The Paragon Group of Companies PLC

Preliminary Announcement

For the year ended 30 September 2013

PARAGON PRELIMINARY RESULTS

The Paragon Group of Companies PLC ("Paragon"), the specialist buy-to-let and consumer finance group, today announces its results for the year ended 30 September 2013.

Financial Performance

- Profit before tax increased by 10.4% to £105.4 million (2012: £95.5 million)
- Total operating income increased by 4.5% to £177.9 million (2012: £170.2 million)
- Underlying profit before tax increased by 10.5% to £104.1 million (2012: £94.2 million) †
- Earnings per share increased by 17.4% to 28.4p (2012: 24.2p)
- Return on equity increased to 10.2% (2012: 9.3%)
- Final dividend increased to 4.8p per share (2012: 4.5p per share). Total dividend for the year increased by 20% to 7.2p per share (2012: 6.0p per share) in line with dividend policy

Capital and Funding

- Strong operational cash generation: free cash balances £170.8 million at year end after investments (2012: £127.7 million)
- Warehouse facilities increased to £450.0 million
- Two securitisations of new buy-to-let loan assets completed successfully
- First retail bond issue completed successfully

Business and Operations

- 90.5% growth in buy-to-let loans advanced to £359.8 million (2012: £188.9 million); pipeline at 30 September 2013 of £231.9 million (2012: £129.9 million)
- £92.8 million invested in consumer loan portfolios in the period with a further £13.5 million invested shortly after the year end
- Idem Capital established as one of the leading consumer debt buyers in the UK.

† Note 20

Commenting on the results, Nigel Terrington, Chief Executive of Paragon, said:

"Paragon has made significant progress in 2013 delivering record profits, whilst also laying the foundations for further sustainable growth in the future. Buy-to-let lending volumes have grown by over 90% as landlords feel increasingly optimistic about the housing market and the prospects for the private rental sector. At the same time, the Group has continued to build on its highly regarded expertise in the debt purchase market, making further significant investments through Idem Capital.

The Group's actions to increase its warehouse facilities, its successful securitisations and the new retail bond programme all combine to provide substantial capacity to support further growth in our existing business areas. With our banking licence application making good progress and our plans for a return to consumer finance lending now well advanced, the Group is well positioned for further growth in the year ahead."

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MANAGEMENT REPORT

The year ended 30 September 2013 has been a successful period for the Group, the business has performed strongly and significant progress has been made in laying the foundations for further, sustainable growth for the future. Profits have grown strongly to a record level for the Group and our portfolio of loans, including acquired assets, continues to perform well. Other key performance metrics show trends consistent with recent periods: organic cash generation remains strong; redemptions remain low; and, across the portfolio, credit performance is strong, in line with our expectations.

Asset growth has also been achieved in the year, with loan assets and investments increasing to £8,825.3 million from £8,703.7 million a year earlier. Our Idem Capital portfolio acquisitions business added £92.8 million of new investments during the year and a further £13.5 million shortly after the year end. In Paragon Mortgages, buy-to-let loan completions nearly doubled to £359.8 million and, in our Moorgate loans servicing business, agreements to manage two new portfolios were completed.

The year has seen significant investment aimed at securing growth in future periods. This investment has taken two forms, first, increasing funding capacity for the existing businesses and, second, undertaking preparatory work to establish new business activities.

On funding, warehouse capacity for buy-to-let lending has been increased in the year to £450.0 million. This amount was considerably in excess of the funding requirements of the mortgage business at the start of the year but, together with the success of the Paragon Mortgages (No. 17) and Paragon Mortgages (No. 18) securitisations during the year, has provided the capacity to allow Paragon Mortgages to significantly increase its lending activity. In addition, the Company completed its first retail bond offering in March, a £60.0 million issue maturing in 2020, which, together with our organic cashflow, will support growth in both Paragon Mortgages and Idem Capital going forward.

On new business activities, we have previously commented on our desire to recommence consumer lending, which we expect to operate through a new banking subsidiary to be established within the Group. This remains our objective and preparations for the new bank are well advanced.

During the year ended 30 September 2013 the Group's profit before taxation increased by 10.4% to £105.4 million (2012: £95.5 million). Underlying profit, before fair value items, increased by 10.5% to £104.1 million for the year (2012: £94.2 million).

MANAGEMENT REPORT (Continued)

Earnings per share were 28.4p (2012: 24.2p), the increase of 17.4% from last year reflecting the improved profits earned by the Group and the reduction in the tax rate. The increase in profit has also improved the Group's return on equity to 10.2% from 9.3% for the previous year (note 23).

The Group's strategic focus has remained unchanged: to generate growth through our buy-to-let origination franchise and through investment in loan portfolios; to exploit new opportunities, including the establishment of a banking subsidiary to undertake consumer lending, financed primarily by retail deposits; and to maintain close management of the existing loan portfolio, which continued to perform well in the year.

In view of the results achieved and in line with the new dividend policy announced last year, the Board has proposed a final dividend of 4.8p per share (2012: 4.5p) which, when added to the interim dividend of 2.4p, gives a total dividend of 7.2p per share for the year (2012: 6.0p), an increase of 20.0%, covered 3.9 times by earnings (note 22). Subject to approval at the Annual General Meeting on 6 February 2014, the dividend will be paid on 10 February 2014, by reference to a record date of 10 January 2014.

MANAGEMENT REPORT (Continued)

FINANCIAL REVIEW

CONSOLIDATED RESULTS

For the year ended 30 September 2013

	2013 £m	2012 £m
Interest receivable	272.6	293.8
Interest payable and similar charges	(111.3)	(136.0)
Net interest income	161.3	157.8
Other operating income	16.6	12.4
Total operating income	177.9	170.2
Operating expenses	(58.6)	(51.9)
Provisions for losses	(15.2)	(24.1)
Underlying profit	104.1	94.2
Fair value net gains	1.3	1.3
Operating profit being profit on ordinary activities before taxation	105.4	95.5
Tax charge on profit on ordinary activities	(20.2)	(23.3)
Profit on ordinary activities after taxation	85.2	72.2
Dividend – Rate per share for the year	7.2p	6.0p
Basic earnings per share	28.4p	24.2p
Diluted earnings per share	27.5p	23.5p

The Group is organised into two major operating divisions: First Mortgages, which includes the buy-to-let and owner-occupied first mortgage assets and other sources of income derived from first charge mortgages; and Consumer Finance, which includes secured loans, car finance, retail finance, unsecured loans and other sources of income derived from consumer loans. Both divisions include internally originated and acquired assets. These divisions are the basis on which the Group reports primary segmental information.

MANAGEMENT REPORT (Continued)

The underlying operating profits of these business segments are detailed fully in note 20 and are summarised below.

	2013 £m	2012 £m
Underlying operating profit		
First Mortgages	64.4	61.6
Consumer Finance	39.7	32.6
	104.1	94.2

Net interest income increased by 2.2% to £161.3 million (2012: £157.8 million), reflecting asset growth in the First Mortgages and Consumer Finance divisions but also the cost in the year of increasing funding capacity to support future growth in the Paragon Mortgages and Idem Capital businesses. The combined costs of increasing the warehouse facilities and issuing the retail bond was £3.6 million, charged within interest payable.

Other operating income was £16.6 million for the year, compared with £12.4 million in 2012, the increase of 33.9% reflecting, principally, an increased level of third party fee income both from new administration arrangements and from older contracts as incentive fees began to be earned.

Operating expenses during the year were 12.9% higher at £58.6 million (2012: £51.9 million). There were three principal reasons for this: the charge for share based payments increased by £1.2 million, principally caused by the impact of the increase in the Company’s share price during the year; direct costs of £1.3 million were incurred in preparation for the establishment of a bank subsidiary within the Group to fund consumer finance originations; and employment costs increased as additional staff were employed to manage the growth in business activity, particularly the administration of loans acquired or serviced for third parties in the period.

MANAGEMENT REPORT (Continued)

The cost:income ratio was impacted by these additional charges and by the deduction from net interest income in respect of the cost of carrying the new funding lines as outlined above, increasing to 32.9% for the year from 30.5% in the year ended 30 September 2012 (note 19). The increase was in line with expectations and the absorption now of these additional costs should support future income growth. On an underlying basis, excluding these additional factors, the ratio reduces to an underlying measure of 30.9% (note 19). This is similar to the level for the last year, and remains significantly below the industry average. The Board remains focused on controlling operating costs through the application of rigorous budgeting, management reporting and monitoring procedures.

The charge for impairment provisions of £15.2 million was 36.9% lower than the charge of £24.1 million for 2012, with reductions in both the First Mortgages and Consumer Finance divisions arising from improved arrears performance and the impact of rising house prices on security valuations. As a percentage of loans to customers (note 8) the charge has reduced to 0.17% (2012: 0.28%). Low interest rates have increased affordability for customers, reducing the incidence of new arrears and assisting the correction of past arrears. The loan books continue to be carefully managed and the credit performance of the buy-to-let book continues to be exemplary.

Yield curve movements during the year resulted in hedging instrument fair value net gains of £1.3m (2012: gains of £1.3 million), which do not affect cash flow. As the fair value movements of hedged assets or liabilities are expected to trend to zero over time, this item is merely a timing difference. The Group remains economically and appropriately hedged.

Cash generation has remained strong over the period and in addition the Group raised £60.0 million from the retail bond issue in March. After investing significantly in both asset purchases and in the development of our buy-to-let lending business (detailed below), free cash balances stood at £170.8 million at 30 September 2013 (2012: £127.7 million).

Corporation tax has been charged at an effective tax rate of 19.2%, compared to 24.4% in 2012, the decrease being attributable primarily to the reduction in the standard rate of corporation tax in the UK and a consequent revaluation of deferred tax liabilities.

Profits after taxation of £85.2 million (2012: £72.2 million) have been transferred to shareholders' funds, which totalled £873.3 million at the year-end (2012: £803.5 million).

MANAGEMENT REPORT (Continued)

BUSINESS REVIEW

OPERATING SEGMENTS

First Mortgages

Buy-to-let loan completions increased by 90.5% to £359.8 million for the year (2012: £188.9 million). Application volumes increased over the year, with the pipeline of applications and offers outstanding totalling £231.9 million at 30 September 2013 (2012: £129.9 million). The credit quality of the new lending business written in the year has remained excellent.

The increase in available warehouse capacity and the success of the Group's securitisation activity has ensured that the Group's first mortgage business has been well placed over the year to capitalise on the strength of the private rented sector and the renewed strength of the housing market, which has become evident during 2013. The Group has maintained two distinct propositions, one targeting professional landlords and the other private investor landlords, which together have ensured that we have maintained a strong market position through the year.

The housing market has seen a strong recovery in 2013 albeit against the background of an extended period of low levels of activity and flat house prices. It is now clear that the combination of a general improvement in the economy, higher levels of consumer confidence and continuing government stimulus in the form of the Help-to-Buy and Funding for Lending schemes, have prompted increased levels of house purchase and re-mortgage transactions, which in turn have led to increases in house prices in most regions. By August 2013, house purchase transactions reported by HMRC had reached, at 107,000 a month, the highest level since December 2007. Transactions in the quarter ended 30 September 2013 were up 21.9% on the comparable period last year, whilst mortgage advances in that quarter were, according to estimates made by the Council of Mortgage Lenders ('CML'), 32% up on the same quarter in 2012.

The Royal Institution of Chartered Surveyors reported in its September Residential Market Survey that tenant demand and new landlord instructions continue to increase. This is consistent with the information published by the CML which reports further growth in new buy-to-let lending over the year with completions stronger in both the quarters ended 30 June and 30 September 2013 (£4.8bn and £5.7bn respectively), lending for the quarter ended September being up 42.5% on a year earlier. The arrears performance of the buy-to-let sector continues to be better than the owner-occupied market.

MANAGEMENT REPORT (Continued)

At 30 September 2013, the buy-to-let portfolio was £8,324.4 million, compared with £8,196.4 million a year earlier. The redemption rate on the back book remained low at 2.5% for the year (2012: 2.2%) with landlords continuing to display a long-term commitment to property investment, whilst alternative offerings from other lenders remain unattractive as a result of generally higher funding and capital costs.

The credit performance of the portfolio over the year continued to be exemplary, with the percentage of loans three months or more in arrears (including acquired loans and receivership cases but excluding possessions and receivership cases held for sale) standing at 0.35% at 30 September 2013 (30 September 2012: 0.48%) and remains considerably better than the comparable market average of 1.16% as recorded by the CML at that date (30 September 2012: 1.51%).

With the strong credit performance over the year and with increased house prices impacting on security values, the impairment charge attributable to First Mortgages decreased to £6.8 million for the year from £12.4 million for 2012. At 30 September 2013 there were 1,395 properties across all portfolios where a receiver had been appointed (30 September 2012: 1,504). Of those available for letting, 94.8% were let (30 September 2012: 94.2%).

The owner-occupied book reduced to £77.4 million from £99.2 million during the year ended 30 September 2013 and performed in line with the Group's expectations. Save for the management of this book in run-off, there has been little activity in recent years in this area as the Group has focused on other lending markets, portfolio acquisitions and other sources of revenue generation.

Consumer Finance

At 30 September 2013, the total loans outstanding on the Consumer Finance books were £399.7 million, compared with £399.0 million at 30 September 2012, as portfolio purchases (covered below) have balanced redemptions across the portfolios. The performance of the Consumer Finance book, including the acquired assets, remains satisfactory and in line with our expectations.

MANAGEMENT REPORT (Continued)

The Group's secured loan portfolio at 30 September 2013, including the acquired assets, was £248.4 million (2012: £279.9 million). The unsecured loan, retail finance and car finance portfolios, including the acquired assets, totalled £151.3 million at 30 September 2013 (30 September 2012: £119.1 million).

The Group's increased exposure to consumer loans in recent years has primarily resulted from portfolio purchases. Preparations are currently under way to recommence consumer lending in a new banking subsidiary. Further details on the progress of this development are set out below.

PORTFOLIO ACQUISITIONS AND SERVICING

A major area of strategic focus for the Group is the acquisition of loan portfolios through Idem Capital and the servicing of third party loan portfolios as opportunities are created through the ongoing process of financial institutions disposing of loan assets. The Group is firmly established as a mainstream purchaser of consumer debt in the UK, in addition to taking advantage of ad-hoc, deleveraging-led opportunities, as a range of large institutions seek to rationalise their balance sheets.

In addition to assets acquired in its own right, Idem, through its sister companies, Moorgate Loan Servicing and Arden Credit Management, has established two new servicing contracts with co-investment partners during the year. These add volume to the Group's servicing operations and enhance earnings. The contribution to operating profits from these activities increased to £33.3 million (2012: £26.3 million) during the financial year. Further possible investment opportunities are currently under review and the Group's strong track record in loan servicing, risk management and portfolio investment positions it well to continue to exploit similar opportunities as they arise.

MANAGEMENT REPORT (Continued)

Idem Capital

The Group's investment division, Idem Capital, invests in loan portfolios either as principal, where Idem acquires pools in its own right, or as co-investor alongside other partners with, typically, Moorgate Loan Servicing appointed to act as servicer. Co-investing has the potential for higher returns where the Group also derives income from servicing the loans within the underlying portfolio. Investments are made only after significant due diligence work on the portfolio and sensitivity testing of potential returns.

During the year Idem Capital purchased £71.9 million of unsecured loan assets and invested a further £20.9 million in loan portfolios through structured entities as a co-investor. At 30 September 2013, the balance outstanding in respect of investments in portfolios was £193.7 million (2012: £135.4 million). A further £13.5 million was invested in loan portfolios after the year-end.

Moorgate Loan Servicing

The Group's third party loan servicing business operates through Moorgate Loan Servicing and its recoveries division, Arden Credit Management, utilising our core administration and collections skills. Our experience in loan management established over many years has enabled us to extend this service to our third party clients, providing significant added value to the performance of their loan portfolios.

During the year Moorgate Loan Servicing has assumed the servicing of further portfolios, comprising 50,000 accounts, for third parties (2012: 149,000 accounts) with the result that 43.8% of accounts under management by the Group at 30 September 2013 were managed on behalf of third parties (2012: 49.9%). At the end of the year, an agreement to take on the servicing of a further 26,300 third party accounts was in place and these accounts were migrated on to the Group's systems during October 2013.

MANAGEMENT REPORT (Continued)

NEW BUSINESS ACTIVITIES

The Group has applied to the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA') for authority to establish a banking subsidiary. Subject to regulatory approval, the proposed bank will take deposits and make, initially, car and second mortgage loans, with other product lines to be established in due course. Operational preparations, including executive appointments, management structures and system developments, are all at an advanced stage. Our expectation, subject to approval, will be to launch the bank during the first quarter of 2014. Further progress information will be provided to shareholders in due course.

REGULATION

The proposed European Directive on credit agreements relating to residential property, which may impose additional disclosure and other requirements for all mortgage lending to consumers secured on residential property, has yet to be concluded. It has been reported that the UK Government has negotiated an exemption from the Directive for buy-to-let lending but this has yet to be formally ratified. We will continue to maintain an active dialogue with the UK and European regulatory authorities as these proposals develop.

In the UK the PRA, FCA and Bank of England have now variously assumed the functions of the Financial Services Authority and will, subject to approval, regulate our proposed banking subsidiary. With effect from April 2014, responsibility for the regulation of consumer credit, including second charge mortgage lending, passes from the Office of Fair Trading to the FCA, which has recently published draft conduct of business rules for the sector. These rules will apply not only to the Group's proposed consumer lending operations, but also to our third party servicing activities and closed consumer finance books.

FUNDING

On 5 March 2013 the Group issued £60.0 million of 6.0% sterling bonds due December 2020. The bonds, listed on the London Stock Exchange Order Book for Retail Bonds, were issued to provide additional working capital for the Group. This was the initial transaction under a £1.0 billion Euro Medium Term Note Programme announced in January 2013. The bonds allow us to diversify our funding base and extend the tenor of our borrowings.

MANAGEMENT REPORT (Continued)

On 25 October 2012, the Group completed a £200.0 million securitisation of buy-to-let loans, through Paragon Mortgages (No. 17) PLC ('PM 17'). PM 17 comprises £175.0 million of AAA rated notes, £10.5 million of AA rated notes and £10.0 million of A rated notes at margins of 135, 190 and 290 basis points over three month LIBOR respectively. £4.5 million of subordinated notes were retained by the Group, which also invested £6.0 million in the first loss fund, bringing the Group's total investment in PM 17 to £10.5 million, or 5.25% of the issue amount.

On 23 September 2013, the Group completed a £273.0 million securitisation of buy-to-let loans, through Paragon Mortgages (No. 18) PLC ('PM 18'). PM 18 comprises £238.1 million of AAA rated notes, £15.7 million of AA rated notes and £13.7 million of A rated notes at margins of 115, 170 and 240 basis points over three month LIBOR respectively. £5.5 million of subordinated notes were retained by the Group, which also invested £8.19 million in the first loss fund, bringing the Group's total investment in PM 18 to £13.69 million, or 5.0% of the issue amount.

The pricing of the PM 17 and PM 18 transactions reflected the strong credit profile of the Group's buy-to-let assets and our experience as an issuer of high quality bonds in the mortgage backed securities market. PM 17 was the first buy-to-let securitisation to offer single A rated bonds since 2008 and these deals were only the second and third securitisations of buy-to-let loans since the credit crunch. They were also the Group's 55th and 56th securitisations since pioneering the methodology in 1987. We plan to return to the securitisation markets regularly as business volumes increase.

The Group uses two warehouse facilities to originate mortgage loans prior to arranging term funding in the securitisation markets. The £200.0 million revolving warehouse provided by Macquarie Bank was renewed and extended for a further two years in November 2012 and the amount available for drawing increased to £250.0 million, while an additional £200.0 million revolving warehouse facility, provided by the wholesale division of Lloyds Bank, was utilised for the first time in April 2013. Dependant on market conditions and our expectations for mortgage volumes, additional warehousing capacity may be sought in due course.

MANAGEMENT REPORT (Continued)

CAPITAL MANAGEMENT

The Group has continued to enjoy strong cash generation during the year. Free cash balances were £170.8 million at the year-end (30 September 2012: £127.7 million) after investments to support new buy-to-let originations and acquisitions by Idem Capital. The Company sees opportunities going forward to deploy capital for new lending activities, which should continue to increase, and to invest further amounts in loan portfolios through Idem Capital as banks and other financial institutions continue to dispose of assets. These cash balances, together with future operational cashflow, will support the Group's growth through investment in these areas as well as providing returns to shareholders through dividends.

The Board keeps under review the appropriate level of capital for the business to meet its operational requirements and strategic development objectives and in 2012 announced a new progressive dividend policy so that, by 2016 and thereafter, dividend cover will be maintained in the range 3.0 to 3.5 times.

In pursuance of this policy, and in view of the strong position of the Group and its confidence in the prospects for the business, the Board proposes subject to approval at the Annual General Meeting on 6 February 2014, a final dividend of 4.8p per share which, when added to the interim dividend of 2.4p, gives a dividend of 7.2p per share for the year, an increase of 20.0% from 2012.

In accordance with our usual practice, we will be proposing at the forthcoming Annual General Meeting a special resolution seeking authority from shareholders for the Company to purchase up to 30.5 million of its own shares (10% of the issued share capital). It is customary for companies to seek such authority but we would not expect to utilise the authority unless, in the light of market conditions prevailing at the time, we consider that to do so would enhance earnings per share and would be in the best interests of shareholders generally. Given the operational and strategic opportunities described above and the enhanced dividend policy, the Board has no current intention of using this authority.

MANAGEMENT REPORT (Continued)

BOARD CHANGES

Nick Keen, who has been Finance Director since 1995, has signalled his intention to retire and will be stepping down from the Board on 31 May 2014 following the half yearly results. Nick has been an outstanding member of the team over the years, ably directing a number of our corporate acquisitions, including Universal Credit, Colonial Finance and Britannic Money, many of Paragon's early portfolio acquisitions and all of the Group's finance raising activities during the period since his appointment. We are pleased to be able to report that Nick's services will be retained as chairman of the Idem division.

Richard Woodman, currently Director - Corporate Development, will take over as Finance Director on 31 May 2014. Richard, who is a member of the Chartered Institute of Management Accountants, joined the Group in 1989 and has held a number of senior strategic and financial roles, including having had line responsibility for internal audit and serving as Director of Business Analysis and Planning, prior to being appointed to the Board in February 2012. Richard has worked closely with Nick over many years and the Board is confident of a smooth transition of responsibilities.

CONCLUSION

The year ended 30 September 2013 has been a period of strong performance across the Group's activities. The Group has earned record profits, expanded key business areas, increased funding for new business and made preparations for the launch of a new bank, subject to regulatory approvals, to recommence consumer lending within the Group. The Board looks forward confidently to continuing the growth of the business in 2014.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Interest receivable		272.6	293.8
Interest payable and similar charges		(111.3)	(136.0)
Net interest income		161.3	157.8
Other operating income	4	16.6	12.4
Total operating income		177.9	170.2
Operating expenses		(58.6)	(51.9)
Provisions for losses		(15.2)	(24.1)
Operating profit before fair value items		104.1	94.2
Fair value net gains	5	1.3	1.3
Operating profit being profit on ordinary activities before taxation		105.4	95.5
Tax charge on profit on ordinary activities		(20.2)	(23.3)
Profit on ordinary activities after taxation for the financial year		85.2	72.2

	Note	2013	2012
Earnings per share			
- basic	6	28.4p	24.2p
- diluted	6	27.5p	23.5p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2013

	2013		2012	
	£m	£m	£m	£m
Profit for the year		85.2		72.2
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Actuarial (loss) on pension scheme	(2.8)		(0.5)	
Tax thereon	0.1		(0.2)	
		(2.7)		(0.7)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedge gains / (losses) taken to equity	1.2		(1.5)	
Tax thereon	(0.2)		0.4	
		1.0		(1.1)
Other comprehensive income for the year net of tax		(1.7)		(1.8)
Total comprehensive income for the year		83.5		70.4

CONSOLIDATED BALANCE SHEET
30 September 2013

	Note	2013 £m	2012 £m	2011 £m
Assets employed				
Non-current assets				
Intangible assets	7	8.5	9.1	9.3
Property, plant and equipment		9.6	10.7	11.4
Financial assets	8	9,715.3	9,505.2	9,891.2
		9,733.4	9,525.0	9,911.9
Current assets				
Other receivables		7.6	7.3	4.7
Cash and cash equivalents	10	587.3	504.8	571.6
		594.9	512.1	576.3
Total assets		10,328.3	10,037.1	10,488.2
Financed by				
Equity shareholders' funds				
Called-up share capital	11	306.2	301.8	299.7
Reserves	12	614.7	550.2	490.7
Share capital and reserves		920.9	852.0	790.4
Own shares		(47.6)	(48.5)	(48.4)
Total equity		873.3	803.5	742.0
Current liabilities				
Financial liabilities	14	3.0	2.0	1.8
Current tax liabilities		5.9	13.3	10.7
Other liabilities		36.2	36.7	38.3
		45.1	52.0	50.8
Non-current liabilities				
Financial liabilities	14	9,383.4	9,159.0	9,674.5
Retirement benefit obligations		15.7	13.9	14.4
Deferred tax		9.9	7.6	5.0
Other liabilities		0.9	1.1	1.5
		9,409.9	9,181.6	9,695.4
Total liabilities		9,455.0	9,233.6	9,746.2
		10,328.3	10,037.1	10,488.2

Approved by the Board of Directors on 26 November 2013.

Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Net cash (utilised) / generated by operating activities	16	(31.9)	117.3
Net cash (utilised) by investing activities	17	(1.6)	(2.2)
Net cash generated / (utilised) by financing activities	18	115.2	(181.9)
Net increase / (decrease) in cash and cash equivalents		81.7	(66.8)
Opening cash and cash equivalents		504.2	571.0
Closing cash and cash equivalents		585.9	504.2
Represented by balances within:			
Cash and cash equivalents		587.3	504.8
Financial liabilities		(1.4)	(0.6)
		585.9	504.2

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Total comprehensive income for the year		83.5	70.4
Dividends paid	13	(20.7)	(12.3)
Net movement in own shares		0.9	(0.1)
(Deficit) on transactions in own shares		(0.4)	(0.2)
Charge for share based remuneration		3.1	2.8
Tax on share based remuneration		3.4	0.9
Net movement in equity in the year		69.8	61.5
Equity at 30 September 2012		803.5	742.0
Equity at 30 September 2013		873.3	803.5

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

1. GENERAL INFORMATION

The financial information set out in the announcement does not constitute the Company's statutory accounts for the years ended 30 September 2011, 30 September 2012 or 30 September 2013, but is derived from those statutory accounts, which have been reported on by the Company's auditors. Statutory accounts for the years ended 30 September 2011 and 30 September 2012 have been delivered to the Registrar of Companies and those for the year ended 30 September 2013 will be delivered to the Registrar following the Company's Annual General Meeting. The reports of the auditors in each case were unqualified, did not draw attention to any matters by way of emphasis and did not contain an adverse statement under sections 498(2) or 498(3) of the Companies Act 2006.

Sections of this preliminary announcement, including but not limited to the Management Report, may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Group. These have been made by the directors in good faith using information available up to the date on which they approved this report. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. Nothing in this document should be construed as a profit forecast.

A copy of the Annual Report and Accounts for the year ended 30 September 2013 will be posted to shareholders in due course. Copies of this announcement can be obtained from the Group Company Secretary, The Paragon Group of Companies PLC at 51 Homer Road, Solihull, West Midlands, B91 3QJ.

2. ACCOUNTING POLICIES

The annual financial statements of the Group for the year ended 30 September 2013 have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union. Accordingly, the preliminary financial information has been prepared in accordance with the recognition and measurement criteria of IFRS. The particular accounting policies adopted are those described in the Annual Report and Accounts of the Group for the year ended 30 September 2012.

Going concern basis

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position, are described in the Management Report. The principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described on pages 36 and 37.

Note 5 to the accounts for the year ended 30 September 2012 includes an analysis of the Group's working capital position and policies, while note 6 includes a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, interest rate and liquidity risk. Critical accounting estimates affecting the results and financial position disclosed in this annual report are discussed in note 4. The position and policies described in these notes remain materially unchanged to the date of this preliminary announcement, except as disclosed in note 15. The Group has a formalised process of budgeting, reporting and review, which provides information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives.

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

2. ACCOUNTING POLICIES (Continued)

The securitisation funding structures described in note 6 ensure that a substantial proportion of the Group’s originated loan portfolio is match-funded to maturity. Repayment of the securitisation borrowings is restricted to funds generated by the underlying assets and there is limited recourse to the Group’s general funds. Recent and current loan originations utilising the Group’s available warehouse facilities described in note 6 are refinanced through securitisation from time to time. None of the Group’s debt matures before 2017, when the £110.0 million corporate bond is repayable. During the year the Group raised a further £60.0 million of working capital though the issue of retail bonds and at 30 September 2013 had available free cash balances of £170.8 million. As a consequence the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

3. SEGMENTAL INFORMATION

For internal reporting purposes the Group is organised into two major operating divisions, First Mortgages and Consumer Finance. These divisions are the basis on which the Group reports segmental information.

The revenue generated by the First Mortgages segment includes interest and fees generated by the buy-to-let and owner-occupied mortgage assets and other income derived from first charge mortgages. Consumer Finance revenue includes interest and fees generated by second charge loans, the residual car, retail finance and unsecured loan assets, and other sources of income derived from consumer loans. Both of these divisions include assets originated internally and assets acquired from third parties.

All of the Group’s operations are conducted in the United Kingdom, all revenues arise from external customers and there are no inter-segment revenues. No customer contributes more than 10% of the revenue of the Group.

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

3. SEGMENTAL INFORMATION (Continued)

Financial information about these business segments is shown below.

Year ended 30 September 2013

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	209.4	63.2	272.6
Interest payable	(103.9)	(7.4)	(111.3)
Net interest income	105.5	55.8	161.3
Other operating income	5.4	11.2	16.6
Total operating income	110.9	67.0	177.9
Operating expenses	(39.7)	(18.9)	(58.6)
Provisions for losses	(6.8)	(8.4)	(15.2)
	64.4	39.7	104.1
Fair value net gains	1.3	-	1.3
Operating profit	65.7	39.7	105.4
Tax charge			(20.2)
Profit after tax			85.2

Year ended 30 September 2012

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	231.1	62.7	293.8
Interest payable	(128.1)	(7.9)	(136.0)
Net interest income	103.0	54.8	157.8
Other operating income	6.2	6.2	12.4
Total operating income	109.2	61.0	170.2
Operating expenses	(35.2)	(16.7)	(51.9)
Provisions for losses	(12.4)	(11.7)	(24.1)
	61.6	32.6	94.2
Fair value net gains / (losses)	1.6	(0.3)	1.3
Operating profit	63.2	32.3	95.5
Tax charge			(23.3)
Profit after tax			72.2

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

3. SEGMENTAL INFORMATION (Continued)

The assets and liabilities attributable to each of the segments at 30 September 2013, 30 September 2012 and 30 September 2011 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2013			
Segment assets	9,813.7	514.6	10,328.3
Segment liabilities	(9,093.6)	(361.4)	(9,455.0)
	720.1	153.2	873.3
30 September 2012			
Segment assets	9,541.3	495.8	10,037.1
Segment liabilities	(8,862.4)	(371.2)	(9,233.6)
	678.9	124.6	803.5
30 September 2011			
Segment assets	10,009.3	478.9	10,488.2
Segment liabilities	(9,400.2)	(346.0)	(9,746.2)
	609.1	132.9	742.0

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

4. OTHER OPERATING INCOME

	2013 £m	2012 £m
Loan account fee income	4.4	5.0
Insurance income	2.0	2.5
Third party servicing	9.5	3.9
Other income	0.7	1.0
	16.6	12.4

5. FAIR VALUE NET GAINS

The fair value net gain represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis generated by the requirements of IAS 39. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The losses and gains are primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities. Such differences will reverse over time and have no impact on the cash flows of the Group.

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

6. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

		2013	2012
Profit for the year (£m)		85.2	72.2
Basic weighted average number of ordinary shares ranking for dividend during the year (million)		300.5	297.8
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)		9.9	9.4
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)		310.4	307.2
Earnings per ordinary share	- basic	28.4p	24.2p
	- diluted	27.5p	23.5p

7. INTANGIBLE ASSETS

Intangible assets at book value comprise

	2013 £m	2012 £m	2011 £m
Goodwill	1.6	1.6	1.6
Computer software	1.4	1.4	1.1
Other intangible assets	5.5	6.1	6.6
	8.5	9.1	9.3

Other intangible assets comprise brands and the benefit of business networks recognised on the acquisition of subsidiary companies.

8. FINANCIAL ASSETS

	Note	2013 £m	2012 £m	2011 £m
Loans to customers		8,801.5	8,694.6	8,724.2
Fair value adjustments from portfolio hedging		-	1.1	3.4
Investments in structured entities		23.8	9.1	11.8
Derivative financial assets	9	890.0	800.4	1,151.8
		9,715.3	9,505.2	9,891.2

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

8. FINANCIAL ASSETS (Continued)

The Group's loan assets and investments in structured entities at 30 September 2013, analysed between those assets acquired through its Idem Capital loan investment operation and those generated through other sources, principally loans advanced on its own account, were as follows:

	2013 Idem £m	2013 Other £m	2013 Total £m	2012 Idem £m	2012 Other £m	2012 Total £m
First mortgages	17.5	8,384.3	8,401.8	19.0	8,276.6	8,295.6
Consumer loans	152.4	247.3	399.7	107.3	291.7	399.0
Loans to customers	169.9	8,631.6	8,801.5	126.3	8,568.3	8,694.6
Investments in structured entities	23.8	-	23.8	9.1	-	9.1
Total investments in loans	193.7	8,631.6	8,825.3	135.4	8,568.3	8,703.7

In the debt purchase industry, Estimated Remaining Collections ('ERC') is commonly used as a measure of the value of a portfolio. This is defined as the sum of the undiscounted cash flows expected to be received over a specified future period. In the Group's view, this measure may be suitable for heavily discounted, unsecured, distressed portfolios, but is less applicable for the types of portfolio in which the Group has invested, where cash flows are higher on acquisition, loans may be secured on property and customers may not be in default. In such cases, the IAS 39 amortised cost balance, at which these assets are carried in the Group balance sheet, provides a better indication of value.

However, to aid comparability the 84 and 120 month ERC values for the Group's purchased assets are set out below, analysed by the balance sheet line on which they appear. These are derived using the same models and assumptions used in the EIR calculations, but the differing bases of calculation lead to different outcomes.

	2013 Carrying value £m	2013 84 month ERC £m	2013 120 month ERC £m	2012 Carrying value £m	2012 84 month ERC £m	2012 120 month ERC £m
Loans to customers	169.9	272.6	313.3	126.3	219.5	250.7
Investments in structured entities	23.8	31.7	40.6	9.1	13.4	13.4
	193.7	304.3	353.9	135.4	232.9	264.1

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

9. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

		2013 £m	2012 £m	2011 £m
Derivative financial assets	8	890.0	800.4	1,151.8
Derivative financial liabilities	14	(1.3)	(4.6)	(9.1)
		888.7	795.8	1,142.7
Of which:				
Foreign exchange basis swaps		889.6	799.5	1,145.8
Other derivatives		(0.9)	(3.7)	(3.1)
		888.7	795.8	1,142.7

The Group's securitisation borrowings are denominated in sterling, euros and US dollars. All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to large balances for the swaps being carried in the balance sheet. This is currently the case with both euro and US dollar swaps, although the debit balance is compensated for by retranslating the borrowings at the current exchange rate.

10. CASH AND CASH EQUIVALENTS

Only 'Free Cash' is unrestrictedly available for the Group's general purposes. Cash received in respect of loan assets is not immediately available, due to the terms of the warehouse facilities and the securitisations. 'Cash and Cash Equivalents' also includes balances held by the Trustees of the Paragon Employee Share Ownership Plans which may only be used to invest in the shares of the Company, pursuant to the aims of those plans.

The total consolidated 'Cash and Cash Equivalents' balance may be analysed as shown below:

	2013 £m	2012 £m	2011 £m
Free cash	170.8	127.7	195.0
Securitisation cash	414.1	374.9	374.1
ESOP cash	2.4	2.2	2.5
	587.3	504.8	571.6

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

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

11. CALLED-UP SHARE CAPITAL

The share capital of the Company consists of a single class of £1 ordinary shares.

Movements in the issued share capital in the year were:

	2013 Number	2012 Number
Ordinary shares		
At 1 October 2012	301,841,614	299,745,445
Shares issued	4,371,601	2,096,169
At 30 September 2013	306,213,215	301,841,614

During the year the Company issued 3,975,993 shares at par (2012: 2,090,570) to the trustees of its ESOP Trusts in order that they could fulfil their obligations under the Group's share based award arrangements. It also issued 395,608 shares (2012: 5,599) to satisfy options granted under sharesave schemes for a consideration of £398,281 (2012: £5,688).

12. RESERVES

	2013 £m	2012 £m	2011 £m
Share premium account	64.1	64.1	64.1
Merger reserve	(70.2)	(70.2)	(70.2)
Cash flow hedging reserve	1.7	0.7	1.8
Profit and loss account	619.1	555.6	495.0
	614.7	550.2	490.7

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

13. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the Group in the period:

	2013 Per share	2012 Per share	2013 £m	2012 £m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2012	4.50p	2.65p	13.5	7.9
Interim dividend for the year ended 30 September 2013	2.40p	1.50p	7.2	4.4
	6.90p	4.15p	20.7	12.3

Amounts paid and proposed in respect of the year:

	2013 Per share	2012 Per share	2013 £m	2012 £m
Interim dividend for the year ended 30 September 2013	2.40p	1.50p	7.2	4.4
Proposed final dividend for the year ended 30 September 2013	4.80p	4.50p	14.6	13.5
	7.20p	6.00p	21.8	17.9

The proposed final dividend for the year ended 30 September 2013 will be paid on 10 February 2014, subject to approval at the Annual General Meeting, with a record date of 10 January 2014. The dividend will be recognised in the accounts when it is paid.

14. FINANCIAL LIABILITIES

	Note	2013 £m	2012 £m	2011 £m
Current liabilities				
Finance lease liability		1.6	1.4	1.2
Bank loans and overdrafts		1.4	0.6	0.6
		3.0	2.0	1.8
Non-current liabilities				
Asset backed loan notes		7,893.2	7,580.9	8,049.7
Corporate bond		110.0	110.0	112.0
Retail bonds		59.1	-	-
Finance lease liability		8.6	10.2	11.6
Bank loans and overdrafts		1,311.2	1,453.3	1,492.1
Derivative financial instruments	9	1.3	4.6	9.1
		9,383.4	9,159.0	9,674.5

Further details of the above asset backed loan notes, bank loans, corporate and retail bonds are given in note 15.

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

15. BORROWINGS

All borrowings described in the Group Accounts for the year ended 30 September 2012 remained in place throughout the period.

On 25 October 2012 a Group company, Paragon Mortgages (No. 17) PLC, issued £195.5m of sterling mortgage backed floating rate notes at par. £175.0m of the notes were rated AAA, £10.5m rated AA and £10.0m rated A. The average interest margin above LIBOR on the notes was 145.9% and the proceeds were used to pay down existing warehouse debt. The Group retained £4.5m of subordinated notes and also invested £6.0m in the first loss fund, bringing its total investment to £10.5m, or 5.25% of the issue amount. As with the Group's other securitisation borrowings, the securitisation is structured so that payments of interest and principal are limited to cash generated from the funded assets and there is no recourse to Group funds. Therefore the issue of these notes does not impact on the liquidity risk of the Group.

On 23 September 2013 a Group company, Paragon Mortgages (No. 18) PLC, issued £267.5m of sterling mortgage backed floating rate notes at par. £238.1m of the notes were rated AAA, £15.7m rated AA and £13.7m rated A. The Group retained £5.5m of subordinated notes and also invested £8.2m in the first loss fund, bringing its total investment to £13.7m, or 5.00% of the issue amount.

On 11 February 2013 the Group inaugurated a £1,000.0m Euro Medium Term Note Programme. The terms of issue for each tranche of notes are separately determined. These bonds are listed on the London Stock Exchange and have a fixed term, but are callable at the option of the Company. During the period the Group issued £60.0m of sterling bonds under this programme which are repayable in December 2020 and carry a fixed interest rate of 6.0% per annum, raising £59.0m of cash, net of issue costs.

Repayments made in respect of the Group's borrowings are shown in note 18.

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

16. NET CASH FLOW FROM OPERATING ACTIVITIES

	2013 £m	2012 £m
Profit before tax	105.4	95.5
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	2.1	2.1
Amortisation of intangible assets	1.2	1.0
Foreign exchange movement on borrowings	88.8	(344.9)
Other non-cash movements on borrowings	5.9	(0.7)
Impairment losses on loans to customers	15.2	24.1
Charge for share based remuneration	3.1	2.8
Net decrease / (increase) in operating assets:		
Loans to customers	(136.8)	8.2
Derivative financial instruments	(89.6)	351.4
Fair value of portfolio hedges	1.1	2.3
Other receivables	(1.3)	-
Net (decrease) in operating liabilities:		
Derivative financial instruments	(3.3)	(4.5)
Other liabilities	(1.7)	(3.0)
Cash (utilised) / generated by operations	(9.9)	134.3
Income taxes (paid)	(22.0)	(17.0)
	(31.9)	117.3

17. NET CASH FLOW FROM INVESTING ACTIVITIES

	2013 £m	2012 £m
Proceeds on disposal of property, plant and equipment	-	0.2
Purchases of property, plant and equipment	(1.0)	(1.6)
Purchases of intangible assets	(0.6)	(0.8)
Net cash (utilised) by investing activities	(1.6)	(2.2)

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

18. NET CASH FLOW FROM FINANCING ACTIVITIES

	2013 £m	2012 £m
Shares issued	0.4	-
Dividends paid (note [13])	(20.7)	(12.3)
Issue of asset backed floating rate notes	459.1	129.9
Repayment of asset backed floating rate notes	(237.5)	(254.9)
Issue of retail bonds	59.0	-
Capital element of finance lease payments	(1.4)	(1.2)
Movement on bank facilities	(143.8)	(43.1)
Purchase of shares	(0.5)	(0.5)
Sale of shares	0.6	0.2
Net cash generated / (utilised) by financing activities	115.2	(181.9)

19. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	2013 £m	2012 £m
Cost – operating expenses	58.6	51.9
Total operating income	177.9	170.2
Cost / Income	32.9%	30.5%

The adjusted cost income ratio is calculated by excluding certain financing and operating costs relating to activities not yet contributing to income, and other costs not relating to operations.

	2013 £m	2012 £m
Operating expenses	58.6	51.9
Increase in share based payments	(1.2)	-
Costs of developing banking subsidiary	(1.3)	-
Adjusted cost	56.1	51.9
Total operating income	177.9	170.2
Retail bond costs	2.1	-
Warehouse costs prior to first drawing	1.5	-
Adjusted income	181.5	170.2
Adjusted cost / income	30.9%	30.5%

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

20. UNDERLYING PROFIT

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

	2013 £m	2012 £m
First Mortgages		
Profit before tax for the period (note 3)	65.7	63.2
Less: Fair value losses / (gains)	(1.3)	(1.6)
	64.4	61.6
Consumer Finance		
Profit before tax for the period (note 3)	39.7	32.3
Less: Fair value losses / (gains)	-	0.3
	39.7	32.6
Total		
Profit before tax for the period (note 3)	105.4	95.5
Less: Fair value losses / (gains)	(1.3)	(1.3)
	104.1	94.2

21. NET ASSET VALUE PER SHARE

Net asset value per share is derived as follows:

	Note	2013	2012
Total equity (£m)		873.3	803.5
Outstanding issued shares (m)	11	306.2	301.8
Treasury shares (m)		(0.7)	(0.7)
Shares held by ESOP schemes (m)		(1.9)	(2.3)
		303.6	298.8
Net asset value per £1 ordinary share		288p	269p

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

22. DIVIDEND COVER

The expected level of dividend cover in respect of the year, subject to the approval of the final dividend at the Annual General Meeting, is shown below.

	note	2013	2012
Profit after tax for the year (£m)		85.2	72.2
Proposed dividend in respect of the year (£m)	13	21.8	17.9
Dividend cover (times)		3.9	4.0

The figure stated for the year ended 30 September 2012 has been adjusted to reflect the actual dividend paid.

23. RETURN ON EQUITY

Return on equity is defined by the Group by comparing the profit after tax for the year to the average of the opening and closing equity positions and is derived as follows:

	2013 £m	2012 £m
Profit for the year	85.2	72.2
Divided by		
Opening equity	803.5	742.0
Closing equity	873.3	803.5
Average equity	838.4	772.7
Return on Equity	10.2%	9.3%

24. RELATED PARTY TRANSACTIONS

In the year ended 30 September 2013, the Group has continued the related party relationships described in note 59 on page 118 of the Annual Report and Accounts of the Group for the financial year ended 30 September 2012. Related party transactions in the period comprise the compensation of the Group’s key management personnel and fees paid to a non-executive director in respect of his appointment as a director of the Corporate Trustee of the Group Pension Plan. There have been no changes in these relationships which could have a material effect on the financial position or performance of the Group in the period.

Save for the transactions referred to above, there have been no related party transactions in the year ended 30 September 2013.

NOTES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2013

25. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

After the year end, on 4 November 2013, the Group acquired the freehold in its head office building, which it had occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7m and on the completion of the transaction the leasehold fixed asset included in the balance sheet at 30 September 2013 at a value of £5.6m and the related lease creditor, included in financial liabilities at £10.2m (note 14) were both extinguished.

On 8 October 2013 the Group acquired a portfolio of non-performing personal secured and unsecured loans from HSBC Bank plc. The cash paid was £13.5m.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to financial statements

The responsibility statement below has been prepared in connection with the full annual accounts of the Company for the year ended 30 September 2013. Certain parts of these accounts are not presented within this announcement.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards ('IFRS') and have also elected to prepare company financial statements in accordance with IFRS. In respect of the financial statements for the year ended 30 September 2013, company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 – 'Presentation of Financial Statements' requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the applicable requirements of the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

The directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole; and
- the Annual Report, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

JOHN G GEMMELL
Company Secretary
26 November 2013

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results. The Group's system of risk management, which includes the Credit Committee and Asset and Liabilities Committee ('ALCO'), a dedicated Group Risk function risk review and an active internal audit function, is monitored by the Audit and Compliance Committee

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

Economic environment

A further deterioration in the general economy may adversely affect all aspects of the Group's business. Adverse economic conditions might increase the number of borrowers that default on their loans or adversely affect funding structures, which may in turn increase the Group's costs and could result in losses on some of the Group's assets, or restrict the ability of the Group to develop in the future.

The general economic factors affecting the Group in the period going forward, together with the steps taken by the Group's management to address these issues are described in more detail in the Management Report.

Changes in interest rates may adversely affect the Group's net income and profitability. The Group takes steps to mitigate against the long term effects of interest rate movements, through the structuring of its products and the use of hedging procedures.

Credit risk

As a primary lender the Group faces credit risk as an inherent component of its lending and asset purchase activities. Adverse changes in the credit quality of the Group's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systematic risks in UK and global financial systems could reduce the recoverability and value of the Group's assets.

The Group has developed processes to manage credit risk and the systems in place to mitigate that risk on both originated and purchased assets are described in the Annual Report and Accounts.

Funding risk

The Group relies on its access to sources of funding to finance the origination of new business, portfolio acquisitions and working capital. If access to funding became restricted, either through market movements or regulatory or governmental action, this might result in the scaling back or cessation of some business lines.

The Group, through its Asset and Liability Committee seeks to mitigate this risk by investigating alternative sources of finance which are, or might become, available to the Group and by keeping its funding and working capital position under review.

The Group's capital position and its policies in respect of capital management and their application are described more fully in the section of the Management Report headed 'Capital Management'.

Operational risk

The activities of the Group subject it to operational risks relating to its ability to implement and maintain effective systems to process the high volume of transactions with customers. A significant breakdown of the IT systems of the Group might adversely impact the ability of the Group to operate its business effectively.

To address these risks, the Group's internal audit function carries out targeted reviews of critical systems to ensure that they remain adequate for their purpose. The Group has a business continuity plan, accredited under the International Standard ISO 22301, which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant disruption to the business.

PRINCIPAL RISKS AND UNCERTAINTIES

Competitor risk

The Group faces strong competition in all of the core markets in which it operates. There is a danger that its profitability and /or market share may be impaired.

To mitigate this risk the Group maintains relationships with its customers, business introducers and other significant participants in the markets in which it is active, as well as being active in industry-wide organisations and initiatives. This enables market trends to be identified and addressed within the relevant business strategy.

Governmental, legislative and regulatory risk

The market sectors to which the Group supplies products, and the capital markets from which it obtains much of its funding, have been subject to intervention by United Kingdom Government, European Union and other regulatory bodies. Current regulatory developments are discussed in the section of the Management Report headed 'Regulation'. To the extent that such actions disadvantage the Group, when compared to other market participants, they present a risk to the Group.

In order to mitigate this risk the Group has been active in explaining its position to the authorities in order that it is not inadvertently disadvantaged. In order to ensure compliance with the various regulatory regimes it is, or may become, subject to, the Group maintains a compliance function which reviews procedures, examines compliance with them and evaluates knowledge levels across relevant functions.

Management

The success of the Group is dependent on recruiting and retaining skilled senior management and personnel and failure to do so would put the Group's ability to successfully carry out its plans at risk.

The Group has developed employment policies, which are designed to mitigate this exposure by ensuring that an appropriately skilled workforce is, and remains, in place.