Company Registration No: 1917566

PARAGON FINANCE PLC

Report and Financial Statements

Year ended 30 September 2009

DIRECTORS' REPORT

The directors present their annual report and the audited Financial Statements of Paragon Finance PLC ('the Company'), registration no: 1917566, for the year ended 30 September 2009.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of The Paragon Group of Companies PLC ('the Group'). The principal activity of the Company continues to be the administration of loan assets owned by group companies and the provision of administration and other management services to group companies. There have been no significant changes in the Company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

As shown in the Company's profit and loss account on page 5, the Company's net interest income decreased by 57% over the prior year. This was principally due to a fall in LIBOR resulting in a reduction in the interest charged on the subordinated loans provided to other group companies. During the year the subordinated loans decreased by 4%. During the year provision on loans to other group companies was £13,700,000 (2008: £29,073,000) due to the effects of trading between group companies. The result after tax has fallen from a retained profit of £12,293,000 to a retained loss of £4,692,000.

The balance sheet on page 6 of the financial statements shows the Company's financial position at the year end. Net assets have decreased by 9% due to retained loss for the year and actuarial loss on the pension fund. Details of amounts owed from and to other group companies are shown in notes 19 and 24.

No interim dividend was paid during the year (2008: £nil). No final dividend is proposed (2008: £nil).

The Company has entered into derivative contracts in order to provide an economic hedge against its exposure to fixed rate loans to customers. Although these instruments provide an economic hedge the prescriptive nature of the requirements of FRS 26 means that hedge accounting cannot always be achieved. This has led to the company recognising a fair value net gain of £2,462,000 in the year (2008: £1,115,000). This represents a timing difference and cumulative gains and losses recognised will tend to zero over time.

The Group manages its operations on a centralised basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The Group's financial performance is given in the Annual Report, which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out in note 3, and a discussion of critical accounting estimates is set out in note 2.

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

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's Annual Report, which does not form part of this Report.

DIRECTORS

The directors who served during the year and subsequently were:

N S Terrington

N Keen

J A Heron

R D Shelton

J G Gemmell

A Mehmet

J A Harvey

DIRECTORS' REPORT (CONTINUED)

EMPLOYEES' INVOLVEMENT

The directors recognise the benefit of keeping employees informed of the progress of the business. Employees have been provided with regular information on the performance and plans of the Company and the financial and economic factors affecting it, through both information circulars and management presentations.

EMPLOYMENT OF DISABLED PERSONS

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The Company has continued its policy of providing appropriate training and career development to such persons.

CREDITOR PAYMENT POLICY

The Company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

AUDITORS

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

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

Approved by the Board of Directors

and signed on behalf of the Board

J G Gemmell

Secretary,

15 January 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES in relation to Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON FINANCE PLC

We have audited the financial statements of Paragon Finance PLC for the year ended 30 September 2009 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with section 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Matthew Perkins

Matthew Perkins (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Birmingham, United Kingdom

15 January 2010

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2009

	Note	2009 £000	2008 £000
Interest receivable	4	65,887	107,040
Interest payable and similar charges	5	(49,843)	(70,124)
Net interest income		16,044	36,916
Other operating income	6	18,329	20,380
Total operating income		34,373	57,296
Operating expenses		(19,625)	(1,928)
Provisions for losses	9	(15,464)	(32,066)
		(716)	23,302
Fair value net gain	10	2,462	1,115
Operating profit, being profit on ordinary activities before taxation	11	1,746	24,417
Tax on profit on ordinary activities	12	(6,438)	(12,124)
(Loss) / profit on ordinary activities after taxation	22	(4,692)	12,293

All activities derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 30 SEPTEMBER 2009

	2009 £000	2008 £000
(Loss) / profit attributable to members of the Company	(4,692)	12,293
Actuarial loss on pension fund	(7,735)	(10,451)
Deferred tax on actuarial loss	2,166	2,949
Total gains and losses recognised since last Annual Report and Financial Statements	(10,261)	4,791

BALANCE SHEET

30 SEPTEMBER 2009

	Note	£000	2009 £000	£000	2008 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Tangible assets	13	1,713		2,161	
Financial assets	14	9,922		7,699	
Investments – group companies	18	163,824		167,056	
			175,459		176,916
CURRENT ASSETS					
Debtors falling due within one year	19	559,146		504,324	
Cash at bank		(56)		(11)	
			559,090		504,313
			734,549		681,229
FINANCED BY					
SHAREHOLDERS' FUNDS					
Called up share capital	21	53,447		53,447	
Profit and loss account	22	53,470		63,731	
			106,917		117,178
PROVISIONS FOR LIABILITIES AND CHARGES	23		178		544
CREDITORS					
Amounts falling due within one year	24		619,179		559,910
RETIREMENT BENEFIT OBLIGATIONS	25		8,275		3,597
			734,549		681,229

These financial statements were approved by the Board of Directors on 15 January 2010.

Signed on behalf of the Board of Directors

N Keen

Director

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable UK Accounting Standards. The particular accounting policies adopted are described below. They have been applied consistently throughout the current and preceding year. The financial statements have been prepared on a going concern basis as described in the Directors' Report.

Accounting convention

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

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment.

Depreciation

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

Short leasehold premises	over the life of the lease
Plant and machinery	25% per annum
Computer equipment	25% per annum
Furniture, fixtures and office equipment	15% per annum

Loans to customers

Loans to customers are considered to be 'loans and receivables' as defined by Financial Reporting Standard 26 – 'Financial Instruments: Recognition and Measurement' (FRS 26). They are therefore accounted for on the amortised cost basis.

Such loans are valued at inception as the amount of initial advance, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. 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 expected future cash payments and receipts arising from the loan to the initial carrying amount.

The Company's policy is to hedge against any exposure to fixed rate loan assets (note 3).

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 FRS 26. 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, compared 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.

Investments

The Company's investments in subsidiary companies are valued by the directors at the Company's share of the book value of their underlying net tangible assets.

Goodwill

Goodwill arising from the purchase of the assets of other companies, representing the excess of the fair value of the purchase consideration over the fair value of the assets acquired, has previously been written off on acquisition against reserves, as a matter of accounting policy. Such amounts would be charged or credited to the profit and loss account on any future disposal of the business to which they relate.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

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 profit and loss. 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 Gains and Losses.

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 profit and loss account for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

Operating leases

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

Transactions with other group companies

The Company has taken advantage of the exemption granted by Financial Reporting Standard 8 - 'Related Party Disclosures' and does not therefore provide details of transactions with other Group companies as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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 profit and loss account as interest payable over the term of the borrowing on an Effective Interest Rate basis.

FRS 29 disclosure

The Company has taken advantage of the exemption granted by Financial Reporting Standard 29 - 'Financial Instruments: Disclosures' and does not therefore provide the disclosures required by the Standard as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments

Derivative instruments utilised by the Company comprise currency swaps and interest rate swaps. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Company in line with the Company's risk management policies (note 3).

The Company 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 profit and loss account, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge.

Hedging

For all hedges, the Company 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 Company 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 FRS 26.

For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of FRS 26, 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 FRS 26. 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 profit and loss account at the same time as the hedged item affects the profit and loss account. 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.

Revenue

The revenue of the Company comprises interest receivable and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting polices.

Fee and commission income

Other income includes administration fees charged to borrowers, which are credited to the profit and loss account when the related service is performed.

Share based payments

In accordance with FRS 20 – '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.

Only those options and awards granted after 7 November 2002 and not vested at 1 January 2005 were restated on the adoption of FRS 20.

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

Cash flow statement

The Company has taken advantage of the exemption granted by Financial Reporting Standard 1 - 'Cash Flow Statements' and does not therefore provide a cash flow statement as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

2. CRITICAL ACCOUNTING ESTIMATES

Certain 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:

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.

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.

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.

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 25. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

3. FINANCIAL RISK MANAGEMENT

The Company's operations were financed principally by a revolving credit facility and, to a lesser extent, by a mixture of share capital and loans from other group companies. The Company drew down the facility to acquire loans and to provide funding to other Group companies and to provide working capital for the Group. In addition, various financial instruments, for example debtors, prepayments and accruals, arise directly from the Company's operations.

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The board of the Company's holding company reviews and agrees policies for all companies in the Group managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year and since the year end.

Credit risk

The Company's credit risk is primarily attributable to its subordinated loans to other Group companies and its loans to customers. Subordinated loans made to other Group companies provide the credit enhancement for the company to commence trading. The repayment of these loans is dependent on the credit performance of the loan assets in the creditor company and hence the credit risk on these balances is managed through careful management of the credit risk on the Groups loans to customers.

The loans to customers in the Company and the Group are secured by first charges over residential properties in the United Kingdom. Despite this security, in assessing credit risk an applicant's ability to repay the loan remains the overriding factor in the decision to lend by the originater.

The Company administers the mortgages and the collections process is the same as that utilised for all companies in the group.

The maximum credit risk at 30 September 2009 approximates to the carrying value of loans to customers (note 15) and subordinated loans (note 18). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios of other Group companies.

In order to control credit risk relating to counterparties to the Company's financial instruments, the board of the Company's holding company determines on a group basis, which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits.

Liquidity risk

The Company's assets were principally financed by drawing down on the credit facility. Details of the Company's borrowings are given in note 24.

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.

Interest rate risk

The Company's policy is to maintain floating rate liabilities and match these with floating rate assets by the use of interest rate swap or cap agreements.

The rates payable on the revolving credit facility are reset on the basis of LIBOR. The Company's assets predominantly bear LIBOR linked interest rates or are hedged fixed rate assets. The interest rates charged on the Company's variable rate loan assets are determined by reference to, inter alia, the Company'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 Company's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

Currency risk

The Company has no material exposure to foreign currency risk.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Use of derivative financial instruments

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

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken, and hence all of the Company's derivative financial instruments are for commercial hedging purposes. These are used to protect the Company 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 FRS 26 either because natural accounting offsets are expected, or obtaining hedge accounting would be especially onerous.

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 at bank and in hand, bank loans and overdrafts 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.

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

4. INTEREST RECEIVABLE

	2009 £000	2008 £000
Mortgages	-	2
On loans to other group companies	62,423	102,438
Other	14	1,003
	62,437	103,443
Return on pension scheme assets	3,450	3,597
	65,887	107,040

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £000	2008 £000
On bank loans and overdrafts	8	29,488
On loans from other group companies	46,628	37,854
	46,636	67,342
Return on pension scheme liabilities	3,207	2,782
	49,843	70,124

6. OTHER OPERATING INCOME

Other operating income includes £17.9m (2008: £19.3m) in respect of income receivable from various special purpose vehicle companies within the Group which own mortgage and loan assets administered by the Company. Further details are given in note 17.

7. DIRECTORS AND EMPLOYEES

a) Directors

	2009 £000	2008 £000
Directors' emoluments:		
Fees	-	-
Other emoluments	742	704
	742	704
Pension contributions paid in respect of directors	98	86
Emoluments of the highest paid director:		
Excluding pension contributions	343	351
Pension contributions	32	28
	375	379

Six of the directors (2008: Six) (three of whom are directors of the parent company) are members of the Paragon Group pension scheme. At 30 September 2009 the accrued benefit under the pension scheme of the highest paid director was £72,917 (2008: £64,625).

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

7. DIRECTORS AND EMPLOYEES (CONTINUED)

b) Employees

The average number of persons (including directors) employed by the Company during the year was 532 (2008: 596). The costs incurred during the year in respect of these employees were:

	2009	2009	2008	2008
	£000	£000	£000	£000
Share based remuneration	1,226		622	
Other wages and salaries	18,587		20,950	
Total wages and salaries		19,813		21,572
National insurance on share based remuneration	23		(590)	
Other social security costs	1,543		1,743	
Total social security costs		1,566		1,153
Defined benefit pension cost	1,339		1,462	
Other pension costs	105		130	
Total pension costs		1,444		1,592
Total staff costs		22,823		24,317

The credit in 2008 in respect of National Insurance on share based remuneration relates to the partial reversal of accruals made on unvested awards at 30 September 2008 and based on the share price at that date, following the reduction in the share price during the year.

Details of the pension schemes operated by the Company are given in note 25.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

8. 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 Company's profit is shown in note 7.

(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 2009 and the year ended 30 September 2008 is shown below.

	2009 Number	2009 Weighted average exercise price p	2008 Number	2008 Weighted average exercise price p
Options outstanding				
£1 ordinary shares				
At 1 October 2008	-	-	-	-
Share conversion and rights issue	4,840,258	159.36	2,374,606	389.69
Granted in the year	-	-	2,808,211	63.00
Exercised in the year	-	-	-	-
Lapsed during the year	(625,658)	208.27	(342,559)	454.79
At 30 September 2009	4,214,600	152.10	4,840,258	159.36
Options exercisable	1,593,440	396.17	2,047,955	373.10
10p ordinary shares				
At 1 October 2008	-	-	4,062,440	255.78
Granted in the year	-	-	-	-
Exercised in the year	-	-	-	-
Lapsed during the year	-	-	(276,744)	410.45
Share conversion and rights issue	-	-	(3,785,696)	244.47
At 30 September 2009	-	-	-	-
Options exercisable	-	-	-	-

The weighted average remaining contractual life of options outstanding at 30 September 2009 was 17.7 months (2008: 23.5 months)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

8. SHARE BASED REMUNERATION (CONTINUED)

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

Grant date	Period exercisable	Exercise price	Number 2009	Number 2008
Executive Schemes				
11/01/1999	11/01/2002 to 11/01/2009	235.13p	-	301,104
17/02/2000	17/02/2003 to 17/02/2010	234.33p	94,095	94,095
27/11/2001	27/11/2004 to 27/11/2011	395.34p	319,923	319,923
29/07/2002	29/07/2005 to 29/07/2012	297.30p	244,647	244,647
14/03/2003	14/03/2006 to 14/03/2013	297.30p	413,110	413,110
18/12/2003	18/12/2006 to 18/12/2013 †	540.40p	225,199	225,199
01/06/2004	01/06/2007 to 01/06/2014 †	514.10p	25,092	25,092
01/12/2004	01/12/2007 to 01/12/2014 †	555.34p	264,672	264,672
			1,586,738	1,887,842
Sharesave Schemes				
18/06/2003	01/08/2008 to 01/02/2009	291.78p	-	71,372
23/06/2005	01/08/2008 to 01/02/2009	520.89p	-	58,741
23/06/2005	01/08/2010 to 01/02/2011	520.89p	4,880	5,196
28/07/2006	01/09/2009 to 01/03/2010	837.73p	6,702	8,883
28/07/2006	01/09/2011 to 01/03/2012	837.73p	191	574
20/06/2007	01/08/2010 to 01/02/2011	685.84p	2,937	11,189
20/06/2007	01/08/2012 to 01/02/2013	685.84p	4,960	4,960
18/07/2008	01/09/2011 to 01/03/2012	63.00p	1,576,432	1,698,776
18/07/2008	01/09/2013 to 01/03/2014	63.00p	1,031,760	1,092,725
			2,627,862	2,952,416
			4,214,600	4,840,258

† The exercise of these options is conditional upon the parent 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.

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

8. SHARE BASED REMUNERATION (CONTINUED)

All grants in the period were made under the Sharesave scheme. The fair value of options granted is determined using a Binomial model. No grants were made in the year ended 30 September 2009. Details of the awards made in the year ended 30 September 2008 are shown below:

Grant date	**18/07/08**	**18/07/08**
Number of awards granted	1,715,486†	1,092,725†
Market price at date of grant	82.25p	82.25p
Contractual life (years)	3.0	5.0
Fair value per share at date of grant	19.83p	18.38p
Inputs to valuation model		
Expected volatility	29.03%	29.03%
Expected life at grant date (years)	3.42	5.41
Risk-free interest rate	4.97%	4.97%
Expected dividend yield	4.86%	4.86%
Expected annual departures	5.00%	5.00%

† £1 ordinary shares

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.

(b) Paragon Performance Share Plan

Awards under this plan comprise a right to acquire ordinary shares in the parent 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

8. SHARE BASED REMUNERATION (CONTINUED)

The conditional entitlements outstanding under this scheme at 30 September 2009 and 30 September 2008 were:

Grant date	Period exercisable	Number 2009	Number 2008
07/03/2006	07/03/2009 to 07/09/2009 †	-	110,008
25/05/2006	25/05/2009 to 25/11/2009 †	-	56,377
25/09/2006	25/09/2009 to 25/03/2010 †	-	54,298
09/01/2007	09/01/2010 to 09/07/2010 †	71,680	76,551
28/03/2007	28/03/2010 to 28/09/2010 †	55,467	56,118
14/06/2007	14/06/2010 to 14/12/2010 †	91,920	98,540
26/09/2007	26/09/2010 to 26/03/2011 †	127,318	130,534
26/11/2007	26/11/2010 to 26/05/2011 †	358,426	383,713
18/03/2008	18/03/2011 to 18/09/2011 §	860,000	860,000
29/09/2008	29/09/2011 to 29/03/2012 ‡	2,081,344	2,331,830
21/05/2009	21/05/2012 TO 21/05/2015*	3,419,549	-
		7,065,704	4,157,969

† The receipt of these shares is 50% subject to an EPS test and 50% to a TSR test. The growth in the Group'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 parent company as compared with the level of TSR and EPS performance.

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

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

* The receipt of these shares was subject to a performance condition comparing the rank of the parent company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of the grant over the three years commencing on the date of grant.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

8. SHARE BASED REMUNERATION (CONTINUED)

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

The fair value of 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 2009 and the year ended 30 September 2008 are shown below:

Grant date	**21/05/09**	**29/09/08**	**18/03/08**	**26/11/07**
Number of awards granted	3,419,550†	2,331,830†	860,000†	611,690*
Market price at date of grant	70.75p	72.00p	94.00p	130.50p
Fair value per share at date of grant	11.67p	5.28p	29.90p	37.46p
Inputs to valuation model				
Expected volatility	82.78%	33.58%	31.19%	54.50%
Risk-free interest rate	2.13%	3.97%	3.59%	4.26%
Expected dividend yield	4.43%	5.51%	8.78%	4.00%

* 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

8. SHARE BASED REMUNERATION (CONTINUED)

(c) Deferred Bonus awards

Awards under this scheme comprise a right to acquire ordinary shares in the parent 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 2009 and 30 September 2008 were:

Grant date	Transfer date	Number 2009	Number 2008
13/03/2006	01/10/2008	-	47,468
15/01/2007	01/10/2009	37,595	42,793
28/12/2007	01/10/2010	29,121	29,121
		66,716	119,382

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

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

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. No awards were made in the year ended 30 September 2009. Details of the awards made in the year ended 30 September 2008 are shown below:

Grant date	**28/12/07**
Number of awards granted	46,423*
Market price at date of grant	132.00p
Fair value per share at date of grant	114.11p
Inputs to valuation model	
Risk-free interest rate	4.30%
Expected dividend yield	4.85%

* 10p ordinary shares

(d) Matching Share Plan

Awards under this plan comprise a right to acquire ordinary shares in the parent 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

8. SHARE BASED REMUNERATION (CONTINUED)

The conditional entitlements outstanding under this scheme at 30 September 2009 and at 30 September 2008 were:

Grant Date	Transfer date	Number 2009	Number 2008
22/03/2006	22/06/2009 †	-	93,875
09/01/2007	09/01/2010 †	84,081	84,081
02/01/2008	02/01/2011 †	56,680	56,680
		140,761	234,636

† The receipt of these shares is 50% subject to an EPS test and 50% to a TSR test. The growth in the parent 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 parent 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.

The fair value of awards granted under the Matching Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. No awards were made in the year ended 30 September 2009. Details of the awards made in the year ended 30 September 2008 are shown below:

Grant date	**02/01/08**
Number of awards granted	90,355*
Market price at date of grant	132.25p
Fair value per share at date of grant	36.88p
Inputs to valuation model	
Expected volatility	55.04%
Risk-free interest rate	4.19%
Expected dividend yield	4.93%

* 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

9. PROVISIONS FOR LOSSES

	2009 £000	2008 £000
Impairment of financial assets		
First mortgage loans	1,033	(904)
Investments in group companies	730	3,848
Loans to group companies	13,701	29,073
	15,464	32,017
Other provisions	-	49
	15,464	32,066

10. FAIR VALUE NET GAIN

The fair value net gain of £2,462,000 (2008: £1,115,000) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis. 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 gain is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

11. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2009 £000	2008 £000
Operating profit is after charging / (recharging):		
Depreciation	715	815
Auditors' remuneration - audit services	99	99
Loss on disposal of fixed assets	1	-
Hire of plant and machinery	394	522
Property rents	3,862	3,140
Costs recharged to other group companies	(13,818)	(35,498)

Non audit fees provided to the group are disclosed in the accounts of the parent company and the exemption from disclosure of fees payable to the Company's auditors in respect to non-audit services in these financial statements has been taken.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

12. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2009 £000	2008 £000
Current tax:		
Corporation tax	347	6
Group relief	3,369	15,505
Adjustments in respect of prior years	171	(4,603)
	3,887	10,908
Deferred tax (note 20):		
Prior year adjustment	1,142	464
Origination and reversal of timing differences	1,409	752
	2,551	1,216
	6,438	12,124

b) Factors affecting the current tax charge

	2009 £000	2008 £000
Profit before tax	1,746	24,417
UK corporation tax at 28% (2008: 29%) based on the profit for the year	489	7,081
Effects of:		
Provisions and expenses not deductible for tax purposes	4,181	10,187
Accelerated capital allowances	74	38
Movement on short term timing differences	(422)	(1,252)
Adjustments in respect of prior years	171	(4,603)
Other adjustments	(606)	(543)
	3,887	10,908

The United Kingdom government has enacted provisions which reduced 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 was 29% in the year ending 30 September 2008 and 28% in the year ending 30 September 2009. It is expected to remain at 28% in all future periods.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

13. TANGIBLE FIXED ASSETS

	Short leasehold premises £000	Plant and machinery £000	Total £000
Cost			
At 1 October 2007	2,336	7,090	9,426
Additions	63	204	267
Disposals	-	(263)	(263)
At 30 September 2008	2,399	7,031	9,430
Additions	6	262	268
Disposals	-	(363)	(363)
At 30 September 2009	2,405	6,930	9,335
Accumulated depreciation			
At 1 October 2007	1,369	5,348	6,717
Charge for the year	116	699	815
On disposals	-	(263)	(263)
At 30 September 2008	1,485	5,784	7,269
Charge for the year	115	600	715
On disposals	-	(362)	(362)
At 30 September 2009	1,600	6,022	7,622
Net book value			
At 30 September 2009	805	908	1,713
At 30 September 2008	914	1,247	2,161

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

14. FINANCIAL ASSETS

	2009 £000	2008 £000
Loans to customers (note 15)	4,903	6,215
Derivative financial assets (note 16)	5,019	1,484
	9,922	7,699

15. LOANS TO CUSTOMERS

Loans to customers at 30 September 2009 and 30 September 2008, which are all denominated and payable in sterling, are first mortgages which are secured on residential property within the United Kingdom and which are categorised as loans and receivables as defined by FRS 26.

Mortgage loans have a contractual term of up to thirty years, the borrower is entitled to settle the loan at any point and in most cases such 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.

	2009 £000	2008 £000
Balance at 1 October 2008	6,215	5,116
Other movements	(1,322)	1,072
Repayments and redemptions	10	27
Balance at 30 September 2009	4,903	6,215

Other movements include primarily interest charged to customers on loans outstanding, impairment movements on these loans and other changes in the amortised cost of the assets caused by the effective interest rate method.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

16. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

All of the Company's financial derivatives are held for economic hedging purposes, although not all may be designated for hedge accounting in accordance with the provisions of FRS 26. The analysis of the derivatives is shown below.

	2009	2009	2009	2008	2008	2008
	Notional amount £000	Assets £000	Liabilities £000	Notional amount £000	Assets £000	Liabilities £000
Other derivatives						
Interest rate swaps	86,386	4,947	(794)	227,646	1,260	(71)
Interest rate caps	39,335	72	-	54,796	224	-
Total recognised derivative assets / (liabilities)	125,721	5,019	(794)	282,442	1,484	(71)

17. SECURITISATIONS

As part of the Group's financing arrangements, the Company has sold portfolios of mortgages to a number of other group companies referred to as 'special purpose vehicles' or SPVs.

The SPVs have issued securities which are secured on the mortgages acquired, to finance the purchase of those mortgages. In each case the Company has provided a subordinated loan to the issuer and met certain of its front end expenses which will be recovered over time. In certain cases the Company has also taken a minority shareholding or subscribed for loan stock.

The Company has entered into agreements with the SPVs under which it administers and manages the mortgages purchased by those companies. Other than its responsibilities with regard to these arrangements and the warranties given in the mortgage sale agreements, the Company has no commitment to repurchase the mortgages acquired by the SPVs and has no other liability in respect thereof.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

18. INVESTMENTS - GROUP COMPANIES

	2009 £000	2008 £000
Valuation		
At 1 October 2008	167,056	155,049
Investment during the year	8,303	22,857
Provisions (note 9)	(730)	(3,848)
Repayment of loans	(10,805)	(7,002)
At 30 September 2009	163,824	167,056
Cost		
At 1 October 2008	203,808	187,953
Investment during the year	8,303	22,857
Repayment of loans	(10,805)	(7,002)
At 30 September 2009	201,306	203,808

The investments are loans to group companies which are not subsidiaries of the company. The investments include subordinated loans amounting to £162,136,000 (2008: £166,017,000) and shares in subsidiaries amounting to £15,000 (2008: £15,000).

The Company itself is a wholly-owned subsidiary and, therefore, no consolidated accounts have been prepared.

The directors consider that the value of the investments in subsidiary companies is at least equal to the amounts at which they are stated.

19. DEBTORS

	2009 £000	2008 £000
Amounts falling due within one year:		
Amounts owed by parent undertaking	7,464	22,173
Amounts due from group companies	527,399	460,208
Corporation tax	6,056	1,546
Deferred tax (note 20)	795	3,000
Other debtors	2,398	775
Prepayments and accrued income	15,034	16,622
	559,146	504,324

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

The amounts owed by parent undertaking is interest bearing and included in the amount due from group companies is £159,231,000 (2008: £165,860,000) which is interest bearing.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

20. DEFERRED TAX

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

	2009 £000	2008 £000
Balance at 1 October 2008	4,398	2,223
Loans sold to another group company		442
Charge to reserves	2,166	2,949
Prior year profit and loss charge	(1,142)	(464)
Profit and loss charge	(1,409)	(752)
Balance at 30 September 2009	4,013	4,398

The net deferred tax asset recognised is analysed as follows:

	2009 £000	2008 £000
Accelerated tax depreciation	268	229
Retirement benefit obligations	3,218	1,398
Impairment and other provisions	527	1,691
Other timing differences	-	1,080
Net deferred tax asset	4,013	4,398

The balances are analysed as follows:

	2009 £000	2008 £000
Deferred tax debtor	795	3,000
Retirement benefit liability	3,218	1,398
Net deferred tax asset	4,013	4,398

21. CALLED UP SHARE CAPITAL

	2009 £000	2008 £000
Authorised:		
208,643,146 ordinary shares of 75p each	156,482	156,482
80,909,750 non-voting shares of 1p each	809	809
	157,291	157,291
Allotted:		
71,262,521 ordinary shares of 75p each	53,447	53,447

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

22. COMBINED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT ON RESERVES

	Share Capital £000	Profit and loss account £000	Shareholders' Funds £000
At 1 October 2007	53,447	58,940	112,387
Profit for the financial year	-	12,293	12,293
Actuarial loss on pension fund net of tax	-	(7,502)	(7,502)
At 30 September 2008	53,447	63,731	117,178
Loss for the financial year	-	(4,692)	(4,692)
Actuarial loss on pension fund net of tax	-	(5,569)	(5,569)
At 30 September 2009	53,447	53,470	106,917

The cumulative amount of goodwill on acquisitions written off to reserves is £24,712,000 (2008: £24,712,000). This goodwill is included in the profit and loss account to ensure compliance with Financial Reporting Standard 10 - 'Goodwill and intangible assets'. The inclusion of the goodwill in the Profit and Loss Account has of itself no effect on the distributable profits of the Company.

23. PROVISIONS FOR LIABILITIES AND CHARGES

	2009 £000	2008 £000
Balance at 1 October 2008	544	1,567
Charged in the year (note 9)	-	49
Utilised in the year	(366)	(1,072)
Balance at 30 September 2009	178	544

The provisions comprise committed future lease costs for properties no longer occupied by the Company. These provisions are expected to be utilised within five years.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

24. CREDITORS

	2009 £000	2008 £000
Amounts falling due within one year:		
Amounts due to group companies	610,834	554,310
Bank loan	-	-
Derivative financial liabilities (note 16)	794	71
Accruals and deferred income	7,551	5,529
	619,179	559,910

Included in the amount due to group companies is £160,580,000 (2008: £166,151,000) which is interest bearing.

The Company had a committed corporate syndicated sterling bank facility of £280,000,000, used to provide working capital for the Group. This facility fell due and was repaid in full on 27 February 2008. At 30 September 2009 there were drawings under this facility of £nil (2008: £nil). The facility was secured by a fixed and floating charge over the assets of the Company, and certain other group companies.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

25. RETIREMENT BENEFIT OBLIGATIONS

The Group operates a defined benefit pension scheme in the UK, which is sponsored by the Company. A full actuarial valuation was carried out at 31 March 2007 and updated to 30 September 2009 by a qualified independent actuary.

The liabilities of the benefit scheme 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 asset 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):

	30 September 2009	30 September 2008
In determining net pension cost for the year		
Discount rate	6.50%	6.10%
Rate of compensation increase	4.35%	3.10%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	3.35%	3.10%
in payment (accrued after 5 April 2006)	2.50%	2.50%
in deferment	3.35%	3.10%
In determining benefit obligations		
Discount rate	5.70%	6.50%
Rate of compensation increase	4.20%	4.35%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	3.20%	3.35%
in payment (accrued after 5 April 2006)	2.50%	2.50%
in deferment	3.20%	3.35%
Further life expectancy at age 60		
Pensioner (male)	30	30
Pensioner (female)	33	33
Non-retired member (male)	31	31
Non-retired member (female)	35	35

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	At 30 September 2009		At 30 September 2008	
	Long term rate of return expected	Value £000	Long term rate of return expected	Value £000
Equities	7.60%	33,013	8.20%	31,487
Bonds	4.80%	13,720	6.25%	12,103
Other	4.80%	5,248	6.25%	263
Total market value of assets	7.70%	51,981	7.20%	43,853
Present value of scheme liabilities		(63,474)		(48,848)
Deficit in the scheme		(11,493)		(4,995)
Related deferred tax (note 20)		3,218		1,398
Net pension liability		(8,275)		(3,597)

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 2009 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 2010 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2009 £000	2008 £000
At 1 October 2008	43,853	49,203
Movement in year		
Contributions by the Group	2,333	1,921
Contributions by scheme members	333	352
Benefits paid	(758)	(782)
Expected return on scheme assets	3,450	3,597
Actuarial gain / (loss)	2,770	(10,438)
At 30 September 2009	51,981	43,853

The actual rate of return on scheme assets in the year ended 30 September 2009 was 14.5% (2008: negative rate of return of 13.7%)

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

	2009 £000	2008 £000
At 1 October 2008	48,848	45,021
Movement in year		
Current service cost	1,339	1,462
Past service costs	-	-
Contributions by scheme members	333	352
Benefits paid	(758)	(782)
Finance cost	3,207	2,782
Actuarial loss	10,505	13
At 30 September 2009	63,474	48,848

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 2009 is as follows:

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

* maintaining a 1% real increase in salary growth

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

Category of member	**Duration of liability Years 2009**	**Duration of liability Years 2008**
Active members	28	28
Deferred pensioners	27	27
Current pensioners	14	14
All members	27	27

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 profit and loss account in respect of the pension scheme are:

	2009 £000	**2008 £000**
Current service cost	1,339	1,462
Past service cost	-	-
Included within operating expenses	1,339	1,462
Expected return on scheme assets	(3,450)	(3,597)
Funding cost of scheme liability	3,207	2,782
Total expense recognised in profit	1,096	647

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

	2009 £000	**2008 £000**
Gain / (loss) on scheme assets	2,770	(10,438)
Loss on scheme liabilities	(10,505)	(13)
Total actuarial loss	(7,735)	(10,451)
Tax charge thereon (note 20)	2,166	2,949
Net actuarial loss	(5,569)	(7,502)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The cumulative value of actuarial losses charged to the Statement of Recognised Gains and Losses since 1 October 2001, is £14.8m (2008: £9.5m):

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

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Fair value of scheme assets	51,981	43,853	49,203	43,929	24,493
Present value of scheme obligations	(63,474)	(48,848)	(45,021)	(43,610)	(39,096)
(Deficit) / surplus in the scheme	(11,493)	(4,995)	4,182	319	(14,603)
Experience adjustments on scheme assets:					
Amount (£000)	2,770	(10,438)	881	433	2,602
Percentage of scheme assets	5.3%	(23.8)%	1.8%	1%	11%
Experience adjustments on scheme liabilities:					
Amount (£000)	-	201	2,519	(35)	-
Percentage of scheme liabilities	0.0%	0.4%	5.6%	-	-

In addition to the Group Pension Scheme, the Group operates a defined contribution (Stakeholder) pension scheme. Contributions made by the Company to this scheme in the year ended 30 September 2009 were £0.1m (2008: £0.1m).

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2009

26. FINANCIAL COMMITMENTS

At 30 September 2009 the Company had commitments to make annual payments under operating leases which expire as follows:

	2009 £000	2008 £000
Plant and machinery		
Within one year	56	33
Between two and five years	71	304
Land and buildings		
Within one year	-	-
Between two and five years	304	304
Over five years	2,256	2,256
	2,687	2,897

27. ULTIMATE PARENT COMPANY

The smallest and largest group into which the Company is consolidated, and the Company's immediate and ultimate parent company and ultimate controlling party is The Paragon Group of Companies PLC, a company registered in England and Wales.

Copies of the Group's financial statements are available from that company's registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.