b>	2007
	<b>£m</b>	£m
Profit on ordinary activities before taxation	<b>53.7</b>	91.0
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 29% (2007: 30%)	<b>15.6</b>	27.3
Effects of:		
Results of associate	<b>0.2</b>	(0.1)
Permanent differences	<b>0.9</b>	0.7
Share based payments	<b>1.0</b>	-
Recognition of deferred tax asset not previously recognised	<b>(2.1)</b>	(0.2)
Change in rate of taxation on deferred tax assets and liabilities	<b>-</b>	1.0
Other movements in unprovided deferred taxation	<b>0.4</b>	0.7
Prior year charge / (credit)	<b>0.6</b>	(1.2)
Tax charge for the year	<b>16.6</b>	28.2

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

The Company's profit after tax for the financial year amounted to €1.2m (2007: €72.9m). A separate income statement has not been prepared for the Company under the provisions of Section 230 of the Companies Act 1985.

## 22. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2008	2007 (restated)
Profit for the year (£m)	<u>37.1</u>	<u>62.8</u>
Basic weighted average number of ordinary shares ranking for dividend during the year (million)	<b>207.3</b>	69.3
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)	<u>0.5</u>	<u>2.6</u>
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)	<u>207.8</u>	<u>71.9</u>
Earnings per ordinary share		
- basic	<b>17.9p</b>	90.5p
- diluted	<b>17.9p</b>	87.2p

The amounts shown above in respect of the year ended 30 September 2007 have been retrospectively adjusted for the bonus effect of the rights issue on 21 February 2008 and for the share consolidation on 29 January 2008.

## 23. INTANGIBLE ASSETS

Intangible assets comprise computer software used in the Group's operations.

	2008 £m	2007 £m
<b>Cost</b>		
At 1 October 2007	<b>2.0</b>	1.8
Additions	<b>0.1</b>	0.2
Disposals	<u>-</u>	<u>-</u>
At 30 September 2008	<u>2.1</u>	<u>2.0</u>
<b>Accumulated amortisation</b>		
At 1 October 2007	<b>1.4</b>	1.2
Charge for the year	<b>0.3</b>	0.2
Disposals	<u>-</u>	<u>-</u>
At 30 September 2008	<u>1.7</u>	<u>1.4</u>
<b>Net book value</b>		
At 30 September 2008	<u>0.4</u>	<u>0.6</u>
At 30 September 2007	<u>0.6</u>	<u>0.6</u>



## 24. PROPERTY, PLANT AND EQUIPMENT

### (a) The Group

	Leasehold premises £m	Plant and machinery £m	Total £m
<b>Cost</b>			
At 1 October 2006	19.3	16.8	36.1
Additions	-	7.0	7.0
Disposals	-	(3.4)	(3.4)
At 30 September 2007	19.3	20.4	39.7
Additions	0.1	1.9	2.0
Disposals	-	(3.6)	(3.6)
At 30 September 2008	19.4	18.7	38.1
<b>Accumulated depreciation</b>			
At 1 October 2006	7.8	8.1	15.9
Charge for the year	0.9	3.0	3.9
On disposals	-	(2.0)	(2.0)
At 30 September 2007	8.7	9.1	17.8
Charge for the year	1.0	3.0	4.0
On disposals	-	(2.2)	(2.2)
At 30 September 2008	9.7	9.9	19.6
<b>Net book value</b>			
At 30 September 2008	<b>9.7</b>	<b>8.8</b>	<b>18.5</b>
At 30 September 2007	10.6	11.3	21.9
At 30 September 2006	11.5	8.7	20.2

The net book value of leasehold buildings includes £8.7m in respect of assets held under finance leases (2007: £9.6m).

## 24. PROPERTY, PLANT AND EQUIPMENT (continued)

### (b) The Company

	Leasehold premises £m
<b>Cost</b>	
At 1 October 2006, 1 October 2007 and 30 September 2008	16.6
<b>Accumulated depreciation</b>	
At 1 October 2006	6.1
Charge for the year	0.9
At 30 September 2007	7.0
Charge for the year	0.9
At 30 September 2008	7.9
<b>Net book value</b>	
At 30 September 2008	<b>8.7</b>
At 30 September 2007	9.6
At 30 September 2006	10.5

The net book value of leasehold buildings represents assets held under finance leases.

## 25. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group companies £m	Loans to Group companies £m	Loans to ESOP Trusts £m	Total £m
At 1 October 2006	201.2	177.8	15.4	394.4
Loans advanced	-	265.3	3.4	268.7
Loans repaid	-	(218.5)	-	(218.5)
Investment in shares	-	-	-	-
Provision movements	53.2	-	(2.2)	51.0
At 1 October 2007	254.4	224.6	16.6	495.6
Loans advanced	-	361.0	1.0	362.0
Loans repaid	-	(56.7)	-	(56.7)
Investment in shares	-	-	-	-
Provision movements	(2.3)	(2.4)	(14.2)	(18.9)
At 30 September 2008	<b>252.1</b>	<b>526.5</b>	<b>3.4</b>	<b>782.0</b>

During the year ended 30 September 2008 the Company received £16.5m in dividend income from its subsidiaries (2007: £31.3m) and £40.3m of interest on loans to Group companies (2007: £13.7m).

The principal operating subsidiaries, and the nature of the Group's interest in them, are shown in note 26.

## 26. PRINCIPAL OPERATING SUBSIDIARIES

The financial year end of all of the Group's subsidiary companies is 30 September. They are all registered and operate in England and Wales.

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

	Holding	Principal Activity
<b>Direct subsidiaries of</b>		
<b>The Paragon Group of Companies PLC</b>		
Paragon Finance PLC	100%	Residential mortgages and asset administration
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages 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
Idem Capital Limited	100%	Asset investment
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
<b>Subsidiary of Paragon Mortgages Limited</b>		
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance
<b>Subsidiaries of Mortgage Trust Limited</b>		
Mortgage Trust Services plc	100%	Residential mortgages and asset administration
First Flexible No. 6 PLC	74%	Residential mortgages
<b>Subsidiaries of Moorgate Servicing Limited</b>		
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Moorgate Loan Servicing Limited	100%	Asset administration

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

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

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.

## 27. INTEREST IN ASSOCIATE

On 25 January 2007 the Group acquired a 33% interest in the equity of The Business Mortgage Company Limited, a mortgage broker. This company operates in the United Kingdom and is registered in England and Wales. The net assets position of the associate and its results for the period from 25 January 2007 to 30 September 2008 are shown below.

	2008 £m	2007 £m
Total assets	16.0	18.9
Total liabilities	(16.6)	(17.8)
Total equity	(0.6)	1.1
Revenue	2.4	4.1
Costs	(4.8)	(3.2)
(Loss) / profit before tax	(2.4)	0.9
Taxation	0.7	(0.3)
(Loss) / profit after tax	(1.7)	0.6

In the year ended 30 September 2008 the associate was charged £1.8m by the Group and the Company in interest (period from 25 January 2007 to 30 September 2007: £1.2m) and received £0.8m in commission income from Group companies (period from 25 January 2007 to 30 September 2007: £1.8m). The Group has provided the associate with certain management services.

### (a) The Group

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

	2008 £m	2007 £m
At 1 October 2007	0.5	-
Additions	-	0.3
Share of result of associates	(0.5)	0.2
Dividends received	-	-
At 30 September 2008	-	0.5

**(b) The Company**

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

	<b>2008</b>	2007
	<b>£m</b>	£m
At 1 October 2007	<b>0.3</b>	-
Additions	-	0.3
Provision	<b>(0.3)</b>	-
At 30 September 2008	<b>-</b>	0.3

**28. FINANCIAL ASSETS**

	The Group		The Company	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>£m</b>	£m	<b>£m</b>	£m
Loans and receivables (note 29)	<b>9,966.4</b>	10,892.7	-	-
Finance lease receivables (note 30)	<b>86.8</b>	142.2	-	-
Loans to customers (note 31)	<b>10,053.2</b>	11,034.9	-	-
Fair value adjustments from portfolio hedging (note 33)	<b>(12.0)</b>	(22.8)	-	-
Loans to associate (note 34)	<b>15.5</b>	15.4	<b>15.5</b>	15.4
Derivative financial assets (note 35)	<b>590.9</b>	92.0	-	-
	<b>10,647.6</b>	11,119.5	<b>15.5</b>	15.4

## 29. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2008 and 30 September 2007, which are all denominated and payable in sterling, were:

	2008 £m	2007 £m
First mortgage loans	<b>9,418.7</b>	10,325.1
Secured loans	<b>487.4</b>	448.9
Retail finance loans	<b>25.6</b>	61.8
Other unsecured loans	<b>34.7</b>	56.9
	<b>9,966.4</b>	10,892.7

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:

	2008 £m	2007 £m
First mortgage loans	<b>99.0</b>	60.1
Secured loans	<b>22.4</b>	23.1
	<b>121.4</b>	83.2

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 2008 the Group's commitment in respect of such facilities was £58.2m (2007: £74.0m).

The loans shown on page 96 pledged as collateral for the liabilities described in note 50 at 30 September 2008 and 30 September 2007 were:

	First Mortgages £m	Consumer Finance £m	Total £m
<b>30 September 2008</b>			
In respect of:			
Asset backed loan notes	<b>7,713.9</b>	<b>520.2</b>	<b>8,234.1</b>
Warehouse facilities	<b>1,676.4</b>	<b>-</b>	<b>1,676.4</b>
Total pledged as collateral	<b>9,390.3</b>	<b>520.2</b>	<b>9,910.5</b>
Not pledged as collateral	<b>28.4</b>	<b>27.5</b>	<b>55.9</b>
	<b>9,418.7</b>	<b>547.7</b>	<b>9,966.4</b>
<b>30 September 2007</b>			
In respect of:			
Asset backed loan notes	9,342.9	515.9	9,858.8
Warehouse facilities	946.0	15.8	961.8
Total pledged as collateral	10,288.9	531.7	10,820.6
Not pledged as collateral	36.2	35.9	72.1
	10,325.1	567.6	10,892.7

### 30. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans. The average contractual life of such loans is 56 months (2007: 53 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Amounts receivable under finance leases</b>				
Within one year	31.7	43.8	28.0	38.0
Within two to five years	62.2	114.3	54.9	98.7
After five years	3.0	4.4	2.6	3.8
	<b>96.9</b>	162.5		
Less: future finance income	<b>(11.4)</b>	(22.0)		
Present value of lease obligations	<b>85.5</b>	140.5	<b>85.5</b>	140.5
Allowance for uncollectible amounts	<b>(2.3)</b>	(2.3)	<b>(2.3)</b>	(2.3)
Provision for recoveries	<b>3.6</b>	4.0	<b>3.6</b>	4.0
Present value of lease obligations	<b>86.8</b>	142.2	<b>86.8</b>	142.2

The Group considers that the fair value of its finance lease receivables is not significantly different to their carrying values. Although 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 loans shown above pledged as collateral for liabilities at 30 September 2008 and 30 September 2007 were:

	2008 £m	2007 £m
In respect of:		
Asset backed loan notes	83.0	133.2
Warehouse facilities	-	5.0
Total pledged as collateral	<b>83.0</b>	138.2
Not pledged as collateral	<b>3.8</b>	4.0
	<b>86.8</b>	142.2



## 31. LOANS TO CUSTOMERS

The movements in the Group's investment in loans to customers in the year ended 30 September 2008 and the year ended 30 September 2007 were:

	2008 £m	2007 £m
<b>Cost</b>		
At 1 October 2007	11,034.9	8,426.6
Additions	1,147.4	4,334.9
Disposals	(4.3)	(9.8)
EIR adjustments	32.5	39.0
Other debits	691.2	680.2
Repayments and redemptions	(2,848.5)	(2,436.0)
At 30 September 2008	<u>10,053.2</u>	<u>11,034.9</u>

'Other debits' includes primarily interest charged to customers on loans outstanding and impairment movements on these loans.

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

## 32. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

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

	First Mortgages £m	Other loans and receivables £m	Finance leases £m	Total £m
At 1 October 2006	(3.9)	233.7	(0.7)	229.1
Portfolios sold	6.5	(51.0)	-	(44.5)
Charge for the year (note 18)	3.6	44.9	1.9	50.4
Amounts written off	0.4	(42.9)	(2.3)	(44.8)
Amounts recovered	(0.5)	(4.9)	(0.7)	(6.1)
At 30 September 2007	6.1	179.8	(1.8)	184.1
Portfolios sold	-	(15.1)	-	(15.1)
Charge for the year (note 18)	10.8	47.4	3.9	62.1
Amounts written off	0.3	(156.4)	(2.7)	(158.8)
Amounts recovered	(0.3)	(2.6)	(0.7)	(3.6)
At 30 September 2008	<u>16.9</u>	<u>53.1</u>	<u>(1.3)</u>	<u>68.7</u>

### 33. 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.

### 34. LOANS TO ASSOCIATE

Loans to the associated undertaking at 30 September 2008 are all denominated and payable in sterling. Interest is charged on these loans at a fixed margin above six-month LIBOR. Details of these loans are shown below.

	<b>2008</b>	2007
	<b>£m</b>	£m
Carrying value (£m)	<b>15.5</b>	15.4
Outstanding principal (£m)	<b>16.2</b>	16.1
Maximum contractual life (months)	<b>108</b>	108
Average contractual life (months)	<b>76</b>	76
Maximum remaining life (months)	<b>88</b>	100
Average remaining life (months)	<b>56</b>	68
Average margin charged above LIBOR	<b>5.06%</b>	4.14%

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

### 35. 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.

Derivative financial assets and liabilities are included within Financial Assets (note 28) and Financial Liabilities (note 49) respectively.

#### (a) The Group

	2008 Notional Amount £m	2008 Assets £m	2008 Liabilities £m	2007 Notional Amount £m	2007 Assets £m	2007 Liabilities £m
<b>Derivatives in accounting hedge relationships</b>						
<b>Fair value hedges</b>						
Interest rate swaps	4,560.4	19.1	(6.3)	5,850.0	42.4	(11.0)
	<u>4,560.4</u>	<u>19.1</u>	<u>(6.3)</u>	<u>5,850.0</u>	<u>42.4</u>	<u>(11.0)</u>
<b>Cash flow hedges</b>						
Foreign exchange basis swaps	5,949.6	570.0	(18.1)	7,250.3	47.3	(414.3)
Interest rate swaps	20.0	0.1	(0.1)	26.8	0.2	(0.1)
	<u>5,969.6</u>	<u>570.1</u>	<u>(18.2)</u>	<u>7,277.1</u>	<u>47.5</u>	<u>(414.4)</u>
	<u>10,530.0</u>	<u>589.2</u>	<u>(24.5)</u>	<u>13,127.1</u>	<u>89.9</u>	<u>(425.4)</u>
<b>Other derivatives</b>						
Interest rate swaps	1,072.9	1.5	(1.2)	847.5	1.7	(0.7)
Interest rate caps	54.8	0.2	-	72.7	0.4	-
	<u>1,127.7</u>	<u>1.7</u>	<u>(1.2)</u>	<u>920.2</u>	<u>2.1</u>	<u>(0.7)</u>
Total recognised derivative assets / (liabilities)	<u>11,657.7</u>	<u>590.9</u>	<u>(25.7)</u>	<u>14,047.3</u>	<u>92.0</u>	<u>(426.1)</u>

### 35. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

#### (b) The Company

	2008 Notional Amount £m	2008 Assets £m	2008 Liabilities £m	2007 Notional Amount £m	2007 Assets £m	2007 Liabilities £m
<b>Derivatives in accounting hedge relationships</b>						
<b>Fair value hedges</b>						
Interest rate swaps	120.0	-	(2.0)	120.0	-	(4.0)
	120.0	-	(2.0)	120.0	-	(4.0)
Total recognised derivative assets / (liabilities)	120.0	-	(2.0)	120.0	-	(4.0)

Of the interest rate swap agreements used for fair value hedging, swaps of a notional value of £120.0m (2007: £120.0m), recognised as liabilities of £2.0m (2007: £4.0m) 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.

### 36. DEFERRED TAX

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

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Net asset at 1 October 2007	16.1	33.6	-	-
Income statement (charge) (note 20)	(6.8)	(14.2)	-	-
Charge / (credit) to equity (note 46)	1.0	(3.3)	-	-
Net asset at 30 September 2008	10.3	16.1	-	-

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

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Accelerated tax depreciation	1.9	2.8	-	-
Retirement benefit obligations	2.4	0.9	-	-
Impairment and other provisions	(25.2)	0.4	-	-
Tax losses	28.6	10.0	-	-
Other timing differences	2.6	2.0	-	-
Net deferred tax asset	10.3	16.1	-	-

Temporary differences arising in connection with interests in the associated undertaking are not significant.

## 37. OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
<b>Current assets</b>				
Amounts owed by Group companies	-	-	101.4	85.3
Amounts owed by associated undertakings	0.5	0.3	0.5	0.3
Accrued interest income	2.8	2.8	0.1	-
Prepayments	1.2	1.3	-	-
Other debtors	2.1	2.3	-	-
	<b>6.6</b>	6.7	<b>102.0</b>	85.6

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

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

## 38. CASH AND CASH EQUIVALENTS

Cash received in respect of loan assets is not immediately available for Group purposes, 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 'Cash and Cash Equivalents' balance may be analysed as shown below:

	The Group		The Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
Free cash	73.2	50.4	64.8	-
Securitisation cash	750.6	875.1	-	-
ESOP cash	2.5	2.2	-	-
	<b>826.3</b>	927.7	<b>64.8</b>	-

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

### 39. CALLED-UP SHARE CAPITAL

	2008 £m	2007 £m
<b>Authorised:</b>		
310,000,000 (2007: nil) ordinary shares of £1 each	310.0	-
Nil (2007: 175,000,000) ordinary shares of 10p each	-	17.5
	<u>310.0</u>	<u>17.5</u>
<b>Allotted and paid-up:</b>		
299,159,605 (2007: nil) ordinary shares of £1 each	299.1	-
Nil (2007: 121,493,242) ordinary shares of 10p each	-	12.1
	<u>299.1</u>	<u>12.1</u>

On 29 January 2008 the Company's ordinary shares of 10 pence each were consolidated into new ordinary shares of £1 each on a one for ten basis.

On 21 February 2008 the Company completed a rights issue in which new ordinary shares of £1 each were offered to the holders of the existing ordinary shares of 10 pence each on a five for two basis. This rights issue was fully subscribed, raising £287.0m. Costs of £7.4m have been set against the share premium account (note 41). As a result of the rights issue the Group's employee share ownership trusts received a cash inflow of £0.1m. The net cash inflow to the Group as a result of the rights issue was therefore £279.7m (note 58).

Movements in the issued share capital in the year were:

	2008 Number	2007 Number
<b>Ordinary shares of 10p each</b>		
At 1 October 2007	121,493,242	121,452,366
Shares issued in respect of share option schemes	-	40,876
Shares issued in respect of share consolidation	8	-
Share consolidation	<u>(121,493,250)</u>	-
At 30 September 2008	-	<u>121,493,242</u>
<b>Ordinary shares of £1 each</b>		
At 1 October 2007	-	-
Share consolidation	12,149,325	-
Rights issue	<u>287,010,280</u>	-
At 30 September 2008	<u>299,159,605</u>	-

## 40. RESERVES

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Share premium account (note 41)	64.1	71.5	64.1	71.5
Merger reserve (note 42)	(70.2)	(70.2)	(23.7)	(23.7)
Cash flow hedging reserve (note 43)	(0.1)	(2.4)	-	-
Profit and loss account (note 44)	384.9	359.1	168.1	169.2
	<u>378.7</u>	<u>358.0</u>	<u>208.5</u>	<u>217.0</u>

## 41. SHARE PREMIUM ACCOUNT

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at 1 October 2007	71.5	71.4	71.5	71.4
Costs of rights issue	(7.4)	-	(7.4)	-
Share options exercised	-	0.1	-	0.1
Balance at 30 September 2008	<u>64.1</u>	<u>71.5</u>	<u>64.1</u>	<u>71.5</u>

## 42. MERGER RESERVE

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at 1 October 2007	<u>(70.2)</u>	<u>(70.2)</u>	<u>(23.7)</u>	<u>(23.7)</u>
Balance at 30 September 2008	<u>(70.2)</u>	<u>(70.2)</u>	<u>(23.7)</u>	<u>(23.7)</u>

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.



### 43. CASH FLOW HEDGING RESERVE

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at 1 October 2007	<b>(2.4)</b>	(1.5)	-	-
Movement in fair value of hedging derivatives	<b>3.3</b>	(1.4)	-	-
Deferred tax thereon (note 46)	<b>(1.0)</b>	0.5	-	-
Balance at 30 September 2008	<b>(0.1)</b>	(2.4)	-	-

The cash flows to which these amounts relate are expected to take place, and to affect profit, over the next 36 years (2007: 37 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 losses of £915.5m on asset backed loan notes denominated in US dollars and euros (2007: gains of £208.8m) 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.

### 44. PROFIT AND LOSS ACCOUNT

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at 1 October 2007	<b>359.1</b>	314.9	<b>169.2</b>	114.5
Dividends paid (note 45)	<b>(2.9)</b>	(20.1)	<b>(2.9)</b>	(20.8)
Share options exercised (note 47)	<b>(0.6)</b>	(1.6)	-	-
Charge for share based remuneration (note 14)	<b>0.6</b>	2.6	<b>0.6</b>	2.6
Tax on share based remuneration (note 46)	<b>(0.9)</b>	(1.9)	-	-
Actuarial (loss) / gain on retirement obligation (note 52)	<b>(7.5)</b>	2.4	-	-
Profit for the year	<b>37.1</b>	62.8	<b>1.2</b>	72.9
Balance at 30 September 2008	<b>384.9</b>	359.1	<b>168.1</b>	169.2

## 45. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	<b>2008</b> Per £1 ordinary share	2007 Per 10p ordinary share	<b>2008</b>  <b>£m</b>	2007  <b>£m</b>
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2007	-	10.1p	-	11.2
Interim dividend for the year ended 30 September 2008	<b>1.0p</b>	8.0p	<b>2.9</b>	8.9
	<b>1.0p</b>	18.1p	<b>2.9</b>	20.1

Amounts paid and proposed in respect of the year:

	<b>2008</b> Per £1 ordinary share	2007 Per 10p ordinary share	<b>2008</b>  <b>£m</b>	2007  <b>£m</b>
Interim dividend for the year ended 30 September 2008	<b>1.0p</b>	8.0p	<b>2.9</b>	8.9
Proposed final dividend for the year ended 30 September 2008	<b>2.0p</b>	-	<b>5.9</b>	-
	<b>3.0p</b>	8.0p	<b>8.8</b>	8.9

Dividends of £0.0m (2007: £0.7m) 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 2008 will be paid on 9 February 2009, subject to approval at the Annual General Meeting, with a record date of 9 January 2009. The dividend will be recognised in the accounts when it is paid.

## 46. TAX CHARGED TO EQUITY

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
On actuarial gain / (loss) on pension scheme (note 52)	2.9	(1.0)	-	-
On gains / (losses) on cash flow hedges (note 43)	(1.0)	0.5	-	-
Tax on items taken to equity	1.9	(0.5)	-	-
On share based payment	(0.9)	(1.9)	-	-
Total tax (charged) to equity	1.0	(2.4)	-	-
<b>Of which</b>				
Current tax	-	0.9	-	-
Deferred tax (note 36)	1.0	(3.3)	-	-
	1.0	(2.4)	-	-

Included in tax charged to equity in the year ended 30 September 2007 is £0.1m respect of the effect of the changes in corporation tax rates described in note 20 on deferred tax assets.

## 47. TRANSACTIONS IN SHARES

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Awards from ESOP schemes</b>				
Proceeds (note 58)	-	0.8	-	-
Cost of shares transferred (note 48)	(0.6)	(2.4)	-	-
(Deficit) on exercise (note 44)	(0.6)	(1.6)	-	-
<b>Shares issued</b>				
Nominal value (note 39)	-	-	-	-
Premium on issue (note 41)	-	0.1	-	0.1
Proceeds of issue (note 58)	-	0.1	-	0.1
(Deficit) / surplus on transactions in own shares	(0.6)	(1.5)	-	0.1

## 48. OWN SHARES

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Treasury shares</b>				
At 1 October 2007	<b>39.5</b>	31.4	<b>39.5</b>	31.4
Shares purchased	-	8.1	-	8.1
At 30 September 2008	<b>39.5</b>	39.5	<b>39.5</b>	39.5
<b>ESOP shares</b>				
At 1 October 2007	<b>17.3</b>	16.3	-	-
Shares purchased	<b>0.2</b>	3.4	-	-
Effect of rights issue (note 39)	<b>(0.1)</b>	-	-	-
Options exercised (note 47)	<b>(0.6)</b>	(2.4)	-	-
At 30 September 2008	<b>16.8</b>	17.3	-	-
Balance at 30 September 2008	<b>56.3</b>	56.8	<b>39.5</b>	39.5

At 30 September 2008 the number of the Company's own £1 ordinary shares held in treasury was 668,900 (2007: 6,689,000 10p ordinary shares). These shares had a nominal value of £668,900 (2007: £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 2008, the trusts held 1,431,502 £1 ordinary shares with a nominal value of £1,431,502 and a market value of £930,476. Options, or other share-based awards, were outstanding against 1,431,502 of these shares at 30 September 2008. The dividends on 886,690 of these shares have been waived.

At 30 September 2007, the trusts held 4,510,734 10p ordinary shares with a nominal value of £451,073 and a market value of £13,543,479. Options, or other share-based awards, were outstanding against 4,271,664 of these shares at 30 September 2007. The dividends on 1,174,566 of these shares had been waived.

## 49. FINANCIAL LIABILITIES

	The Group		The Company	
	2008	2007	2008	2007
	£m	£m	£m	£m
<b>Current liabilities</b>				
Finance lease liability	0.8	0.5	0.8	0.5
Bank loans and overdrafts	0.1	280.4	-	-
	<u>0.9</u>	<u>280.9</u>	<u>0.8</u>	<u>0.5</u>
<b>Non-current liabilities</b>				
Asset backed loan notes	9,028.7	9,892.6	-	-
Corporate bond	117.9	115.8	117.9	115.8
Finance lease liability	12.6	13.4	12.6	13.4
Bank loans and overdrafts	1,606.6	931.7	-	-
Derivative financial instruments	25.7	426.1	2.0	4.0
	<u>10,791.5</u>	<u>11,379.6</u>	<u>132.5</u>	<u>133.2</u>

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.

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

Further details of finance lease liabilities are given in note 51 and further details of derivative financial instruments are given in note 35.

## 50. BORROWINGS

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

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

### (a) Asset Backed Loan Notes

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

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

Interest is payable at a fixed margin above;

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

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

The notes outstanding at 30 September 2008 comprised £8,241.6m (2007: £9,140.0m) in respect of mortgage backed notes and £787.1m (2007: £752.6m) in respect of notes backed by other loan assets. The details of the assets backing these securities are given in notes 29 and 30.

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 2008 and 30 September 2007 were:

Issuer	Maturity date	Call date	Principal Outstanding		Average Interest Margin	
			2008 £m	2007 £m	2008 %	2007 %
<b>Sterling notes</b>						
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	96.5	127.0	0.21	0.21
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	278.8	364.2	0.30	0.27
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	170.7	241.4	0.19	0.19
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	187.5	187.5	0.28	0.28
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	106.8	150.3	0.14	0.14
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	146.9	175.7	0.18	0.17
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	169.3	186.7	0.18	0.16
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	179.4	194.0	0.15	0.15
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	208.8	226.5	0.14	0.14
First Flexible No. 4 PLC	01/07/36	01/07/08	106.6	148.9	1.03	0.46
First Flexible No. 5 PLC	01/06/34	01/07/09	121.7	163.9	0.49	0.42
First Flexible No. 6 PLC	01/12/35	01/03/08	95.6	132.8	0.62	0.53
First Flexible No. 7 PLC	15/09/33	15/03/11	161.6	214.9	0.13	0.12
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	204.5	204.5	0.34	0.34
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	300.0	300.0	0.35	0.35
<b>US dollar notes</b>						
			\$m	\$m	%	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	280.0	342.5	0.37	0.34
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	27.9	40.1	0.18	0.18
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	342.7	787.2	0.09	0.09
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	598.5	885.3	0.10	(0.01)
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	1,310.2	1,669.4	0.12	0.01
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	1,483.7	1,741.6	0.11	0.03
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	1,633.4	1,856.7	0.10	0.02
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	1,052.6	1,150.0	0.09	0.01
First Flexible No. 6 PLC	01/12/35	01/03/08	15.8	26.1	0.28	0.28
<b>Euro notes</b>						
			€m	€m	%	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	234.5	353.9	0.33	0.31
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	367.6	494.4	0.24	0.22
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	260.3	332.9	0.28	0.26
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	269.0	269.0	0.20	0.20
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	303.4	367.3	0.25	0.23
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	409.2	457.8	0.25	0.23
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	417.6	461.5	0.19	0.18
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	435.8	464.7	0.20	0.20
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	296.7	306.0	0.32	0.32
First Flexible No. 6 PLC	01/12/35	01/03/08	55.3	82.9	0.50	0.43
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	358.0	358.0	0.32	0.32

During the year, Group companies issued £nil (2007: £4,270.2m) of mortgage backed floating rate notes at par and £nil (2007: £nil) of asset backed floating rate notes at par.

## 50. BORROWINGS (continued)

### (b) Bank borrowings

During the year ended 30 September 2008 the Group had the following sterling borrowing facilities:

Issuer	Available facility		Principal Outstanding		Carrying value	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
(i) Paragon Finance PLC	-	280.0	-	280.0	-	279.9
(ii) Paragon Second Funding Limited	<u>1,606.6</u>	<u>2,325.0</u>	<u>1,606.6</u>	<u>932.0</u>	<u>1,606.6</u>	<u>931.7</u>
	<u>1,606.6</u>	<u>2,605.0</u>	<u>1,606.6</u>	<u>1,212.0</u>	<u>1,606.6</u>	<u>1,211.6</u>

- i. The Company and Paragon Finance had a committed corporate syndicated sterling bank facility used to provide working capital for the Group. The outstanding amount on this facility was repaid on 27 February 2008. The facility was secured by a fixed and floating charge over the assets of the Company, Paragon Finance PLC and certain other Group companies.
- ii. Prior to the recent difficulties in the capital markets, assets were typically securitised within twelve months of origination. New loans were funded by a bank facility (the 'warehouse facility'). This was drawn down to fund completions and repaid when assets are securitised. More information on this process is given in note 6.

This 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 warehouse facility is currently 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.

Details of assets held within the warehouse are given in notes 29 and 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.

The Group additionally has entered into £76.0m (2007: £85.0m) of sterling revolving credit facilities to fund, where necessary, the purchase of mortgage redraws in certain subsidiary companies. At 30 September 2008 £nil (2007: £nil) had been drawn down under these facilities.

Interest on the bank facilities is payable monthly in sterling at 0.675% above LIBOR (2007: various rates between 0.20% and 0.90% above LIBOR). The weighted average margin above LIBOR on bank borrowings at 30 September 2008 was 0.675% (2007: 0.38%).

### (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 2008 £117.9m (2007: £115.8m) was included within financial liabilities in respect of these bonds.



## 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.

Obligations under this lease are:

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Amounts payable under finance leases</b>				
Within one year	2.0	1.7	0.8	0.5
Within two to five years	7.8	7.8	3.8	3.4
After five years	11.2	13.2	8.8	10.0
	<u>21.0</u>	<u>22.7</u>		
Less: future finance charges	<u>(7.6)</u>	<u>(8.8)</u>		
Present value of lease obligations	<u>13.4</u>	<u>13.9</u>	<u>13.4</u>	<u>13.9</u>

The fair value of the lease obligation is not considered to be materially different to the present value of the future obligations shown above. The interest rate implicit in the lease is 9.13% (2007: 9.13%)

At 30 September 2008 the minimum amount of payments expected to be received in respect of non-cancellable sub-leases in respect of this building was £5,600,000 (2007: £5,600,000).

## 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 2007 and updated to 30 September 2008 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 will increase as the members of the Plan approach retirement. The major weighted average assumptions used by the actuary were (in nominal terms):

	<b>30 September 2008</b>	30 September 2007
In determining net pension cost for the year		
Discount rate	<b>6.10%</b>	5.20%
Rate of compensation increase	<b>3.10%</b>	3.70%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	<b>3.10%</b>	2.70%
in payment (accrued after 5 April 2006)	<b>2.50%</b>	2.25%
in deferment	<b>3.10%</b>	2.70%
In determining benefit obligations		
Discount rate	<b>6.50%</b>	6.10%
Rate of compensation increase	<b>4.35%</b>	4.10%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	<b>3.35%</b>	3.10%
in payment (accrued after 5 April 2006)	<b>2.50%</b>	2.50%
in deferment	<b>3.35%</b>	3.10%
Further life expectancy at age 60		
Pensioner (male)	<b>30</b>	26
Pensioner (female)	<b>33</b>	29
Non-retired member (male)	<b>31</b>	29
Non-retired member (female)	<b>35</b>	32

The assets in the Plan at 30 September 2008 and 30 September 2007 and the expected rates of return were:

	At 30 September 2008			At 30 September 2007		
	Long term rate of return expected	Value £m	Asset allocation	Long term rate of return expected	Value £m	Asset allocation
Equities	8.20%	31.5	71.8%	7.70%	37.4	76.0%
Bonds	6.25%	12.1	27.6%	5.60%	11.7	23.8%
Other	6.25%	0.3	0.6%	0.50%	0.1	0.2%
<b>Total market value of assets</b>	<b>7.20%</b>	<b>43.9</b>		<b>6.30%</b>	<b>49.2</b>	
Present value of scheme liabilities		<b>(48.9)</b>			<b>(45.0)</b>	
(Deficit) / surplus in the scheme		<b>(5.0)</b>			<b>4.2</b>	

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 2008 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 2009 are 75% equities and 25% bonds.

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

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

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

## 52. RETIREMENT BENEFIT OBLIGATIONS (continued)

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

	2008 £m	2007 £m
At 1 October 2007	49.2	43.9
Movement in year		
Contributions by the Group	1.9	2.0
Contributions by scheme members	0.4	0.4
Benefits paid	(0.8)	(0.8)
Expected return on scheme assets	3.6	2.8
Actuarial (loss) / gain	(10.4)	0.9
At 30 September 2008	<u>43.9</u>	<u>49.2</u>

The actual negative rate of return on scheme assets in the year ended 30 September 2008 was 13.7% (2007: positive rate of return of 8.6%).

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

	2008 £m	2007 £m
At 1 October 2007	45.0	43.6
Movement in year		
Current service cost	1.5	1.9
Past service costs	-	0.1
Contributions by scheme members	0.4	0.4
Benefits paid	(0.8)	(0.8)
Finance cost	2.8	2.3
Actuarial (gain)	-	(2.5)
At 30 September 2008	<u>48.9</u>	<u>45.0</u>

The most recent valuation of the scheme liabilities on a buy out basis obtained by the trustees in accordance with section 224 of the Pensions Act 2004 was calculated at 31 March 2007, when the valuation on that basis was £76.1m.

The sensitivity of the valuation of the scheme liabilities to the principal assumptions disclosed above at 30 September 2008 is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities
Discount rate	0.1% p.a.	Decrease of 2.7%
Rate of inflation *	0.1% p.a.	Increase of 2.5%
Rate of salary growth	0.1% p.a.	Increase of 0.9%
Rates of mortality	<u>1 year of life expectancy</u>	<u>Increase of 1.8%</u>

\* maintaining a 1% real increase in salary growth

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

Category of member	<b>Duration of liability Years 2008</b>	Duration of liability Years 2007
Active members	<b>28</b>	29
Deferred pensioners	<b>27</b>	28
Current pensioners	<b>14</b>	13
All members	<b>27</b>	28

The agreed rate of employer contributions was 24.5% of gross salaries for participating employees until 30 June 2008 and 27.4% of gross salaries for participating employees thereafter. Since 1 July 2008 an additional contribution of £500,000 per annum has been paid by monthly instalments.

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

	<b>2008 £m</b>	2007 £m
Current service cost	<b>1.5</b>	1.9
Past service cost	<b>-</b>	0.1
Included within operating expenses (note 14)	<b>1.5</b>	2.0
Expected return on scheme assets (note 9)	<b>(3.6)</b>	(2.8)
Funding cost of scheme liability (note 10)	<b>2.8</b>	2.3
Total expense recognised in profit	<b>0.7</b>	1.5

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

	<b>2008 £m</b>	2007 £m
(Loss) / gain on scheme assets	<b>(10.4)</b>	0.9
Gain on scheme liabilities	<b>-</b>	2.5
Total actuarial (loss) / gain	<b>(10.4)</b>	3.4
Tax thereon (note 46)	<b>2.9</b>	(1.0)
Net actuarial (loss) / gain (note 44)	<b>(7.5)</b>	2.4

## 52. RETIREMENT BENEFIT OBLIGATIONS (continued)

The cumulative value of actuarial losses charged to the Statement of Recognised Income and Expenditure 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 £14.8m (2007: £9.5m):

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

	<b>2008</b>	2007	2006	2005	2004
	<b>£m</b>	£m	£m	£m	£m
Fair value of scheme assets	<b>43.9</b>	49.2	43.9	24.5	18.3
Present value of scheme obligations	<b>(48.9)</b>	(45.0)	(43.6)	(39.1)	(32.6)
(Deficit) / surplus in the scheme	<b>(5.0)</b>	4.2	0.3	(14.6)	(14.3)
Experience adjustments					
on scheme assets:					
Amount (£m)	<b>(10.4)</b>	0.9	0.4	2.6	0.3
Percentage of scheme assets	<b>(23.8)%</b>	1.8%	1.0%	11%	1%
Experience adjustments					
on scheme liabilities:					
Amount (£m)	<b>0.2</b>	2.5	-	-	(1.7)
Percentage of scheme liabilities	<b>0.4%</b>	5.6%	-	-	(5.0)%

In addition to the Group Pension Scheme, the Group operates a defined contribution (Stakeholder) pension scheme. Contributions made by the Group to this scheme in the year ended 30 September 2008 were £0.1m (2007: £0.1m).

## 53. CURRENT TAX LIABILITIES

	The Group		The Company	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>£m</b>	£m	<b>£m</b>	£m
UK Corporation Tax	<b>6.3</b>	3.1	<b>1.0</b>	1.0
	<b>6.3</b>	3.1	<b>1.0</b>	1.0

## 54. PROVISIONS

	2008 £m	2007 £m
Provision at 1 October 2007	2.0	4.4
Current year charge (note 18)	0.1	0.1
Utilised in the year	(1.1)	(0.9)
Released in the year	(0.5)	(1.6)
Provision at 30 September 2008	<u>0.5</u>	<u>2.0</u>
Included in current liabilities	0.3	1.4
Included in non-current liabilities	<u>0.2</u>	<u>0.6</u>
	<u>0.5</u>	<u>2.0</u>

Provisions include committed future lease costs for properties no longer occupied by the Group. The provisions are expected to be utilised within five years.

## 55. OTHER LIABILITIES

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Current liabilities</b>				
Amounts owed to Group companies	-	-	365.5	277.0
Accrued interest	68.2	95.2	3.8	3.8
Deferred income	1.7	2.2	0.1	0.1
Other accruals	9.0	12.7	-	-
Other taxation and social security	0.5	1.0	-	-
	<u>79.4</u>	<u>111.1</u>	<u>369.4</u>	<u>280.9</u>
<b>Non-current liabilities</b>				
Deferred income	2.1	3.1	1.2	1.3
Other accruals	<u>2.5</u>	<u>4.1</u>	<u>-</u>	<u>-</u>
	<u>4.6</u>	<u>7.2</u>	<u>1.2</u>	<u>1.3</u>

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

## 56. NET CASH FLOW FROM OPERATING ACTIVITIES

### (a) The Group

	2008 £m	2007 £m
<b>Profit before tax</b>	<b>53.7</b>	91.0
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	4.0	3.9
Amortisation of intangible assets	0.3	0.2
Share of result of associated undertakings	0.5	(0.2)
Foreign exchange movement on borrowings	915.5	(208.8)
Other non-cash movements on borrowings	11.0	2.9
Impairment losses on loans to customers	62.2	50.5
Charge for share based remuneration	0.6	2.6
Loss on disposal of property plant and equipment	0.1	0.1
Financing cash flows included in operating profit	6.2	-
Net (increase) / decrease in operating assets:		
Loans to customers	919.6	(2,658.7)
Loans to associates	(0.1)	(15.4)
Derivative financial instruments	(498.9)	(71.7)
Fair value of portfolio hedges	(10.8)	8.8
Other receivables	4.3	(4.3)
Net (decrease) / increase in operating liabilities:		
Derivative financial instruments	(400.4)	263.8
Other liabilities	(41.3)	35.1
Cash generated / (utilised) by operations	<b>1,026.5</b>	(2,500.2)
Income taxes paid	<b>(6.6)</b>	(11.4)
	<b>1,019.9</b>	(2,511.6)



**(b) The Company**

	2008 £m	2007 £m
<b>Profit before tax</b>	<b>3.2</b>	67.5
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	0.9	0.9
Non-cash movements on borrowings	2.1	(2.1)
Impairment losses on investments in subsidiaries	18.9	(51.0)
Impairment losses on investments in associate	0.3	-
Charge for share based remuneration	0.6	2.6
Net (increase) in operating assets:		
Loans to associates	(0.1)	(15.4)
Other receivables	(16.4)	(20.1)
Net increase / (decrease) in operating liabilities:		
Derivative financial instruments	(2.0)	3.6
Other liabilities	88.4	88.3
Cash generated by operations	95.9	74.3
Income taxes paid	(2.0)	5.4
	<b>93.9</b>	<b>79.7</b>

**57. NET CASH FLOW FROM INVESTING ACTIVITIES**

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Proceeds on disposal of property, plant and equipment	1.3	1.3	-	-
Purchases of property, plant and equipment	(2.0)	(7.0)	-	-
Purchases of intangible assets	(0.1)	(0.2)	-	-
Investment in subsidiary undertakings	-	-	(305.3)	(50.2)
Investment in associated undertaking	-	(0.3)	-	(0.3)
Net cash (utilised) by investing activities	<b>(0.8)</b>	(6.2)	<b>(305.3)</b>	(50.5)

## 58. NET CASH FLOW FROM FINANCING ACTIVITIES

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Net proceeds of rights issue	279.7	-	279.6	-
Dividends paid	(2.9)	(20.1)	(2.9)	(20.8)
Issue of asset backed floating rate notes	-	4,262.1	-	-
Repayment of asset backed floating rate notes	(1,784.6)	(1,223.7)	-	-
Capital element of finance lease payments	(0.5)	(0.4)	(0.5)	(0.4)
Movement on bank facilities	394.6	(184.6)	-	-
Standby underwriting fee	(4.1)	-	-	-
Exceptional professional costs (note 13)	(2.1)	-	-	-
Purchase of shares	(0.2)	(11.5)	-	(8.1)
Exercise of options under ESOP scheme	-	0.8	-	-
Exercise of other share options	-	0.1	-	0.1
Net cash (utilised) / generated by financing activities	<u>(1,120.1)</u>	<u>2,822.7</u>	<u>276.2</u>	<u>(29.2)</u>

## 59. OPERATING LEASE ARRANGEMENTS

### (a) As lessee

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Minimum lease payments under operating leases recognised in income for the year	<u>3.4</u>	<u>3.4</u>	<u>0.3</u>	<u>0.3</u>

At 30 September 2008 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Amounts falling due:</b>				
Within one year	3.4	3.4	0.3	0.3
Between two and five years	10.9	11.8	1.0	1.0
After more than five years	<u>7.5</u>	<u>10.0</u>	<u>1.4</u>	<u>1.7</u>
	<u>21.8</u>	<u>25.2</u>	<u>2.7</u>	<u>3.0</u>

Operating lease payments represent rents payable by the Group in respect of certain of its office premises and amounts attributed to land rent under the finance lease described in note 51. The average term of the current leases is 15 years (2007: 15 years) with rents subject to review every five years.

### (b) As lessor

Certain of the Group's office premises which are not currently required by the Group have been sub-let. Rental income from these premises during the year ended 30 September 2008 was:

	The Group		The Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Rental income	<u>1.9</u>	<u>1.9</u>	<u>1.8</u>	<u>1.8</u>

At 30 September 2008 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	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Amounts receivable:</b>				
Within one year	2.2	2.1	1.8	1.8
Between two and five years	3.5	5.5	2.1	3.8
After more than five years	<u>0.5</u>	<u>0.8</u>	<u>-</u>	<u>-</u>
	<u>6.2</u>	<u>8.4</u>	<u>3.9</u>	<u>5.6</u>

## **60. CAPITAL COMMITMENTS**

There were no capital commitments (2007: Nil) contracted but not provided for.

## **61. RELATED PARTY TRANSACTIONS**

### **(a) The Group**

The Group had no transactions with related parties other than the key management compensation disclosed in note 15 and the transactions with its associated undertaking disclosed in notes 27, 34 and 37.

### **(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 16 to employees of subsidiary undertakings.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 25 and 26.

Outstanding current account balances with subsidiaries are shown in notes 37 and 55.

During the year the Company incurred interest costs of £27.8m in respect of borrowings from its subsidiaries (2007: £20.0m).

The Company has made investments in an associated undertaking and made loans to this associate. Details of equity investments in the associate are given in note 27, details of loans to the associate are given in note 34 and the accrued interest payable by the associate is shown in note 37.



## Appendices to the Annual Report

for the year ended 30 September 2008

### A. COST:INCOME RATIO

Underlying cost:income ratio is derived as follows:

	2008 £m	2007 £m
Operating expenses	45.6	47.7
Less : Exceptional operating expenses (note 13)	(7.8)	-
Cost	37.8	47.7
Total operating income	166.9	184.9
Cost / Income	22.6%	25.8%

### B. UNDERLYING PROFIT

Underlying profit is determined by excluding from the operating result certain costs of a one off nature, described in note 13, which do not reflect the underlying business performance of the Group, and fair value accounting adjustments arising from the Group's hedging arrangements.

	2008 £m	2007 £m
<b>First Mortgages</b>		
Profit before tax for the period (note 7)	50.8	81.8
Less: Exceptional operating expenses	6.3	-
Fair value losses / (gains)	5.2	(4.1)
	62.3	77.7
<b>Consumer Finance</b>		
Profit before tax for the period (note 7)	2.9	9.2
Less: Exceptional operating expenses	1.5	-
Fair value losses / (gains)	0.2	(0.2)
	4.6	9.0
<b>Total</b>		
Profit before tax for the period (note 7)	53.7	91.0
Less: Exceptional operating expenses	7.8	-
Fair value losses / (gains)	5.4	(4.3)
	66.9	86.7

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## C. PROFORMA FINANCIAL INFORMATION

To enable a more meaningful presentation of results, in addition to the statutory comparative information, the results for the year ended 30 September 2005 have been compiled on a proforma basis. This shows the Group's customer loan balances, borrowings and interest income as they would have been shown had IAS 32 and 39 applied to these balances. The remaining adjustments required by these standards relate to fair values and hedging and cannot be applied as the required documentation for these arrangements was not in place at 1 October 2004. A reconciliation between the statutory comparatives and the proforma information was given in the announcement of 21 February 2006.

Financial highlights for 2005 on the proforma and statutory bases are shown below:

	2005 Proforma £m	2005 Statutory £m
Underlying profit before taxation	71.7	71.8
Profit before taxation	71.7	71.8
Profit after taxation	55.7	55.8
Total loan assets	6,431.1	6,528.7
Shareholders' funds	<u>244.4</u>	<u>312.8</u>
	2005 Proforma (restated)	2005 Statutory (restated)
Earnings per share - basic	77.8p	78.0p
- diluted	74.6p	74.8p
Dividend per 10p ordinary share	<u>12.6p</u>	<u>12.6p</u>

Earnings per share have been restated to account for the bonus effect of the rights issue in 2008 (note 22).



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# Notice of Annual General Meeting

To all shareholders

NOTICE IS HEREBY GIVEN that the twentieth Annual General Meeting of The Paragon Group of Companies PLC will be held at the offices of RBS Hoare Govett Limited at 250 Bishopsgate, London, EC2M 4AA on 5 February 2009 at 10.00 a.m. for the following purposes:

As ordinary business

- 1 To receive and consider the Company's Accounts for the year ended 30 September 2008 and the Reports of the Directors and the Auditors.
- 2 To consider and adopt the Report of the Board to the Shareholders on Directors' Remuneration.
- 3 To declare a dividend.
- 4 To re-appoint as a director Mr N S Terrington (who retires under Article 77(b)).
- 5 To re-appoint as a director Mr J A Heron (who retires under Article 77(b)).
- 6 To re-appoint as a director Mr E A Tilly (who retires under Article 77(a)).
- 7 To re-appoint Deloitte LLP as Auditors and to authorise the directors to fix their remuneration.

As special business

To consider and, if thought fit, to pass resolutions 8 and 9 as ordinary resolutions and resolutions 10 to 12 as special resolutions:

## Ordinary Resolutions

- 8 'THAT the Board be and it is hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £9,760,000 PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (unless previously revoked or varied by the Company in general meeting) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.'
- 9 'THAT the rules of the Paragon UK Sharesave Plan 2009 (the 'Plan') referred to in the Directors' Report and produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to:
  - (a) make such modifications to the Plan as they may consider appropriate to take account of the requirements of HM Revenue & Customs and best practice and for the implementation of the Plan and to adopt the Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the Plan; and
  - (b) establish further plans based on the Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the Plan.'

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## Special Resolutions

- 10 'THAT, subject to the passing of resolution 8, the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by resolution 8 as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:
- (a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders and in favour of all holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of all such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or any stock exchange in any territory or any other matter whatsoever); and
  - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £9,760,000
- and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.'
- 11 'THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 ('the Act') to make one or more market purchases (within the meaning of Section 163(3) of the Act) on the London Stock Exchange PLC of ordinary shares of £1 each in the share capital of the Company ('Ordinary Shares') provided that:-
- (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 29,900,000 (representing approximately 10 per cent of the Company's issued ordinary share capital excluding treasury shares);
  - (b) the minimum price which may be paid for an Ordinary Share is 10p;
  - (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market price shown in the quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;
  - (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company; and
  - (e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.'



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12 'THAT

- (a) with effect from (and including) the date on which section 28 of the Companies Act 2006 is brought into force, the provisions of the Company's Memorandum of Association which, by virtue of that section, are to be treated as part of the Company's Articles of Association be removed and any limit previously imposed on the Company's authorised share capital whether by the Company's Memorandum of Association or by resolution in general meeting be removed; and
- (b) with effect from (and including) the date on which all sections of Parts 17 and 18 of the Companies Act 2006 are brought into force, the Articles of Association of the Company produced to the Meeting and initialled by the Chairman for the purposes of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.'

By order of the Board

John G Gemmell  
Company Secretary

Registered and head office:  
St Catherine's Court  
Herbert Road  
Solihull  
West Midlands  
B91 3QE

25 November 2008

Registered in England No. 2336032

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A member entitled to attend and vote at this meeting may appoint another person as their proxy to exercise all or any of their rights to attend and to speak and vote at a meeting of the Company. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not also be a member of the Company. A proxy form is enclosed for use in connection with the meeting. Proxy forms and any power of attorney or other written authority under which they are executed (or an office or notarially certified copy thereof) should be lodged with the Registrar of the Company at the address shown on the reverse of the proxy form by 10.00 a.m. on Tuesday 3 February 2009. The appointment of a proxy will not preclude a shareholder from attending and voting at the meeting.

The proxy appointment rights described above do not apply to any person nominated to enjoy information rights under section 146 of the Companies Act 2006 by a member who holds shares on behalf of that person.

On a vote by show of hands, every member who is present in person has one vote and every duly appointed proxy who is present has one vote. On a poll vote, every member who is present in person or by proxy has one vote for every share of which he is the holder.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

Copies of the draft rules of the Paragon UK Sharesave plan 2009 will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Hewitt New Bridge Street at 20 Little Britain, London EC1A 7DH from the date of this notice until the date of the meeting and at the place of the meeting from 9.30 a.m. on the date of such meeting until the conclusion thereof.

The register of directors' interests, copies of directors' service contracts and a copy of the existing Memorandum and Articles of Association of the Company together with a copy of the proposed Articles of Association, marked to show the changes being proposed in resolution 12, will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the Registered Office of the Company from the date of this notice until the date of the meeting and at the place of the meeting from 9.30 a.m. on the date of such meeting until the conclusion thereof. The Report and Accounts have been sent to the Company's shareholders.

Biographical details of current directors are provided on pages 14 and 15.





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