

PARAGON LOAN FINANCE (NO. 2) LIMITED

Report and Financial Statements

Year ended 30 September 2012

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PARAGON LOAN FINANCE (NO. 2) LIMITED

DIRECTORS' REPORT

The directors present their Annual Report and the audited Financial Statements of Paragon Loan Finance (No 2) Limited ('the Company'), registration no 2173065, for the year ended 30 September 2012

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of The Paragon Group of Companies PLC ('the Group') and was set up to provide finance for its consumer finance loan assets, by issuing asset backed floating rate loan notes and using the proceeds to purchase consumer loans from other group companies

The Company's principal activities are the provision of consumer finance loans. The majority of loans were sold to another group company and used the proceeds to repay the outstanding notes. The Company retained the remaining loans and continued to actively collect on these loans. The Company is currently engaged in loan relationships with other group companies. The Company provides a subordinated loan to Paragon Mortgages (No 9) PLC.

As shown in the Company's profit and loss account on page 5, the Company's net interest expense has increased from £196,000 to £210,000. This was principally due to an increase in amounts due to group companies resulting in an increase in the internal funding costs. The loss after tax has increased from £144,000 to £158,000. This was mainly due to the increase in net interest expense.

The balance sheet on page 6 of the Financial Statements shows that the Company's financial position at the year end. Net liabilities have increased due to the retained loss for the year. Details of amounts owed from and to other group companies are shown in notes 7 and 10.

No interim dividend was paid during the year (2011: £nil). No final dividend is proposed (2011: £nil).

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 performance of the Group's mortgage lending operation, which includes the Company, is discussed in the Group's 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 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. This is further supported by the Group holding sufficient cash resources to support the Company's obligations as they fall due. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

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.

EMPLOYEES

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in its Annual Report, which does not form part of this Report.

DIRECTORS

The directors throughout the year and subsequently were:

N Keen

R D Shelton

J G Gemmell

DIRECTORS' REPORT (CONTINUED)

CREDITOR PAYMENT POLICY

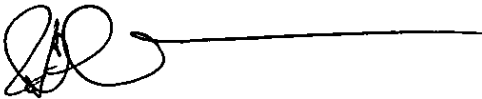
The Company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

AUDITOR

The directors have taken all necessary steps to make themselves and the Company's auditor 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 auditor are unaware.

No notice from members under section 488 of the Companies Act 2006 having been received, the directors intend that the auditor, Deloitte LLP, shall be deemed to be reappointed in accordance with section 487(2) of the Act.

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

A handwritten signature in black ink, consisting of a stylized 'J' and 'G' followed by a horizontal line.

J G Gemmell

Secretary,

15 February 2013

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, and
- 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 LOAN FINANCE (NO. 2) LIMITED

We have audited the Financial Statements of Paragon Loan Finance (No 2) Limited for the year ended 30 September 2012 which comprise the profit and loss account, the balance sheet and the related notes 1 to 11. 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the company's affairs as at 30 September 2012 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.



Peter Birch (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham, United Kingdom

15 February 2013

PARAGON LOAN FINANCE (NO. 2) LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 30 SEPTEMBER 2012**

	Note	2012 £000	2011 £000
Interest receivable			
Loans		-	1
Other		362	348
		<u>362</u>	<u>349</u>
Interest payable and similar charges	3	(572)	(545)
Net interest expense		<u>(210)</u>	<u>(196)</u>
Operating expenses		(1)	(1)
Operating loss, being loss on ordinary activities before taxation	5	<u>(211)</u>	<u>(197)</u>
Tax on loss on ordinary activities	6	53	53
Loss on ordinary activities after taxation	9	<u>(158)</u>	<u>(144)</u>

All activities derive from continuing operations

There are no recognised gains or losses, other than the loss for the current and preceding years, and consequently a separate statement of total recognised gains and losses has not been presented

PARAGON LOAN FINANCE (NO. 2) LIMITED

BALANCE SHEET

30 SEPTEMBER 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
ASSETS EMPLOYED					
CURRENT ASSETS					
Debtors falling due within one year	7	7,313		7,314	
Cash at bank		6		6	
		<u>7,319</u>		<u>7,320</u>	
		<u>7,319</u>		<u>7,320</u>	
FINANCED BY					
SHAREHOLDERS' DEFICIT					
Called up share capital	8	12		12	
Profit and loss account	9	(3,216)		(3,058)	
		<u>(3,204)</u>		<u>(3,046)</u>	
CREDITORS					
Amounts falling due within one year	10	10,523		10,366	
		<u>7,319</u>		<u>7,320</u>	

These Financial Statements were approved by the Board of Directors on 15 February 2013

Signed on behalf of the Board of Directors



R D Shelton

Director

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

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.

Related party disclosures

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.

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. FINANCIAL RISK MANAGEMENT

The Company's primary financial assets and liabilities are with other group companies, therefore the directors do not consider that the Company is exposed to any significant cash flow, credit or liquidity risks.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £000	2011 £000
Interest payable to group companies	572	545

4. DIRECTORS AND EMPLOYEES

Directors' received no remuneration for the services provided to the Company during either the current or the preceding year.

The Company had no employees in the current or preceding year. All administration is performed by employees of the Group. The directors of the Company are all employed by Paragon Finance PLC, a fellow group company, and their remuneration is disclosed within the financial statements of that company, which do not form part of this Report.

PARAGON LOAN FINANCE (NO. 2) LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

5. OPERATING LOSS, BEING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2012 £000	2011 £000
Operating loss is after charging		
Auditors' remuneration - audit services	1	1

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

6. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Tax credit for the year

	2012 £000	2011 £000
Current tax		
Group relief	(53)	(53)

b) Factors affecting the current tax credit

	2012 £000	2011 £000
Loss before tax	(211)	(197)
UK corporation tax at 25% (2011 27%) based on the loss for the year	(53)	(53)

During the year ended 30 September 2011 the United Kingdom Government enacted provisions reducing the rate of corporation tax to 26% with effect from 1 April 2011 and 25% from 1 April 2012. During the year ended 30 September 2012 enacted provisions further reducing the rate of corporation tax to 24% with effect from 1 April 2012 and 23% from 1 April 2013. Therefore the standard rate of corporation tax applicable to the Company for the year ended 30 September 2012 is 25% and the rate is expected to be 23.5% in the year ending 30 September 2013 and 23% thereafter.

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

PARAGON LOAN FINANCE (NO. 2) LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

7. DEBTORS

	2012	2011
	£000	£000
Amounts falling due within one year		
Amounts due from group companies	7,269	7,269
Prepayments and accrued income	44	45
	<u>7,313</u>	<u>7,314</u>

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

8. CALLED UP SHARE CAPITAL

	2012	2011
	£	£
Allotted		
50,000 ordinary shares of £1 each (25p called up and paid)	12,500	12,500
1 special share of £1 (fully paid)	1	1
	<u>12,501</u>	<u>12,501</u>

The special share has no particular rights which are different to the ordinary shares

9. COMBINED STATEMENT OF MOVEMENT IN SHAREHOLDERS' DEFICIT AND STATEMENT OF MOVEMENT ON RESERVES

	Share capital	Profit and loss	Shareholders'
	£000	account	deficit
		£000	£000
At 1 October 2010	12	(2,914)	(2,902)
Loss for the financial year	-	(144)	(144)
At 30 September 2011	<u>12</u>	<u>(3,058)</u>	<u>(3,046)</u>
Loss for the financial year	-	(158)	(158)
At 30 September 2012	<u>12</u>	<u>(3,216)</u>	<u>(3,204)</u>

PARAGON LOAN FINANCE (NO. 2) LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

10. CREDITORS

	2012 £000	2011 £000
Amounts falling due within one year		
Amounts due to group companies	10,522	10,365
Accruals and deferred income	1	1
	<u>10,523</u>	<u>10,366</u>

11. 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 51 Homer Road, Solihull, West Midlands, B91 3QJ