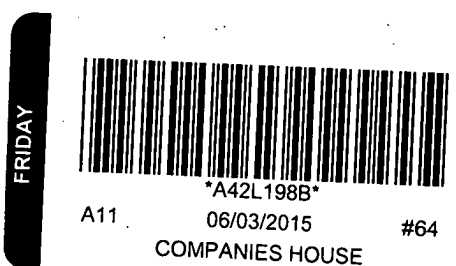


PARAGON LOAN FINANCE (NO. 1) LIMITED

Report and Financial Statements

Year ended 30 September 2014



STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

Paragon Loan Finance (No. 1) Limited ('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 activity was the provision of consumer finance loans. The majority of loans were sold to another group company in a prior accounting period and the Company used the proceeds to repay the outstanding notes. During 2008 the remaining loans were sold. The Company provides a subordinated loan to Paragon Personal and Auto Finance (No.3) PLC.

As shown in the Company's profit and loss account on page 5, the Company's net interest has improved from an expense of £76,000 to an income of £205,000. This was primarily due to a reduction of the subordinated loan. As a result interest charged on the subordinated loans provided to other group companies decreased. The profit after tax has increased from £340,000 to £2,508,000. This was due to higher write back of provisions on intercompany loans and a decrease from a net interest expense to an income.

The balance sheet on page 6 of the Financial Statements shows the Company's financial position at the year end. Net liabilities have decreased by the retained profit for the year. Details of amounts owed from and to other group companies are shown in notes 9 and 13.

No interim dividend was paid during the year (2013: £nil). No final dividend is proposed (2013: £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

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.

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.

Approved by the Board of Directors

and signed on behalf of the Board



R J Woodman

Director

27 February 2015

DIRECTORS' REPORT

The directors present their Annual Report and the audited Financial Statements of Paragon Loan Finance (No. 1) Limited, registration no: 02173068, for the year ended 30 September 2014.

DIRECTORS

The directors throughout the year and subsequently were:

N Keen (resigned 13 May 2014)

R D Shelton

J G Gemmell (resigned 30 June 2014)

R J Woodman (appointed 25 April 2014)

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.

INFORMATION PRESENTED IN OTHER SECTIONS

Certain information required to be included in a directors' report by Schedule 7 can be found in the other sections of the Annual Report, as described below. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 2 to the accounts.

Approved by the Board of Directors

and signed on behalf of the Board



R J Woodman

Director

27 February 2015

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. 1) LIMITED

We have audited the Financial Statements of Paragon Loan Finance (No. 1) Limited for the year ended 30 September 2014 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 and of its profit 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.

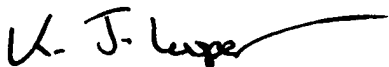
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.



Kieren Cooper (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham, United Kingdom

27 February 2015

PARAGON LOAN FINANCE (NO. 1) LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 30 SEPTEMBER 2014**

	Note	2014 £000	2013 £000
Interest receivable and similar income	3	2,954	3,122
Interest payable and similar charges	4	(2,749)	(3,198)
Net interest income / (expense)		<u>205</u>	<u>(76)</u>
Operating expenses		(1)	(1)
Provisions for losses	6	2,349	399
Operating profit, being profit on ordinary activities before taxation	7	<u>2,553</u>	<u>322</u>
Tax on profit on ordinary activities	8	(45)	18
Profit on ordinary activities after taxation	12	<u><u>2,508</u></u>	<u><u>340</u></u>

All activities derive from continuing operations.

There are no recognised gains or losses, other than the profit 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. 1) LIMITED

BALANCE SHEET

30 SEPTEMBER 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
ASSETS EMPLOYED					
CURRENT ASSETS					
Debtors falling due within one year	9		39,823		41,688
FINANCED BY					
SHAREHOLDERS' DEFICIT					
Called up share capital	11	563		563	
Profit and loss account	12	(19,925)		(22,433)	
			(19,362)		(21,870)
CREDITORS					
Amounts falling due within one year	13		59,185		63,558
			39,823		41,688

These Financial Statements were approved by the Board of Directors on 27 February 2015.

Signed on behalf of the Board of Directors



R D Shelton
Director

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2014

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 Strategic 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. Interest payable or receivable from other Group companies is recognised in accordance with the effective interest rate method.

Revenue

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

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 the 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.

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 RECEIVABLE - OTHER

	2014 £000	2013 £000
Subordinated loan interest	2,954	3,122

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2014

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £000	2013 £000
Interest payable to group companies	2,749	3,198

5. 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.

6. PROVISIONS FOR LOSSES

	2014 £000	2013 £000
Release of provision		
Loans to group companies	(2,349)	(399)

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

	2014 £000	2013 £000
Operating profit is after charging:		
Auditor 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 auditor in respect to non-audit services in these Financial Statements has been taken.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2014

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge / (credit) for the year

	2014 £000	2013 £000
Current tax		
Corporation tax	-	-
Group relief	45	(19)
	<u>45</u>	<u>(19)</u>
Deferred tax (note 10)		
Origination and reversal of timing differences	-	1
	<u>-</u>	<u>1</u>
	<u>45</u>	<u>(18)</u>

b) Factors affecting the current tax charge / (credit)

	2014 £000	2013 £000
Profit before tax	2,553	322
UK corporation tax at 22% (2013: 23.5%) based on the profit for the year	562	75
Effects of:		
Provisions against intercompany loans	(517)	(94)
	<u>45</u>	<u>(19)</u>

During the year ended 30 September 2012 the Government enacted provisions reducing the rate of corporation tax from 24.0% to 23.0% from 1 April 2014. During the year ended 30 September 2013 the Government enacted provisions further reducing the rate of corporation tax to 21.0% with effect from 1 April 2014 and 20.0% from 1 April 2015. Therefore the standard rate of corporation tax applicable to the Company for the year ended 30 September 2013 was 23.5%, the rate for the year ending 30 September 2014 was 22.0%, the rate for the year ending 30 September 2015 is expected to be 20.5% and the rate in subsequent years is expected to be 20.0%. The expected impact on deferred tax balances of the changes to 23.0% was accounted for in the year ended 30 September 2012 and the expected impact of the changes to 21.0% and 20.0% was accounted for in the year ended 30 September 2013.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2014

9. DEBTORS

	2014 £000	2013 £000
Amounts falling due within one year:		
Amounts due from group companies	39,204	41,036
Deferred tax (note 10)	1	1
Prepayments and accrued income	618	651
	<u>39,823</u>	<u>41,688</u>

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

10. DEFERRED TAX

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

	2014 £000	2013 £000
Balance at 1 October 2013	1	2
Profit and loss charge (note 8)	-	(1)
Balance at 30 September 2014	<u>1</u>	<u>1</u>
The net deferred tax asset for which provision has been made is analysed as follows:		
Other timing differences	<u>1</u>	<u>1</u>

The deferred tax asset is considered recoverable as, when the timing difference reverses, the loss generated can be surrendered to fellow group companies as group relief which will pay the Company for the use of these losses. The group is anticipated to make suitable taxable profits in the foreseeable future.

11. CALLED UP SHARE CAPITAL

	2014 £	2013 £
Allotted:		
50,000 ordinary shares of £1 each (25p called up and paid)	12,500	12,500
550,000 ordinary shares of £1 each (fully paid)	550,000	550,000
1 special share of £1 (fully paid)	1	1
	<u>562,501</u>	<u>562,501</u>

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2014

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

	Share capital £000	Profit and loss account £000	Shareholders' deficit £000
At 1 October 2012	563	(22,773)	(22,210)
Profit for the financial year	-	340	340
At 30 September 2013	563	(22,433)	(21,870)
Profit for the financial year	-	2,508	2,508
At 30 September 2014	563	(19,925)	(19,362)

13. CREDITORS

	2014 £000	2013 £000
Amounts falling due within one year:		
Amounts due to group companies	59,140	63,557
Corporation tax	44	-
Accruals and deferred income	1	1
	<u>59,185</u>	<u>63,558</u>

14. 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.