The Paragon Group of Companies PLC

ANNUAL REPORT AND ACCOUNTS 2015

The Paragon Group of Companies uses its core risk and credit expertise to develop lending products for specialist target markets.

Best known as one of the UK's largest, independent buy-to-let lenders, Paragon is growing its business by expanding further in buy-to-let lending and diversifying into new consumer and SME lending markets through its subsidiary, Paragon Bank PLC.

Paragon Bank recently entered the SME finance market with its acquisition of the Five Arrows asset finance businesses. The Group is also one of the UK's largest debt purchasers through Idem Capital, where it purchases, co-manages and services secured and unsecured consumer loan portfolios.

CONTENTS

FINANCIAL HIGHLIGHTS — Results in brief

Financial highlights PAGE 6

A STRATEGIC REPORT — The business and its performance in the year

A1 Chairman's statement PAGE 10

A2 Business model and strategy PAGE 12
- A2.1 Paragon overview PAGE 12
- A2.2 Principal risks and uncertainties PAGE 22

A3 Chief Executive's review PAGE 23
- A3.1 Financial review PAGE 24
- A3.2 Business review PAGE 26
- A3.3 Funding review PAGE 35
- A3.4 Management and people PAGE 39
- A3.5 Conclusion PAGE 40

A4 Future prospects PAGE 41

A5 Corporate responsibility PAGE 44
- A5.1 Employees PAGE 44
- A5.2 Environmental policy PAGE 48
- A5.3 Social, community and human rights PAGE 51

A6 Approval of Strategic Report PAGE 54

B CORPORATE GOVERNANCE — How the business is controlled and how risk is managed

B1 Chairman's statement on corporate governance PAGE 59

B2 The Board of Directors PAGE 60

B3 Corporate governance PAGE 64
- B3.1 Governance framework PAGE 64
- B3.2 Nomination Committee PAGE 71

B4 Audit Committee PAGE 72
- B4.1 Statement by the Chairman of the Audit Committee PAGE 72
- B4.2 Operations of the Committee PAGE 73
- B4.3 Significant issues addressed in relation to the financial statements PAGE 73
- B4.4 External auditor PAGE 76
- B4.5 Internal audit PAGE 78
- B4.6 Whistleblowing PAGE 79

B5 Directors' remuneration report PAGE 80
- B5.1 Statement by the Chairman of the Remuneration Committee PAGE 81
- B5.2 Annual report on remuneration PAGE 83
- B5.3 Policy report PAGE 105
- B5.4 Approval of the Directors' Remuneration Report PAGE 113

B CORPORATE GOVERNANCE continued

B6 **Risk management** **PAGE 114**
- B6.1 Statement by the Chairman of the Risk and Compliance Committee PAGE 114
- B6.2 Risk governance PAGE 115
- B6.3 Risk management culture PAGE 117
- B6.4 Risk management framework PAGE 117
- B6.5 Principal risks and uncertainties PAGE 120

B7 **Directors' report** **PAGE 129**

B8 **Statement of directors' responsibilities** **PAGE 133**

C INDEPENDENT AUDITOR'S REPORT On the financial statements

C1 **Independent Auditor's Report** **PAGE 136**

D THE ACCOUNTS The financial statements of the Group

D1 **The accounts** **PAGE 143**
- D1.1 Consolidated income statement PAGE 144
- D1.2 Consolidated statement of comprehensive income PAGE 145
- D1.3 Consolidated balance sheet PAGE 146
- D1.4 Company balance sheet PAGE 147
- D1.5 Consolidated cash flow statement PAGE 148
- D1.6 Company cash flow statement PAGE 148
- D1.7 Statement of movements in equity PAGE 149

D2 **Notes to the accounts** **PAGE 150**

E APPENDICES TO THE ANNUAL REPORT Additional financial information

E1 **Appendices to the Annual Report** **PAGE 238**

F USEFUL INFORMATION Additional information for shareholders and other users

F1 **Glossary** **PAGE 243**

F2 **Shareholder information** **PAGE 245**

F3 **Contacts** **PAGE 247**

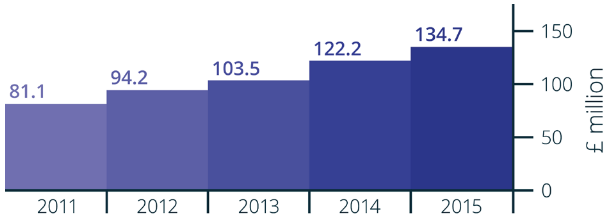
FINANCIAL HIGHLIGHTS

For the year ended 30 September 2015

Underlying profit before tax

£134.7million

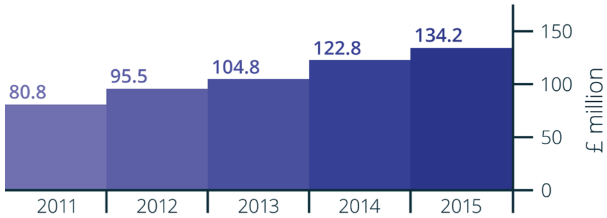
10.2% higher (2014: £122.2 million)



Profit before tax

£134.2million

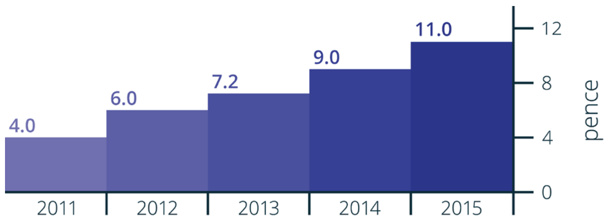
9.3% higher (2014: £122.8 million)



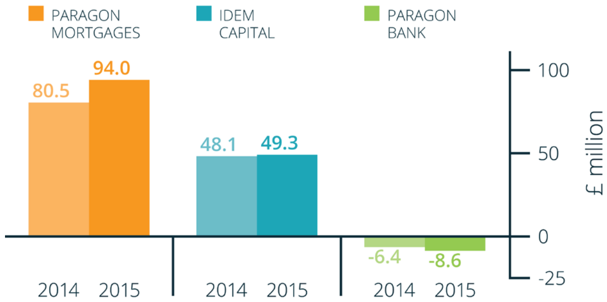
Dividend per share

11.0pence

22.2% higher (2014: 9.0 pence)



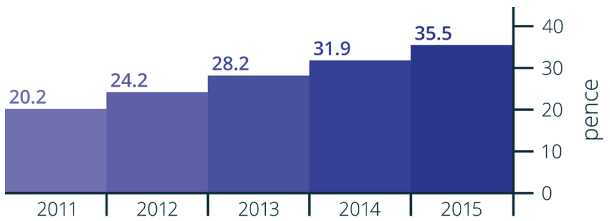
Operating profit by division



Basic earnings per share

35.5pence

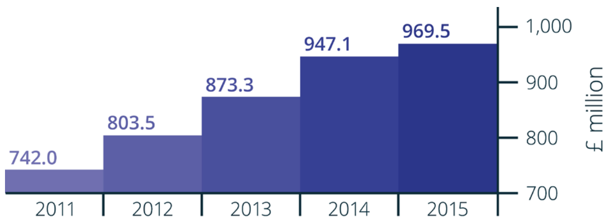
11.3% higher (2014: 31.9 pence)



Shareholders' funds

£969.5million

2.4% higher (2014: £947.1 million)



"This year's financial performance demonstrates a significant step-up in the Group's lending, strong profit growth and a further improvement in returns to shareholders.

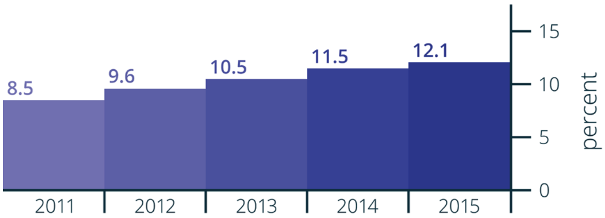
Our success in developing the Group's breadth, diversity and depth of funding, taken together with our strong capital position, leaves us with substantial scope to move forward in line with our strategic objectives."

Richard Woodman
Group Finance Director

Underlying return on tangible equity

12.1%

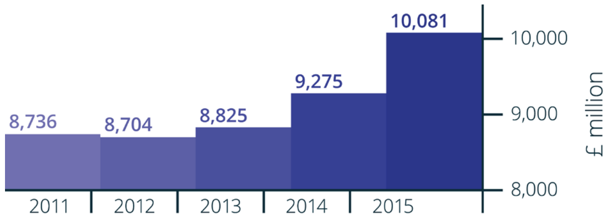
5.2% higher (2014: 11.5%)



Total investment in loans

£10,080.5million

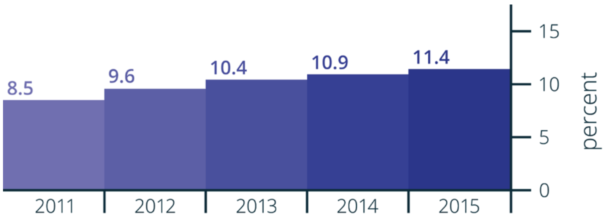
8.7% higher (2014: £9,275.2 million)



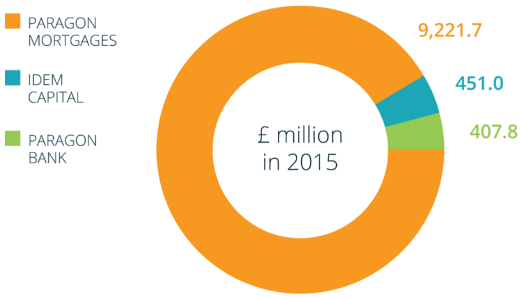
Return on tangible equity

11.4%

4.6% higher (2014: 10.9%)



Analysis of investments in loans



Five year performance summary

	2011 £m	2012 £m	2013 £m	2014 £m	**2015** **£m**
Underlying profit before taxation	81.1	94.2	103.5	122.2	**134.7**
Profit before taxation	80.8	95.5	104.8	122.8	**134.2**
Profit after taxation	59.6	72.2	84.7	97.2	**107.1**
Total loans to customers	8,724.2	8,694.6	8,801.5	9,255.9	**10,062.4**
Total investment in loans	8,736.0	8,703.7	8,825.3	9,275.2	**10,080.5**
Shareholders' funds	742.0	803.5	873.3	947.1	**969.5**

	2011	2012	2013	2014	**2015**
Return on tangible equity	8.5%	9.6%	10.4%	10.9%	**11.4%**
Underlying return on tangible equity	8.5%	9.6%	10.5%	11.5%	**12.1%**
Earnings per share					
- basic	20.2p	24.2p	28.2p	31.9p	**35.5p**
- diluted	19.6p	23.5p	27.3p	31.1p	**34.8p**
Dividend per ordinary share	4.0p	6.0p	7.2p	9.0p	**11.0p**

The derivation of underlying profit before taxation and underlying return on tangible equity are described in Appendices C and D.

A STRATEGIC REPORT

The Group's business, risk profile, performance and prospects

A1 Chairman's statement **PAGE 10**
The year in summary

A2 Business model and strategy **PAGE 12**
An overview of what the Group does and the significant risks it is exposed to
A2.1 Paragon overview PAGE 12
A2.2 Principal risks and uncertainties PAGE 22

A3 Chief Executive's review **PAGE 23**
The financial and operational performance of the Group in the year
A3.1 Financial review PAGE 24
A3.2 Business review PAGE 26
A3.3 Funding review PAGE 35
A3.4 Management and people PAGE 39
A3.5 Conclusion PAGE 40

A4 Future prospects **PAGE 41**
How the Group is placed, looking forward

A5 Corporate responsibility **PAGE 44**
The Group's impact on its employees, the environment and the community
A5.1 Employees PAGE 44
A5.2 Environmental policy PAGE 48
A5.3 Social, community and human rights PAGE 51

A6 Approval of Strategic Report **PAGE 54**

STRATEGIC REPORT

A1 CHAIRMAN'S STATEMENT

Robert G Dench
Chairman

Dear Shareholder

I have the pleasure of introducing the Annual Report and Accounts of the Group for a year which has seen us make progress against our strategy with the expansion of Paragon Bank, enhancement of the Group's funding capacity, higher volumes and improved profits and returns to shareholders. We have redesigned several aspects of this report and I hope you find the changes helpful.

The business

The Group has continued to develop its business, described in section A2, in the twelve months. Highlights included the expansion of the savings deposit base of Paragon Bank, the granting of an investment grade BBB- rating to the Company by Fitch, the introduction of Scottish buy-to-let lending and the growth of consumer lending activities. The close of the year also saw preparation for the Group's launch of products to the development finance market.

Shortly after the year end the Group's acquisition of Five Arrows Leasing Group added significant new capability in SME asset finance to the Group's offerings. The acquisition is expected to be immediately earnings enhancing and I look forward to this business developing as it is integrated into the Group.

The Group's business is described more fully in section A2

Results

The growth in the Group's loan books, up 8.7% to £10,062.4 million, contributed to an increase in underlying profit by 10.2% to £134.7 million (2014: £122.2 million). This led to earnings per share increasing by 11.3% to 35.5p (2014: 31.9p) and underlying return on tangible equity reaching 12.1% (2014: 11.5%).

Funding was enhanced with three new mortgage securitisation issues, a retail bond issue and the increase of the Group's savings deposit base to £708.7 million from £60.1 million a year earlier.

The Group's capital position remains strong, with regulatory CET1 capital of £939.7 million (2014: £920.4 million) and the CET1 ratio at 30 September 2015 at 19.1% (2014: 19.9%).

The financial results and operational performance are reviewed in section A3

Stakeholders

The Group continues to be committed to acting in a socially responsible manner and I am pleased to confirm that the wages paid to our employees met the standards of the Living Wage, set by the Living Wage Foundation.

We recognise the importance of the contribution of the Group's people to its results in the year and I would like to thank all of them for their hard work and dedication throughout the period.

Social responsibility issues are discussed in section A5

Governance

The Group is committed to good corporate governance and complied with the new version of the UK Corporate Governance Code introduced in the year. The updated governance structure introduced in 2014 continues to be embedded. In addition to our normal duties the Board and I were much involved in assessing the Five Arrows Leasing Group acquisition and addressing the increasing regulatory requirements facing the Group.

Edward Tilly, who had served as a non-executive director since 2008, retired from the Board in the year. I would like to thank Ted for his contribution over the years; his counsel will be much missed. Fiona Clutterbuck succeeded Ted as Senior Independent Director on his retirement and I wish her well in her new role.

Corporate governance is discussed in section B3

Auditors

As a result of new audit tendering rules, the Board determined that the Group should appoint new external auditors. After a competitive tender process the Audit Committee recommended KPMG LLP be appointed. I look forward to welcoming them as auditors and wish to express the appreciation of the Board to the outgoing auditors, Deloitte LLP, for a successful relationship over many years.

The Audit Committee report is set out in section B4

Risk

The Group has further enhanced its risk management systems in the year, following the inauguration of the Risk and Compliance Committee last year. This has included the appointment of the first Group Chief Risk Officer and the bringing together of the Group's risk functions into one division. Risk disclosures in this document have also been significantly enhanced to help users understand the risk environment in which the Group operates.

The Risk Management report is set out in section B6

Shareholder returns

The positive results have enabled the Board to declare a final dividend for the year of 7.4p per share, bringing the dividend for the year to 11.0p up 22.2%, subject to shareholder approval. £49.7 million has also been spent on buying back shares and the buy-back programme will be increased in the new year by up to £50.0 million. These actions both enhance return for shareholders.

Conclusion

The Board and I have enjoyed a challenging and exciting year as the Group has grown and developed in a changing economic and regulatory environment, while enhancing returns to shareholders. These developments leave the Group well placed for further strong performance looking forward and we face the future with optimism.

Robert G Dench
Chairman
24 November 2015

A2 BUSINESS MODEL AND STRATEGY

A2.1 PARAGON OVERVIEW

A GROWING BUSINESS

The Group is a specialist financial services business operating in the UK. Best-known as one of the country's leading, independent buy-to-let lenders, the Group is growing its business by expanding into new finance markets through its recently established subsidiary, Paragon Bank. Paragon is also one of the nation's largest debt purchasers through its Idem Capital division, where it purchases, co-manages and services secured and unsecured consumer loan portfolios.

A SPECIALIST BUSINESS

The Group has a core expertise in data analytics, together with advanced risk and credit management capabilities. It is this expertise that enables it to tailor lending products for specialist target markets and effectively manage complex consumer loan portfolios.

A SIMPLE BUSINESS MODEL

The Group has a simple business model, underpinned by a focus on people and a commitment to a single set of values.

INCOME

The Group generates income from interest, fees and charges earned on its mortgage, consumer and SME loan assets. It also earns fees from third parties for administering similar loans on their behalf.

ASSETS

To grow its income, the Group focuses on building its asset base by originating new loans and acquiring loan portfolios.

FUNDING

The Group funds its assets using a variety of sources, including securitisation, savings deposits and retail bond issuance. It takes care to secure competitive funding over an appropriate term to underpin its assets, cover working capital requirements and maintain a strong financial position.

PROFITABILITY

Profitability is a key measure of success and the Group manages all aspects of its business closely to deliver sustainable and growing returns to its shareholders.

OPERATIONS

Paragon's operations are organised into three divisions, each with responsibility for achieving asset and profit growth. The three divisions are supported by the Group through the provision of capital to support growth and, where appropriate, with central services including loan servicing, marketing, information technology and legal support. The Group's central funding is provided by a mix of equity and corporate and retail bonds.

PARAGON MORTGAGES

Originates and services buy-to-let mortgages

Funded through dedicated warehouse facilities and securitisations which provide long-term, match funding for the loan book at LIBOR linked interest rates

- Over 75,000 buy-to-let loan accounts
- £9.0 billion buy-to-let assets
- £94.0 million operating profit

IDEM CAPITAL

Acquires and services consumer loan portfolios

Funded through a mix of external limited-recourse funding and Group working capital

- Over 385,000 consumer accounts managed
- £451.0 million investment in loan assets
- £49.3 million operating profit

PARAGON BANK

Develops and delivers savings and loans for consumers, SMEs and landlords

Funded with a mix of Group capital and retail savings deposits

- £407.8 million loan assets
- £708.7 million retail deposits
- SME asset finance business acquired after the year end

Figures at 30 September 2015

FAST FACTS

- **Established in 1985**
- **Over 1,000 employees**
- **Over 450,000 customer loan accounts managed**
- **£11.2 billion of gross assets under management**
- **£134.7 million underlying operating profit**
- **Headquartered in Solihull**
- **FTSE 250 listed**

STRATEGIC REPORT

SUCCESS FACTORS

Six key factors affect the Group's ability to maintain and grow profits:

1. CREDIT QUALITY

Paragon is a conservative lender. When underwriting any new loan or portfolio purchase, Paragon makes a detailed credit assessment of the customer and the strength of the underlying loan collateral to help minimise the risk of non-payment and portfolio losses.

Buy-to-let 3 months+ arrears

Paragon

0.19%

Buy-to-let industry average

0.67%

2. LOAN PRICING

Paragon prices all new advances and portfolio purchases to be competitive and achieve an appropriate margin over funding costs.

Net interest margin

2.04%

3. FUNDING

The Group makes sure that its loan assets are financed using appropriately dated and priced funding. It seeks to build a broad and diversified funding mix to underpin the business.

Investment grade corporate credit rating achieved:

BBB-

"I am delighted to report another year of excellent progress for Paragon as we continue our strategy of diversifying the Group's income and funding streams, whilst continuing to improve shareholder returns."

Nigel S Terrington
Chief Executive

4. STRONG FINANCIAL FOUNDATIONS

Strong cash generation helps to support new investment and growth in each of the Group's three operating divisions. The Group's conservative capital and debt positions, which rank among the strongest in the UK, give the Group material balance sheet capacity for further development.

Total regulatory capital ratio

19.1%

Leverage ratio

7.7%

5. LOAN SERVICING

Each loan is serviced to optimise retention and minimise the risk of non-payment. Specialist receiver of rent operation for buy-to-let cases.

525 million

pieces of customer data collected and analysed each month

Behavioural scoring models applied

6. COST CONTROL

The Group has a low cost:income ratio and controls costs carefully to maintain this advantage. It operates from a centralised location, maximising the potential for operating leverage. Loan products are distributed via third party brokers and savings deposits are collected online.

Underlying cost: income ratio 29.3%

Amounts above at 30 September 2015

PARAGON MORTGAGES

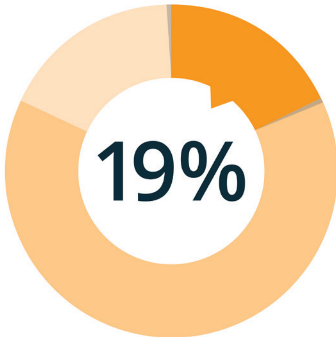
What we do

Paragon Mortgages originates buy-to-let mortgages, for both large-scale professional and other landlords through its Paragon Mortgages and Mortgage Trust brands. Paragon was one of the first lenders to develop buy-to-let finance and, in 2000, became the only major UK mortgage lender to focus exclusively on buy-to-let products.

UK Private Rented Sector

Economic, social and demographic changes, together with the flexibility that renting provides, have all combined to make renting in the PRS an increasingly popular choice.

The private rented sector ('PRS') makes up 19% of the English housing market:



19% Private rented
64% Owner-occupied
17% Social rented

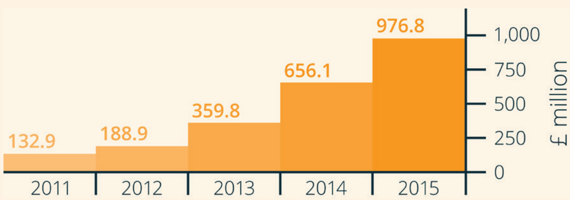
Source: English Housing Survey 2013-14

Paragon Mortgages - Financial Highlights

New buy-to-let lending*

£976.8million

48.9% higher than £656.1 million in 2014



Paragon's landlord customers

Large-scale, full-time professional landlords or SMEs with extensive and complex portfolios

Other landlords who own a small number of properties as a means of augmenting savings and investments

**Excluding Paragon Bank*

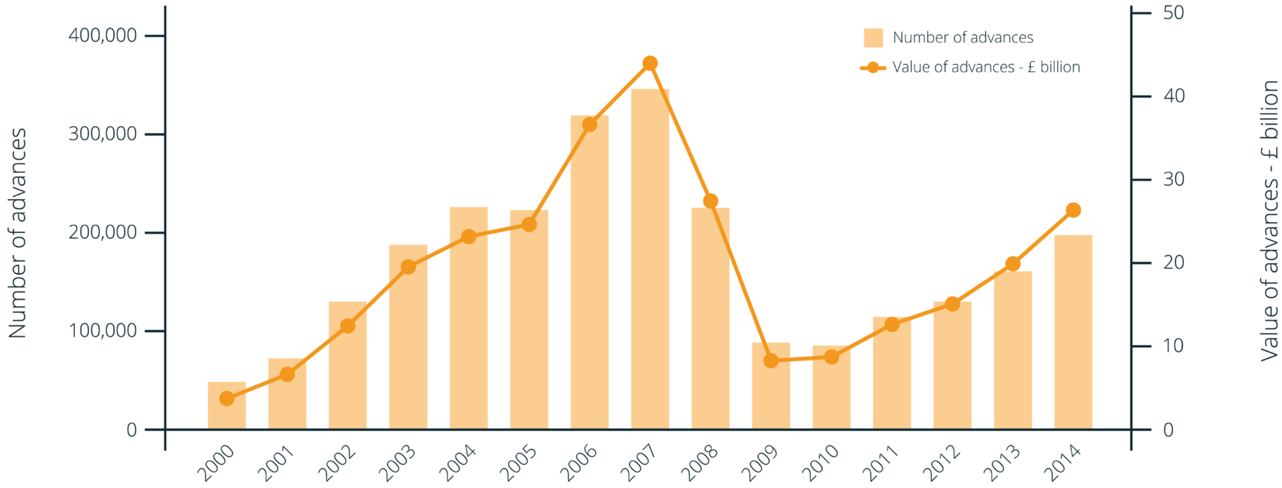
"The Group delivered a significant increase in buy-to-let lending this year - broadening our product range, increasing our funding capacity and extending our lending into Scotland with Paragon Bank."

John Heron
Managing Director – Paragon Mortgages

UK market growth

Buy-to-let lending contracted sharply following the financial crisis. Since 2009 the market has made significant steps on the road to recovery and is performing well. However, further growth is needed to enable landlords to invest in quality property to meet growing tenant demand.

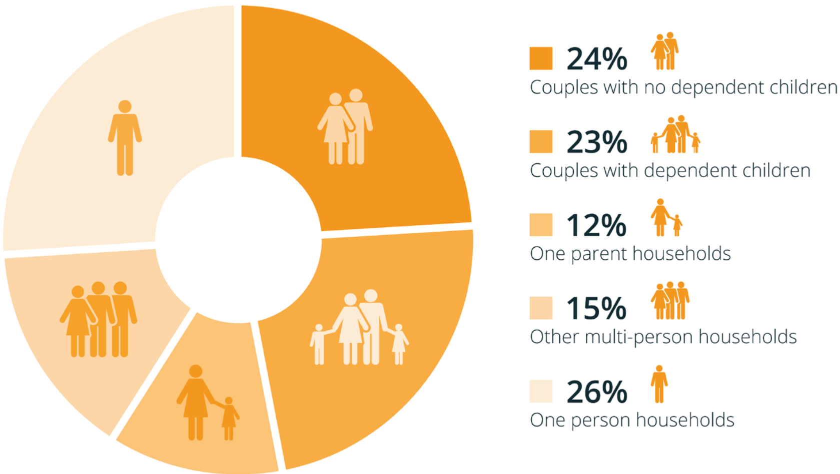
Number and value of buy-to-let mortgages



Source: Council of Mortgage Lenders

A diverse population – PRS tenant breakdown

The perception of renting has changed. Whilst the PRS was once regarded as the tenure of last resort, it is now increasingly popular with young professionals, couples and families. The flexibility of the sector is being recognised by a larger and more varied demographic of people.



Source: English Housing Survey 2013-14

IDEM CAPITAL

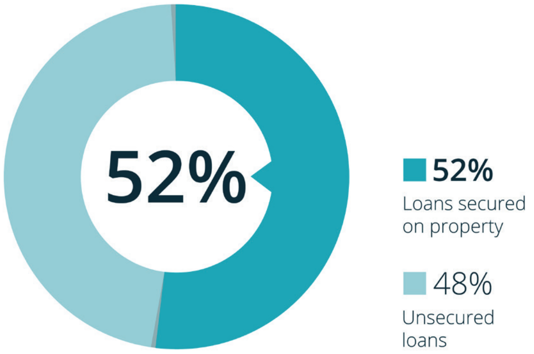
What we do

Idem Capital is a leading UK consumer debt purchaser, acquiring and servicing loan portfolios, including first and second mortgages as well as unsecured assets. In addition, it services loan portfolios for clients including banks, private equity houses and specialist lenders.

Market dynamics

The debt purchase market is expected to continue to grow as established banks restructure to return their business models towards more traditional lending markets.

Idem Capital's loan portfolio by value

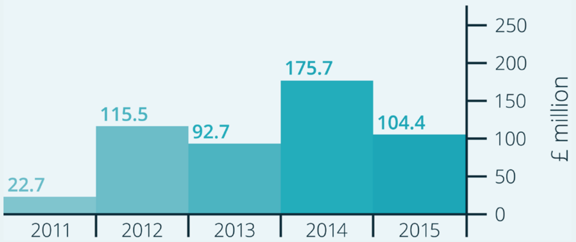


Amounts above as at end September 2015

Idem Capital - Financial Highlights

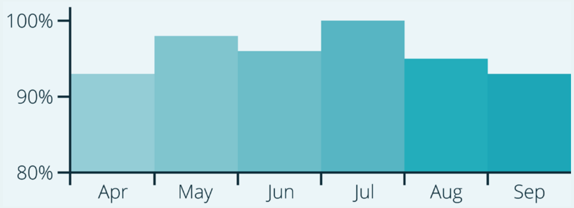
Net investment in loan portfolios between 2011 and 2015

£511.0million



Idem customer satisfaction survey 2015

Idem Capital has managed more than one million customer accounts and we are proud of the reputation we have established for customer service. We assist our customers in managing their accounts and strive to create fair and affordable repayment solutions should they encounter financial difficulties.



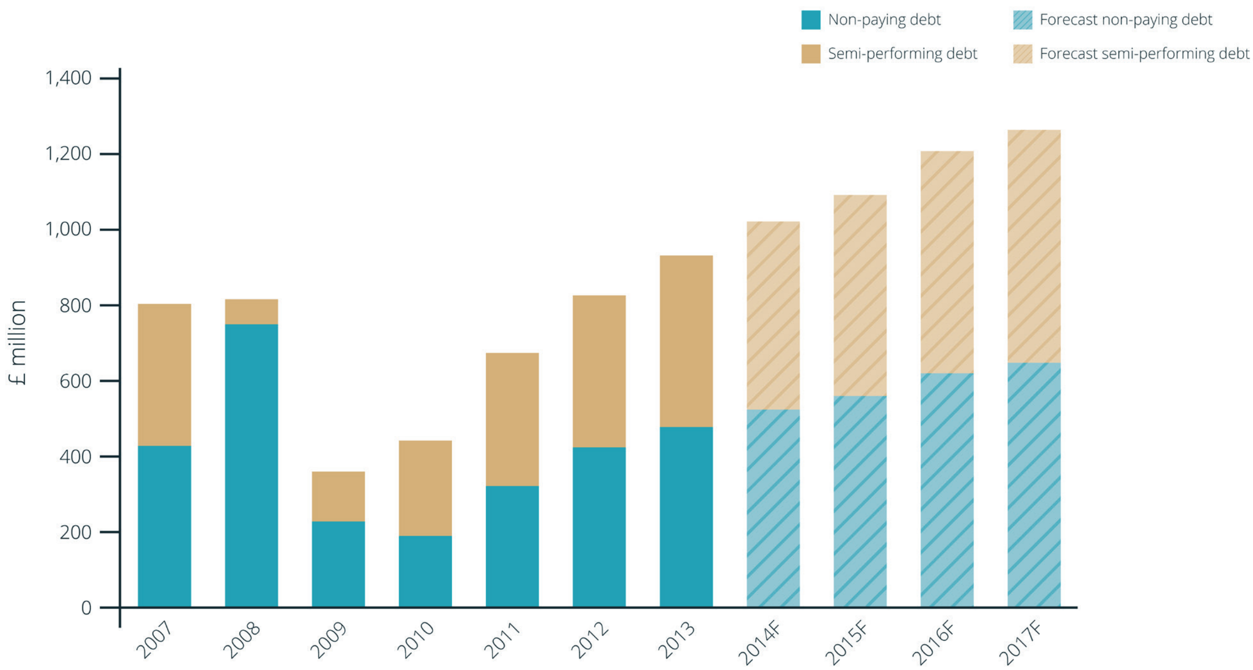
"The Group's expertise in servicing paying debt is one of its core skills and Idem Capital has built a strong position in the debt purchase market by successfully leveraging and building on this capability."

Dave Newcombe
Managing Director – Idem Capital

The UK debt purchase market

The UK's debt purchase market is a well-established, £1 billion plus per annum market with strong growth forecast as banks continue to de-leverage and focus on core lending markets and customers.

The UK debt purchase market



Source: OC&C

PARAGON BANK

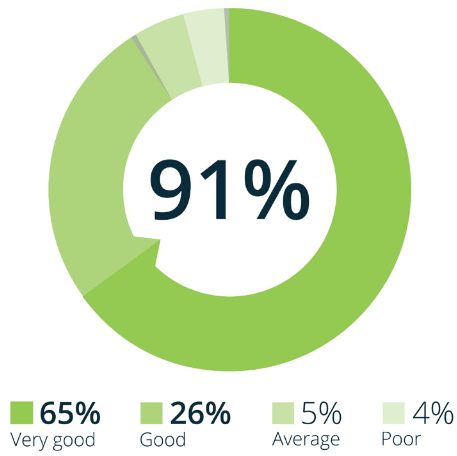
What we do

Launched in 2014, Paragon Bank is a retail deposit-funded lending bank. It offers a range of lending products focused on markets where the Group has extensive experience and has enjoyed previous success. The Bank's lending products include car finance, secured personal loans and buy-to-let products that complement the core range from Paragon Mortgages. In November 2015 the Bank acquired a new SME asset finance business and has plans to grow its lending in this market. Development finance products launched in November 2015.

Retail savings deposits

Paragon Bank funds its lending through a range of safe, simple and transparent online easy access, notice and fixed term savings accounts.

91% of customers found the process of opening an account with Paragon Bank 'good' or 'very good'



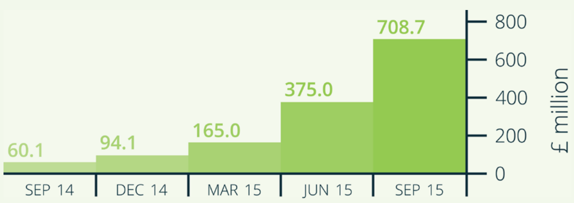
Source: Paragon Bank Customer Experience Survey, August - September 2015

Paragon Bank - Financial Highlights

Retail savings deposits

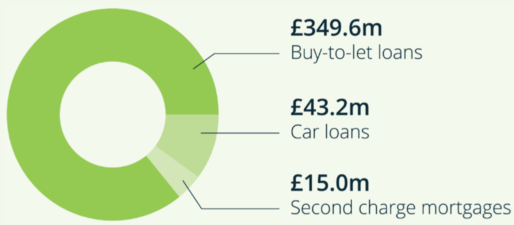
£708.7million

Steady build up since launch in 2014



Loan assets at September 2015

£407.8million



"Paragon Bank provides a unique platform for the Group to extend its lending into new consumer and SME specialist finance markets and to diversify its funding to include retail deposits."

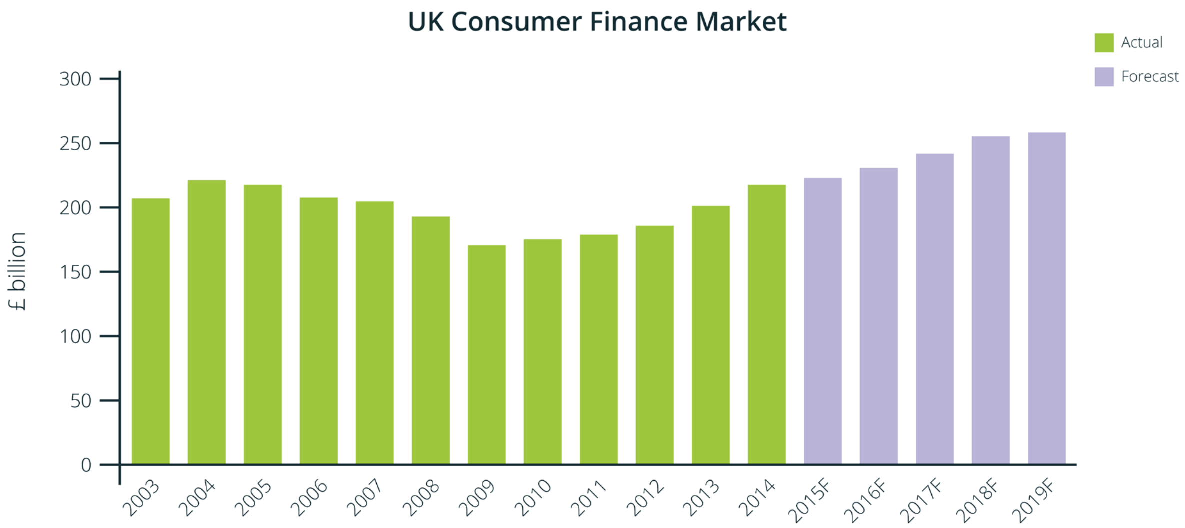
Richard Doe
Managing Director – Paragon Bank

Best new savings provider

Consistently competitive

Paragon Bank's savings products are consistently at or near the top of the best buy tables and its lending products are regularly benchmarked against competitor products to ensure they offer attractive terms.

Paragon Bank was voted Best New Savings Provider by moneynet.co.uk in 2015.



Source: Datamonitor / FLA

According to Datamonitor, the UK consumer finance market is expected to increase by £34 billion to reach £258 billion by 2019. As the UK's largest and longest-established banks restructure and focus more sharply on core lending products, there are opportunities for Paragon Bank to enter and take a share of a range of specialist consumer and SME finance markets.

A2.2 SIGNIFICANT RISKS

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks to which the Group is exposed and which could impact significantly on its ability to conduct its business successfully are summarised below.

CATEGORY	RISK	DESCRIPTION
Business	Economic	A severe downturn in the UK would impact on demand for loans, customer ability to pay and security values
	Concentration	The Group is particularly exposed to the performance of the UK private rented sector, through its buy-to-let activities
	Competition	Operating in actively competitive markets, profitability or market share could be eroded by competitor activity
Credit	Customer	Lending may be incorrectly targeted or customers may become less able to service debt, exposing the Group to loss
	Counterparty	Failure of an institution holding the Group's cash deposits or providing hedging facilities for risk mitigation could expose the Group to loss or liquidity issues
Conduct	Fair outcomes	Failure to deliver appropriate customer outcomes would impact on the Group's reputation and its financial performance
Operational	People	Failure to retain appropriately skilled employees would impact upon the Group's ability to deliver its business plans
	Systems	Substantial IT systems are required to support the operations of the Group and guard against cyber risks. Failure in these systems might result in loss
	Regulation	The Group operates in sectors which are highly regulated and are becoming more so. Compliance failures would risk financial and reputational damage
Liquidity and Capital	Funding	Inability to raise new funds could restrict lending, while changes in the retail savings market could impact the liquidity of Paragon Bank
Market	Interest rates	Reduction in margins between market lending and borrowing rates or mismatches in the Group balance sheet would impact profit
Pension Obligation	Pensions	The obligation to support the Group's defined benefit pensions plan might deplete resources

The Group has considered and responded to all of these risks, mitigating the exposure as far as practicable. Further details of these risks and the mitigants against them are given in section B6.5

A3 CHIEF EXECUTIVE'S REVIEW

Nigel S Terrington
Chief Executive

The year ended 30 September 2015 saw strong profit growth underpinning enhanced returns for shareholders as the Group successfully pursued its strategy of developing and expanding its specialist lending and investment activities across a broader product range, whilst diversifying its funding sources and improving the efficiency of its capital resources.

Underlying profit (appendix C) increased by 10.2% to £134.7 million (2014: £122.2 million) with statutory profit before tax increasing by 9.3% to £134.2 million (2014: £122.8 million) as the loan book grew and margins were enhanced.

This result led to earnings per share increasing by 11.3% to 35.5p (2014: 31.9p) and underlying return on tangible equity, excluding start-up losses attributable to Paragon Bank, improving to 12.1% from 11.5% in 2014 (unadjusted 11.4% (2014: 10.9%)). The performance in the year has enabled the directors to propose an increase of 22.2% in the dividend for the year to 11.0p per share (2014: 9.0p per share), taking the dividend cover ratio to 3.2 times (2014: 3.5 times). £49.7 million of the Company's own shares were acquired in the market under the buy-back programme announced last year, which will be extended by a further amount of up to £50.0 million in the new financial year, improving capital efficiency and further enhancing shareholder returns.

The Group's average loan book grew by 7.0%, driving the increase in the Group's profit and earnings. New buy-to-let lending increased by 102.0% to £1,326.6 million (2014: £656.6 million), with the pipeline of new business being 72.1% greater at £713.7 million at 30 September 2015 (2014: £414.8 million), which should lead to a positive start to the new financial year. Paragon Bank continued to build its flows of originations, with £350.0 million of the buy-to-let completions noted above (2014: £0.5 million) and £59.1 million of consumer finance completions (2014: £5.3 million). Idem Capital added new investments of £104.4 million (2014: £175.7 million net of dedicated funding).

The Group's funding capacity was increased and further diversified in the year. Paragon Bank deposit balances increased to £708.7 million (2014: £60.1 million); a third retail bond was issued, raising £112.5 million; three mortgage backed securitisations raised £828.7 million in total; and warehouse capacity increased to £950.0 million (2014: £550.0 million). The Group was also assigned an investment grade corporate rating by Fitch.

Immediately following the year end the Group announced the purchase by Paragon Bank of the Five Arrows Leasing Group, an established SME asset finance business, from Rothschild & Co for £117.0 million. The purchase, completed on 3 November, has diversified the Group's product range and given additional scale to Paragon Bank's operations and deposit-taking activities. The acquisition provides a significant opportunity for growth and was financed from the Group's existing resources, in line with its objective of improving its capital efficiency over time.

The progress made during 2015 leaves the Group well placed to continue to expand its business through greater levels of organic growth and additional product diversification. There is a strong demand for the Group's products across its various divisions and despite challenges that may arise from increased regulation and taxation changes, further growth is expected to continue in the future. The larger and more diversified funding base supports strong growth, together with giving capacity for other potential acquisitions and capital management activity that will in turn provide increasing returns for the Group's shareholders.

A more detailed discussion of the Group's performance is given below covering:

- Financial performance
- Operational performance and market position for each of the divisions
- Risk and regulatory issues
- Funding
- People

A3.1 FINANCIAL REVIEW

The financial year saw the Group's underlying profit increase by 10.2% to £134.7 million (30 September 2014: £122.2 million) while on the statutory basis profit increased by 9.3% to £134.2 million (30 September 2014: £122.8 million). Earnings per share increased by 11.3% to 35.5p (30 September 2014: 31.9p).

CONSOLIDATED RESULTS

For the year ended 30 September 2015

	2015 £m	2014 £m
Interest receivable	**341.0**	302.4
Interest payable and similar charges	**(143.6)**	(123.0)
Net interest income	**197.4**	179.4
Other operating income	**14.1**	18.5
Total operating income	**211.5**	197.9
Operating expenses	**(71.2)**	(63.4)
Provisions for losses	**(5.6)**	(12.3)
Operating profit before fair value items	**134.7**	122.2
Fair value net (losses) / gains	**(0.5)**	0.6
Operating profit being profit on ordinary activities before taxation	**134.2**	122.8
Tax charge on profit on ordinary activities	**(27.1)**	(25.6)
Profit on ordinary activities after taxation	**107.1**	97.2

Dividend - rate per share for the year	**11.0p**	9.0p
Basic earnings per share	**35.5p**	31.9p
Diluted earning per share	**34.8p**	31.1p

Total operating income increased by 6.9% to £211.5 million (2014: £197.9 million). Within this, net interest income increased to £197.4 million from £179.4 million for the year ended 30 September 2014. This increase reflects both improving margins and growth in the size of the average loan book, which rose by 7.0% to £9,659.2 million (2014: £9,028.7 million) (appendix B). Net interest margins increased slightly in 2015 to 2.04% compared to 1.99% last year (appendix B), driven by new originations and portfolio purchases having higher margins than those assets redeeming in the period and despite some tightening of market funding margins and the cost of funding an increased new business pipeline.

Other operating income was £14.1 million for the year, compared with £18.5 million in 2014. The decrease reflects a lower level of third party fee income earned in Idem Capital with the focus of its operations having been on direct, rather than co-investment opportunities from 2014 onwards.

Operating expenses increased by 12.3% to £71.2 million from £63.4 million for 2014. The operational costs of Paragon Bank, where expenditure will exceed associated revenues whilst the business becomes established, had a significant impact on Group costs in the period. This resulted in the cost:income ratio increasing to 33.7% from 32.0% for 2014 (appendix A), although it remains significantly below the industry average. The underlying cost:income ratio excluding the Paragon Bank segment was, however, broadly stable at 29.3% compared to 28.8% in the year ended 30 September 2014. The increase in non-bank costs was attributable principally to additional employee numbers being required to support increased business levels, with average headcount rising by 9.3% in the year (note 14). The Board remains focused on controlling operating costs through the application of rigorous budgeting and monitoring procedures.

The charge of £5.6 million for loan impairment has reduced from that for 2014 (2014: £12.3 million). As a percentage of average loans to customers (appendix B) the impairment charge has reduced to 0.06% compared to 0.14% in 2014. The Group has seen positive trends in arrears performance over the period, with the incidence of new cases reducing and customers correcting past arrears, whilst increasing property values served to decrease average loan to value ratios in the portfolio and in turn to reduce the overall exposure to losses on enforcement of security. The performance of the Group's post credit crisis lending has been particularly pleasing. The loan books continue to be carefully managed and the credit performance of the buy-to-let book remains exemplary.

Yield curve movements during the period resulted in hedging instrument fair value net losses of £0.5 million (2014: £0.6 million net gains), which do not affect cash flow. The fair value movements of hedged assets or liabilities are expected to trend to zero over time, as such this item represents a timing difference. The Group remains economically and appropriately hedged.

Cash flows from the Group's securitisation vehicle companies and the acquired portfolios remain strong. These, together with debt raisings, financed further investments in loan portfolios, the capital requirements of Paragon Bank and credit enhancement for mortgage originations. Cash was also utilised in the share buy-back programme, which commenced during December 2014 and where £49.7 million had been deployed by 30 September 2015. Free cash balances were £199.9 million at 30 September 2015 (2014: £177.3 million) (note 38).

Corporation tax has been charged at the rate of 20.2%, compared with 20.8% for the last year; the reduction being principally a result of the lower UK Corporation Tax rate applicable to the Group in the year ended 30 September 2015.

Decreasing gilt yields have increased the accounting value placed on the liabilities of the Group's defined benefit pension plan over the year ended 30 September 2015, leading to the deficit under IAS 19 increasing to £21.5 million (2014: £17.3 million). This resulted in an actuarial loss in other comprehensive income of £4.3 million before tax (2014: £2.1 million).

Profits after taxation of £107.1 million (2014: £97.2 million) have been transferred to shareholders' funds, which totalled £969.5 million at the year end (2014: £947.1 million).

The Group continues to adopt the segmental reporting format introduced in 2014, which analyses the business between the three divisions described below.

- Paragon Mortgages includes revenue, in the form of interest and ancillary income, from the Group's first mortgage operations, other than the buy-to-let lending of Paragon Bank, and from other assets remaining in legacy portfolios
- Idem Capital includes revenue generated from assets purchased by the Group's debt investment business, Idem Capital Holdings Limited and third party loan administration activity
- Paragon Bank includes revenue generated from the Group's regulated banking business, Paragon Bank PLC

These are the principal divisions of the Group for which performance is monitored.

The underlying operating profits of these business segments are detailed fully in appendix C to the annual report and are summarised below.

	2015	2014
	£m	£m
Underlying operating profit / (loss)		
Paragon Mortgages	**94.0**	80.5
Idem Capital	**49.3**	48.1
Paragon Bank	**(8.6)**	(6.4)
	134.7	122.2

STRATEGIC REPORT

The Group's loan assets include:

- First mortgage assets, with new originations and legacy assets in Paragon Mortgages, new originations in Paragon Bank and purchased assets in Idem Capital
- Second mortgages, with new originations in Paragon Bank, legacy assets in Paragon Mortgages and purchased assets in Idem Capital
- Car finance loans, with new originations in Paragon Bank and legacy assets in Paragon Mortgages
- Other unsecured consumer lending with purchased assets in Idem Capital and legacy assets in Paragon Mortgages

An analysis of the Group's financial assets by type is shown in note 28.

A3.2 BUSINESS REVIEW

OPERATING SEGMENTS

The Group's investments in loans and the amounts invested in the year for each division are summarised below:

	Advances and investments in the year		Investments in loans at the year end	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Paragon Mortgages	**976.6**	656.1	**9,221.7**	8,842.9
Idem Capital	**104.4**	175.7	**451.0**	426.5
Paragon Bank	**409.1**	5.8	**407.8**	5.8
	1,490.1	837.6	**10,080.5**	9,275.2

Paragon Mortgages

Paragon Mortgages is one of the longest established lending brands in the buy-to-let mortgage market. Alongside its sister brand, Mortgage Trust, Paragon Mortgages maintains a significant presence for the Group in this sector of the UK mortgage market that continues to show strong growth. Trading activity in the year was very strong, with the segment contributing £94.0 million to underlying Group profit (2014: £80.5 million), an increase of 16.8%. The strong pipeline of new business, and the continued success of new business operations indicate good potential for further growth.

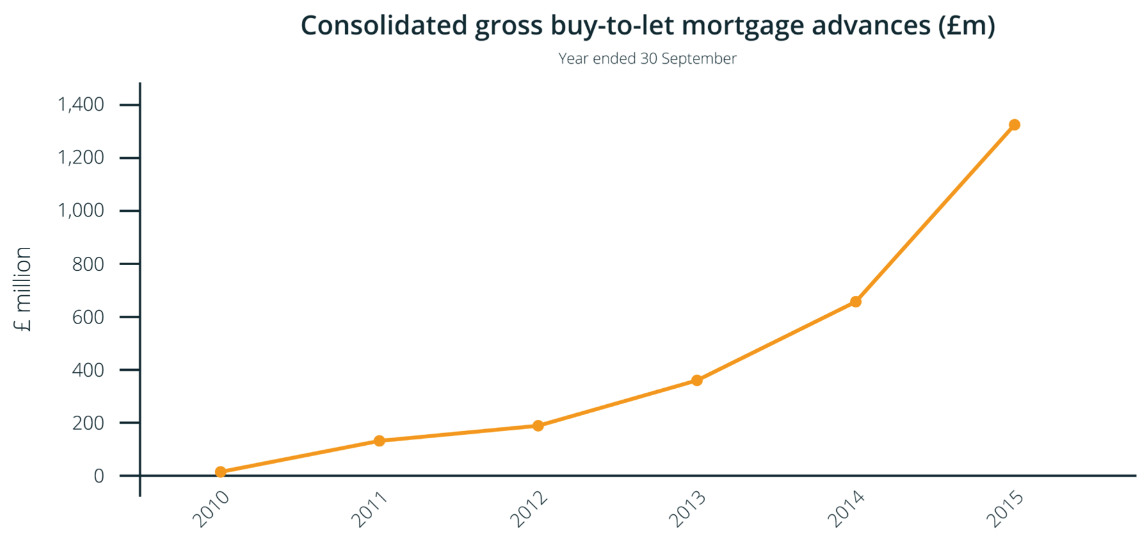
Total loan assets of the Paragon Mortgages segment at 30 September 2015 were £9,221.7 million, 4.3% higher than the £8,842.9 million a year earlier, of which £8,999.1 million were buy-to-let mortgage assets (30 September 2014: £8,575.6 million).

Buy-to-let

	Completions in year		Pipeline at year end	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Paragon Mortgages	**976.6**	656.1	**404.2**	369.5
Paragon Bank	**350.0**	0.5	**309.5**	45.3
	1,326.6	656.6	**713.7**	414.8

A wide range of social, demographic, political and economic factors continue to drive strong growth in private renting, alongside general issues of affordability in the owner occupied sector. Significant amongst these over the year have been the impact of the FCA's Mortgage Market Review ('MMR'), high levels of migration to the UK and the continuing challenge of improving the supply of housing in the UK in the face of population growth and the rate of household formation. This strong and sustained increase in rental demand has led, in turn, to strong demand for buy-to-let finance. The Group has been able to capitalise upon this to a greater extent this year because of the progress made with the Group's strategy of diversification of funding sources, with Paragon Bank making a significant contribution to the Group's performance in buy-to-let lending over the year for the first time. Total advances grew as a result to £1,326.6 million, an increase of 102.0% over the previous year (2014: £656.6 million) with £350.0 million of this advanced by Paragon Bank, as described further below.

The long term trend of the Group's buy-to-let mortgage originations since the global financial crisis is shown below.

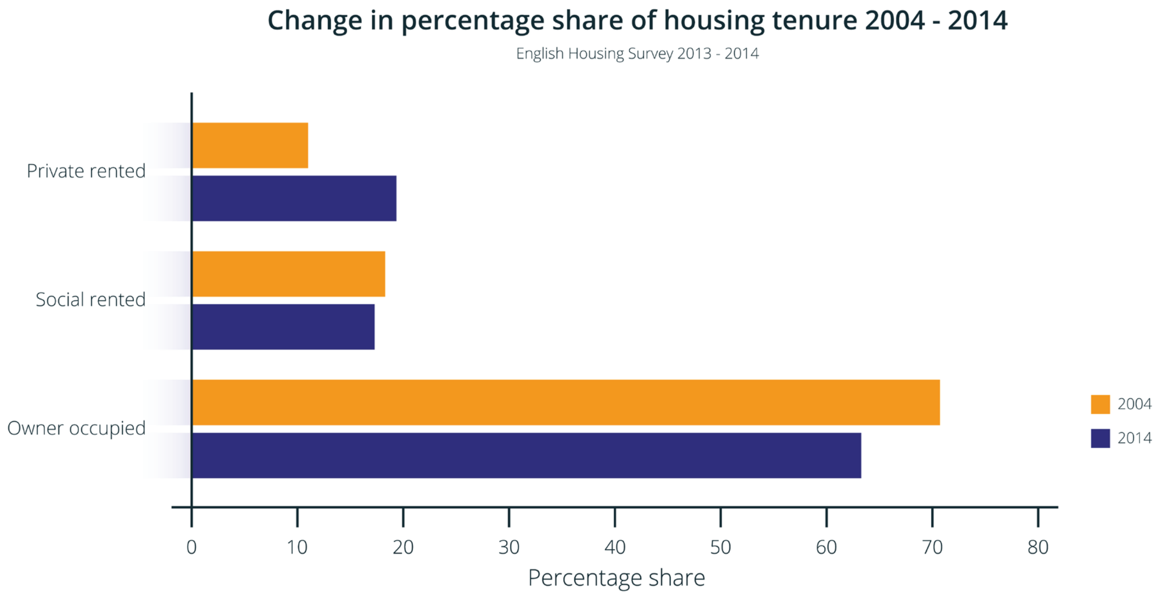


Over the year the Group has expanded its operations to match the enhanced funding capability. This in turn has allowed it to compete more effectively across a wider range of products for landlord customers, illustrated by the expansion of buy-to-let lending to Scotland, funded by retail deposits. As a result the Group saw strong growth in application volumes from January 2015 which in turn has driven a significant increase in completions since the half-year. The pipeline of new business was maintained at high levels across the second half of the year resulting in a pipeline of new business (live cases between application and completion), of £713.7 million at the period end, £309.5 million of which was in Paragon Bank. This total was 72.1% greater than the pipeline of £414.8 million at the end of September 2014 and supports continued high levels of new lending into the next financial year. The credit quality of the new lending business written in the year has remained excellent.

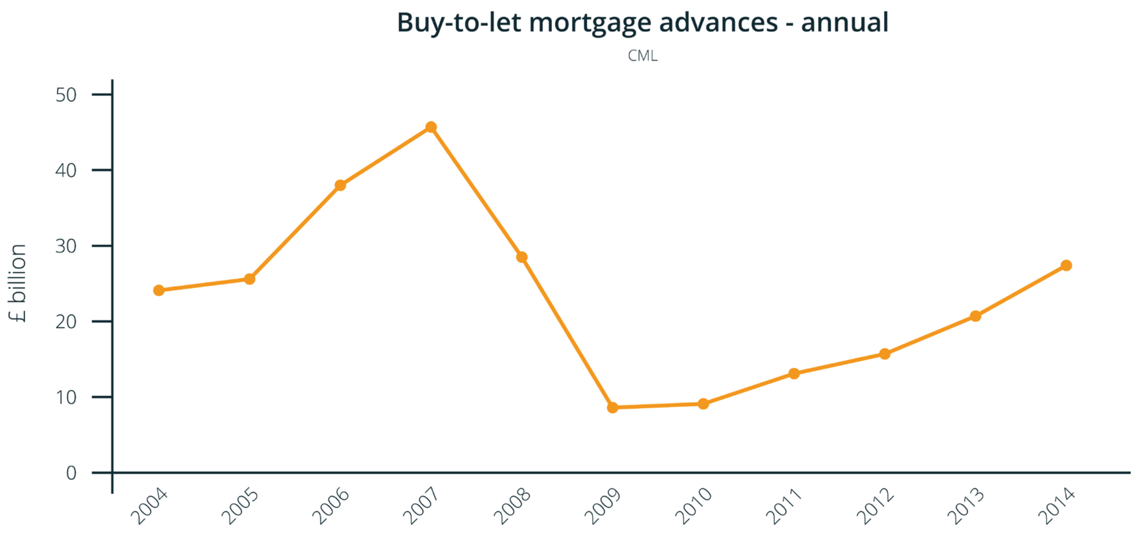
The introduction in the MMR of tougher regulatory requirements for owner-occupier mortgages in the spring of 2014 coincided with the onset of a period of weaker activity in the housing market. However, there has been strong growth in housing transactions reported by the Council of Mortgage Lenders ('CML') since January 2015 with these peaking at 121,000 in July 2015, the highest level seen since the financial crisis. An improved outlook for the economy combined with a decisive outcome in the General Election to drive up consumer confidence, which has resulted in mortgage approvals also reaching a post-crisis high of 136,000 in July with the level of activity in the owner-occupied market boosted by government intervention including the Help-to-Buy scheme. Despite this improved level of activity, house price growth has remained stable with Nationwide assessing the annual rate of growth at 3.8% at the end of September and Halifax reporting 8.6%.

The private rented sector has continued to grow strongly. Data in the annual Survey of English Housing for 2013-14, published in February 2015 by the Department of Communities and Local Government indicated that the private rented sector, comprising 19% of households in England, is now larger than the social rented sector and remains the only growing form of tenure. In broad terms we continue to see a weakening of demand for owner-occupied housing, a static social rented sector and a private rented market that is expanding to fill the gap.

This is illustrated in the chart below, comparing the distribution of tenure in England in 2014 with the position ten years earlier.



Strong tenant demand continued to drive demand for buy-to-let mortgages with CML data for the year ended September 2015 showing £35.2 billion of lending compared to £25.8 billion for the previous year. Whilst growth is strong, in real terms this is a continuation of the recovery rather than a 'boom' in buy-to-let, illustrated by the fact that buy-to-let lending in 2014 was little different to the levels seen ten years ago.



The policy environment for the private rented sector has become more challenging following recent Government announcements. In the summer budget the Chancellor of the Exchequer announced changes to the tax regime for rented property that will result in landlords only being able to claim relief on finance costs at the basic rate of tax, currently 20%, along with the cessation of the 'wear and tear' allowance. An extended lead-in period has, however, been allowed, giving landlords time to adjust their strategies. Research to date by the industry has indicated that the changes will have a muted impact on the motivation for landlords to invest although some reduction in the rate of growth is anticipated and some landlords are expected to look to increase rents to compensate for their increase in costs. We also expect a number of larger scale landlords to transfer their properties into a corporate structure, an area of the market in which the Group has considerable experience and where there is less competitor capability.

The Group's outstanding buy-to-let balances are analysed below:

	2015 £m	2014 £m
Paragon Mortgages	**8,999.1**	8,575.6
Idem Capital	**14.5**	16.0
Paragon Bank	**349.6**	0.5
	9,363.2	8,592.1

At 30 September 2015 the Group's buy-to-let portfolio stood at £9,363.2 million, 9.0% higher than the £8,592.1 million reported a year earlier. The annualised redemption rate on the overall buy-to-let book, although higher than the 4.1% reported for 2014, still remains low at 5.8%, despite the increasing numbers of post credit crisis accounts included in the portfolio. The annualised redemption rate on these loans, at 12.1% (2014: 9.2%), is, as expected, approaching the levels seen before the credit crisis as the book matures. The annualised redemption rate on pre-crisis lending, at 4.4% is little changed from the 4.0% seen in the year ended 30 September 2014. This performance indicates that the Group's landlord customers continue to display a long-term commitment to property investment.

The Group's approach to underwriting remains robust with a focus on the credit quality and financial capability of our customers underpinned by a detailed and thorough assessment of the value and suitability of the property as a security. This approach continues to deliver market leading credit performance across historic and current lending.

New loans continue to be of a high quality, with a good affordability profile, low average loan-to-value ratios and strong customer credit profiles. The credit performance of the portfolio over the year continued to be exemplary, with the percentage of loans more than three months in arrears (note 7) standing at 0.19% as at 30 September 2015 (30 September 2014: 0.25%) and remaining considerably better than the CML's comparable market average of 0.67% at that date (30 September 2014: 0.85%).

Security values have also benefitted from the effect of increased house prices. The Nationwide House Price Index showed appreciation in residential property values of 3.8% over the year (2014: 9.4%), while the indexed loan-to-value ratio of the buy-to-let portfolio at 30 September 2015, at 69.7%, was broadly similar to its level a year earlier of 71.7%. The increase in average prices, however, is part of a more volatile picture, which has been particularly marked at the local and regional level. The Group maintains a specialist team of in-house surveyors to maximise its understanding of particular markets, both from a valuation and lettings standpoint.

The number of properties with an appointed receiver of rent reduced by 13.3% to 1,062 at 30 September 2015 (30 September 2014: 1,225), and 96.9% of the properties available for letting in the receiver of rent portfolio were let at that date (30 September 2014: 97.2%).

STRATEGIC REPORT

Other assets

The Paragon Mortgages operating segment also includes income generated from legacy loan books, including owner-occupied mortgages, car loans, secured consumer loans and unsecured consumer loans. Save for the management of these books in run-off, there has been little activity in recent years in these areas. These assets form a small part of the segment's results, when compared to buy-to-let assets and performed in line with our expectations. Their values are shown below.

	2015	2014
	£m	£m
Owner-occupied mortgages	**47.6**	59.6
Secured loans	**170.0**	201.0
Unsecured loans	**5.0**	6.7
	222.6	267.3

Although the Group has returned to lending in the car finance and secured loan markets, this new lending is through Paragon Bank and is reported under that segment.

Idem Capital

Idem Capital is one of the UK's principal consumer debt buyers and is a servicer of loans for third parties and for co-investment partners. The division's portfolios performed strongly in the year to 30 September 2015 and, with the benefit of new investments made during the year and a firm control of costs, Idem Capital's underlying profit contribution increased by 2.5% to £49.3 million (30 September 2014: £48.1 million).

Activity in the UK debt purchase market remained at a high level during the year, with UK based financial institutions continuing to dispose of both paying and non-paying consumer loans, either as business-as-usual sales or through deleveraging processes. These financial institutions have continued to actively manage and reduce the size of their purchaser panels in recent years, for operational efficiency and to facilitate compliance with regulatory obligations. Idem Capital has maintained its position as an active panel member for the major UK based debt sellers and has participated in several transactions during the course of the financial year.

Idem Capital's investments are summarised below.

	Outstanding balance		**Current year net investment**	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Loan portfolios	**432.9**	407.2	**104.4**	175.7
Co-investments	**18.1**	19.3	**-**	-
	451.0	426.5	**104.4**	175.7

The value of Idem Capital's investments totalled £451.0 million at the year-end (30 September 2014: £426.5 million). Of the total carrying value, including co-investments, 51.9% related to loans secured on property (2014: 63.2%).

At 30 September 2015, the 120 month gross estimated remaining collections ('ERC') for the division's portfolio stood at £677.7 million (30 September 2014: £682.2 million). ERC is a common measure of scale in the debt purchase industry reflecting likely future cash flows from the acquired assets over the next ten years, which will reduce over time as balances are collected. At 30 September 2015 cumulative cash receipts totalled 107.2% of the values predicted at the point the loans were acquired (30 September 2014: 105.3%).

During the year, the Idem Capital division acquired and assumed servicing of a further 107,800 accounts in three principal transactions. After taking into account portfolio run-off, acquired accounts under management increased by 44.7% and total accounts under management (including third-party serviced assets) increased by 14.3%.

The numbers of loan assets managed by Idem Capital and the wider Group are shown below.

	30 September 2015		30 September 2014	
	Number	**%**	Number	%
Idem owned	**277,063**	**59.2%**	191,454	46.1%
Third party	**109,806**	**23.4%**	146,981	35.4%
Idem managed	**386,869**	**82.6%**	338,435	81.5%
Group originated	**81,521**	**17.4%**	76,890	18.5%
Group managed assets	**468,390**	**100.0%**	415,325	100.0%

Following the year end, Idem Capital successfully concluded a transaction to raise external finance for its existing unencumbered unsecured portfolio and to refinance an existing facility on more favourable terms, the division's third external funding transaction. This is discussed further in the funding review in section A3.3 below.

Idem Capital utilises the Group's highly developed loan servicing and collection capability which is used for its own purchases and for co-invested and third party assets. The Group has invested heavily in its compliance infrastructure in recent years and is well placed to deliver the operational standards required by the UK regulatory authorities and by portfolio vendors.

Paragon Bank

Paragon Bank provides the Group with diversification of both income streams and funding sources. It saw strong development in the year and after the year end its profile was significantly enhanced by the acquisition of Five Arrows Leasing Group, adding capability in asset finance and related businesses to the Group's offerings.

The initial costs of developing the Bank's business and product offerings, together with the fixed costs necessitated by the regulatory environment in which it operates, resulted in an underlying loss for the year in this segment of £8.6 million (2014: £6.4 million). This was higher than expected due to the cost of carrying a higher level of retail deposits against the growing loan pipeline. Following the Five Arrows Leasing Group acquisition, the Bank is expected to report a profit in 2016.

Paragon Bank funds its new lending advances and pipeline though savings deposits. The Bank's funding position at 30 September 2015 is summarised below.

	2015	2014
	£m	£m
Retail deposits	**708.7**	60.1
Loans to customers	**(407.8)**	(5.8)
Surplus deposits to cover growth and liquidity	**300.9**	54.3

The Group provided capital of £33.0 million to Paragon Bank during the period (2014: £48.9 million) and its policy is to provide the Bank with sufficient capital to cover its planned requirements over each twelve month period.

During the previous year ended 30 September 2014 Paragon Bank launched car finance, secured personal loan, buy-to-let mortgage and savings products, all of which it has continued to develop through the year. The car finance and secured personal finance businesses are relatively new operations and during the year have focussed on establishing distribution. Buy-to-let loans are generated through existing Group channels and as a result volume growth has been strongest in this area. Further information on each of these businesses is given below. Paragon Bank's loan assets at 30 September 2015 are analysed as follows.

	Current year advances		Outstanding balance	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Buy-to-let	**350.0**	0.5	**349.6**	0.5
Car finance	**43.9**	5.3	**43.2**	5.3
Personal finance	**15.2**	-	**15.0**	-
	409.1	5.8	**407.8**	5.8

Investment in these product lines during the year is expected to produce further organic growth in future periods.

In November 2015 the Bank also launched a short term property development finance product, supported by specialist employees, to broaden the Group's offering to property investors. It continues to investigate further product developments, where these match its risk appetite. In addition to organic product development, it intends to work with the Idem Capital team to identify potential asset purchases that fit with its risk appetite and business model, thereby broadening the scope of both parts of the Group.

Buy-to-let

During September 2014 Paragon Bank commenced offering buy-to-let mortgages, using the Group's existing systems and distribution channels, with distinct and complementary products to those offered by Paragon Mortgages. The Bank's first full year of buy-to-let lending has been very successful, with £350.0 million of advances made (2014: £0.5 million), and a healthy pipeline of business of £309.5 million ready to complete in the new financial year (2014: £45.3 million). Most of this business has been written on 2-year fixed rate products, with an average loan size of just under £200,000, an average loan-to-value ratio ('LTV') of less than 75% and interest coverage ratio of over 140%. There have been no arrears on the business written so far by the Bank. The buy-to-let market is discussed in more detail under 'Paragon Mortgages' above.

Having established itself as a credible provider of good quality buy-to-let products, the Bank will seek further opportunities to lend to good quality applicants on good quality properties with a demonstrable ability to achieve a strong and sustainable rent.

Car finance

The UK car market has continued to grow during the year ended 30 September 2015. During September 2015 463,000 new cars were registered (2014: 426,000) which was the highest number ever recorded for a month, representing the 43rd consecutive month of growth. Calendar year-to-date registrations were 2,097,000 which is a 7.1% increase on the comparable period in 2014 (2014: 1,958,000).

The UK car finance market has also experienced considerable growth, with total finance for the year ended September 2015 reported by the Finance and Leasing Association ('FLA') up 13.2% at £36.1 billion (2014: £31.9 billion), with similar percentage increases witnessed for new and used car funding at £23.7 billion and £12.4 billion respectively (2014: £20.8 billion and £11.1 billion).

The new regulatory authorisation regime introduced by the Financial Conduct Authority ('FCA'), based upon its Consumer Credit Sourcebook ('CONC') is now well progressed with the first application period for firms closing on 1 April 2016. The new regime has been widely adopted in the car market and the new requirements implemented, however, challenges still remain in respect of individual interpretations, particularly those relating to commission arrangements and affordability, both of which are being further reviewed by the FCA in early 2016.

Paragon Car Finance has continued to make good progress during the year and has considerably expanded both its product range and distribution network. Business volumes continue to rise on a monthly basis with the extant book delivering better than expected performance, with total advances of £43.9 million in the year (2014: £5.3 million). None of the Bank's car finance accounts were more than two months in arrears at 30 September 2015 (2014: none).

Personal finance

The second charge mortgage market has experienced significant growth over the year with new business volumes in September 2015 showing a year on year increase by value of 22% to £67 million (September 2014: £55 million) according to FLA data. In contrast, the number of new second charge mortgages fell by 6.8% to 1,577 over the same period (September 2014: 1,692). The average second charge mortgage advance in September was therefore £42,500, a year-on-year increase of 30.8% (September 2014: £32,500).

During the year, Paragon Personal Finance has established relationships with over 60 brokers enabling the business to gain a firm foothold with an estimated monthly market share now approaching 5%. Advances in the year were £15.2 million (2014: £nil) with a pipeline of new business of £4.4 million (2014: £nil). None of the Bank's second charge mortgage accounts were in arrears at 30 September 2015.

Second charge mortgages will become regulated under the FCA's MCOB regime in March 2016 and lenders, brokers and trade bodies are heavily involved in ongoing preparation for the new regulatory environment. Paragon Personal Finance itself is well advanced in terms of systems, procedures and employee training and considers itself well placed to make further market gains over the next twelve months.

Asset finance

The Group acquired Five Arrows Leasing Group Limited, through Paragon Bank, on 3 November 2015, after the year end. This represents a significant strategic broadening of the Bank's scope into the SME asset finance market.

Five Arrows Leasing Group was formed in 1988 and has been owned by Rothschild & Co since 1996. It offers a range of asset finance products, through its subsidiary brands, to UK SMEs, including equipment, vehicle and construction equipment finance and is also a provider of lease servicing.

The Group has identified the SME market as presenting an attractive opportunity to deliver growth, addressing a different market to its existing offerings, whilst using elements of the same skill base. The FLA reports the total market for asset finance for businesses at 30 September 2015 covered £66.3 billion of outstanding balances, with £28.4 billion of advances in the year then ended, and is forecast to grow in coming years. The market is addressed by a range of companies, many with specialist offerings.

The Five Arrows Leasing Group team is highly regarded, has a strong credit ethos and will have a good cultural fit within the wider Paragon business. The product suite of the business currently addresses several distinct segments of the SME market, including some specialised niches, and has several growth opportunities. Five Arrows Leasing Group will form the basis for further SME finance development within Paragon Bank, organically or by further acquisitions. It will be re-branded in the near future to reflect its change in ownership.

Savings

The UK savings market continues to grow strongly, with household savings balances reported by the Bank of England increasing by over £40 billion in the year to 30 September 2015. This strong supply has helped to maintain relatively low savings rates, which only increased marginally in fixed term bond segments over the year.

Retail deposits at 30 September 2015 had reached £708.7 million (30 September 2014: £60.1 million) even though the Bank's savings product range remains reflective of its stage of development, with a focus on attracting term funding to manage interest rate risk and often limiting product availability for short periods of time. Accounts are offered through the internet and include fixed and variable rate savings products. Our straightforward approach and consistently competitive products have been recognised in the industry and by our customers.

Paragon Bank was named as Best New Savings Provider at the fifth annual Moneynet Awards in February 2015 and nominated as a finalist for the Best Online Savings Provider award by Moneyfacts for the second consecutive year in October 2015.

In customer feedback 91% of those opening a savings account with the Bank between August and September 2015 rated the overall savings process as 'good' or 'very good', while 84% stated that they would 'probably' or 'definitely' take a second product with Paragon Bank.

RISK

Following a review in 2014, the Group's risk governance framework is now based upon a formal three lines of defence model which is being embedded in all areas. Credit, Asset and Liability and Operational Risk and Compliance committees, formed of executive management, report to the board Risk and Compliance Committee, the membership of which comprises the Chairman and the independent non-executive directors of the Group.

In the last year we have also consolidated a number of established risk functions into an independent second line Risk and Compliance division headed by a Chief Risk Officer.

The Group's governance structure provides an effective basis for the management of risk within which:

- The ***first line of defence***, comprising executive directors, managers and employees, holds primary responsibility for designing, operating and monitoring risk management and control processes
- The ***second line of defence*** is provided by the Risk and Compliance division, the board Risk and Compliance Committee and its supporting sub-committees
- The ***third line of defence*** is provided by the Group Internal Audit function and the board Audit Committee which are responsible for reviewing the effectiveness of the first and second lines of defence

Further details regarding the governance model together with the principal risks faced by the Group, are detailed within section B6 of this annual report.

REGULATION

In March 2015 the Mortgage Credit Directive Order introduced legislation to move second charge mortgages from the FCA's consumer credit regime to its residential mortgage regime and to implement a new regulatory regime, to be overseen by the FCA, in relation to consumer buy-to-let mortgage contracts. Both these new regimes are to take effect in March 2016.

The Group is putting in place the necessary processes and procedures to comply with both regimes from March 2016 and we do not believe that they will have a material impact on the operation of any of our businesses.

During the period the Financial Policy Committee of the Bank of England ('FPC') was granted powers to regulate owner occupied mortgage lending. The FPC has also requested the power to regulate buy-to-let mortgage lending by reference to loan-to-value, debt to income and interest coverage ratios. HM Government is currently consulting on this request. The Group will keep this exercise under review to determine what impact it might have on its business model.

All relevant Group companies hold the requisite interim permissions from the FCA under the new consumer credit regime and have applied, or will apply, for full authorisations under the consumer credit, second charge mortgage and consumer buy-to-let mortgage contract regimes.

Paragon Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the FCA. The Group is subject to consolidated supervision by the PRA. The current and projected rate of regulatory change, driven by domestic and European policy, is significant, as further aspects of the Basel III supervisory regime are rolled out and the Basel Committee on Banking Supervision consults on further changes. The governance and control structure within Paragon Bank and the wider Group has been established and developed to ensure that the impacts of new requirements on the business are clearly understood and planned for. Regular reports on key regulatory developments are therefore received at both executive and board risk committees.

A3.3 **FUNDING REVIEW**

During the year the Group has continued to pursue its funding strategy of broadening its asset specific financing channels and enhancing its central debt capacity while making increased use of retail savings funding to take advantage of the defensive attributes of this form of funding.

The Group's funding at 30 September 2015 is summarised as follows:

	2015	2014	2013
	£m	£m	£m
Paragon Mortgages	**9,597.1**	9,367.8	9,204.4
Idem Capital	**102.9**	145.1	-
Paragon Bank	**708.7**	60.1	-
Business specific funding	**10,408.7**	9,573.0	9,204.2
Corporate borrowings	**404.9**	293.2	169.1
	10,813.6	9,866.2	9,373.5

Funding markets have been dominated by three key themes during the financial year; the launch of the ECB's quantitative easing programme, the renegotiation of Greece's funding arrangements with the ECB and IMF and concerns surrounding US interest rates. These themes were most pronounced in the latter six months of the financial year.

Paragon Mortgages funding

Buy-to-let mortgage originations outside of Paragon Bank are initially funded through four revolving warehouse facilities totalling £950.0 million at 30 September 2015 (2014: £550.0 million). Existing facilities with Lloyds Bank and Macquarie Bank were increased by £200.0 million in total during the year and a further facility of £200.0 million was agreed with Bank of America Merrill Lynch. This enhanced capacity within the Group, together with the option of using Paragon Bank funding supports the Group's growth plans in the buy-to-let market.

In the longer term buy-to-let mortgage loans are funded through the securitisation markets. Three new public securitisation deals totalling £828.7 million, with senior notes rated AAA were completed in the year. In order to diversify its funding beyond the sterling market, the Group included euro denominated tranches on its Paragon Mortgages (No. 22) PLC and Paragon Mortgages (No. 23) PLC transactions, and these tranches were successfully placed with euro investors.

The Group's 62nd transaction, Paragon Mortgages (No. 24) PLC ('PM24'), for £350.1 million, completed post year-end.

STRATEGIC REPORT

The Group's public securitisations in the current year, the previous year and post year-end are summarised below.

Securitisation	Amount raised £m	Date	Average funding margin (basis points)
Paragon Mortgages (No. 24) PLC	350.1	November 2015	175
Paragon Mortgages (No. 23) PLC	292.5	July 2015	123
Paragon Mortgages (No. 22) PLC	292.5	March 2015	95
Paragon Mortgages (No. 21) PLC	243.7	November 2014	88
Paragon Mortgages (No. 20) PLC	343.0	July 2014	70
Paragon Mortgages (No. 19) PLC	343.0	March 2014	90

During the first six months of the financial year, sterling credit markets were favourable, with swap spreads stable and gilt yields declining to historical lows as inflation expectations reduced. The improved funding backdrop led to an increase in note issuance which was increasingly backed by non-conforming assets and offered to investors at a higher margin than the Group's issuance. This increase in supply led to margins on new issues widening significantly as the year progressed.

PM24 priced in difficult market conditions, reflecting an expectation of increased issuance. In recent months several very large mortgage portfolio sales have taken place, with more expected to follow. We understand that bond investors expect these transactions to be refinanced through the securitisation market during 2016, resulting in substantial additional supply of issuance. This in turn has led to an assumption that wider margins will be needed to achieve that volume, substantially in excess of those at which PM24 was priced, and this expectation has led to higher present margins being demanded by investors on new issues. The Group has significant warehouse capacity and intends to expand the proportion of its buy-to-let advances funded by Paragon Bank, providing the Group with options regarding the timing of its next securitisation transaction.

Alternative markets for Paragon Mortgages funding to the traditional sterling investor base will continue to be rigorously assessed in the interim, including the potential for US dollar issuance.

Idem Capital funding

Following the year end, in October 2015, an Idem Capital special purpose vehicle company ('SPV') entered into an agreement to issue £117.3 million of sterling floating rate notes to Citibank NA. These notes bear interest at a rate of one month LIBOR plus 3.5% and the funds raised were used to re-finance existing Idem Capital unsecured loan assets, previously funded intra-group and through an existing SPV, and are secured on those assets. The transaction raised net new funding of £65.5 million and, following the transaction, 37.9% of Idem Capital's loan investment balances by value at 30 September 2015 were externally funded.

The new borrowings bear interest at a lower rate than the funding they replace and the increase in structured borrowings, on a limited recourse basis, represents a development in funding for Idem Capital, broadening its sources of finance and demonstrating its ability to access third party funding on a more regular basis, offering greater flexibility to the business.

Paragon Bank funding

The Bank currently targets the UK savings market and deposits are accepted over the internet and processed by a highly automated system with significant scope for future expansion.

Initially deposits accepted by the Bank were used to finance its car finance lending operations, expanding into secured lending and increasingly into buy-to-let during the year. By 30 September 2015 Paragon Bank held deposits of £708.7 million (2014: £60.1 million).

Savings balances at the year end are analysed below.

	Average interest rate		Average initial balance		Proportion of deposits	
	2015	2014	**2015**	2014	**2015**	2014
	%	%	**£000**	£000	**%**	%
Fixed rate deposits	**2.33%**	1.90%	**34**	33	**71.7%**	66.2%
Variable rate deposits	**1.62%**	1.85%	**16**	25	**28.3%**	33.8%
All balances	**2.13%**	1.88%	**28**	31	**100.0%**	100.0%

The average initial term of fixed rate deposits was 29 months (2014: 14 months).

Following the year end savings deposits were used to finance a large part of the cash requirement for the Five Arrows Leasing Group acquisition, with balances having exceeded £950 million by the date of this report. With the Bank expected to contribute increasingly to the Group's originations, the scale of its deposit-taking activities is expected to expand materially over the next few years.

Corporate funding

While the Group's working capital has been primarily provided by equity since 2008, in recent years it has expanded its use of corporate debt funding, allowing it to diversify its funding base and extend the tenor of its borrowings.

The Group is now rated by Fitch Ratings, which has ascribed it an initial BBB- rating. With a strategy to increase holding company leverage levels over time, the rating will support long dated corporate debt issuance in both scale and pricing terms. The achievement of this investment grade rating represents a further significant development in the Group's growth and diversification strategy.

The concerns in the funding markets from mid-year onwards also impacted the retail bond market, with demand more subdued than in previous years. Nonetheless, in August 2015, the Group issued £112.5 million of 6.0% sterling bonds due August 2024. The bonds, listed on the London Stock Exchange Order Book for Retail Bonds ('ORB'), were issued to provide additional working capital for the Group. This was the third transaction under a £1.0 billion Euro Medium Term Note Programme announced in January 2013 and renewed to allow further issuance in October 2014. This brought the total issued under the programme to £297.5 million.

Further information on all of the above borrowings is given in note 50.

The additional sources of finance for the Group, together with the Fitch rating, extend and diversify its funding sources, better placing it to support future growth. In the medium term, the Group is targeting a balance between securitised and retail deposit funding for its new lending activities.

CAPITAL MANAGEMENT

The Group has continued to enjoy strong cash generation during the year. Free cash balances were £199.9 million at the year-end (30 September 2014: £177.3 million) (note 38) after investments to support the growth of Paragon Bank, 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, both in the Bank and in the wider group, to invest further amounts in loan portfolios through Idem Capital as banks and other financial institutions continue to dispose of assets and potentially to invest in corporate acquisitions. These cash balances, together with future operational cash flow, will support the Group's growth through investment in these areas.

In view of the strong position of the Group and its confidence in the prospects for the business, the Board is proposing, subject to approval at the Annual General Meeting on 11 February 2016, a final dividend of 7.4p per share which, when added to the interim dividend of 3.6p, gives a total dividend of 11.0p per share for the year. This represents an increase of 22.2% from 2014, bringing the dividend cover to 3.2 times (2014: 3.5 times) (note 6). The Group's dividend policy, established in 2012, is to target a cover ratio of 3.0 to 3.5 times by 2016 and it will continue to target reductions in the cover ratio to the lower end of the target range by 2016.

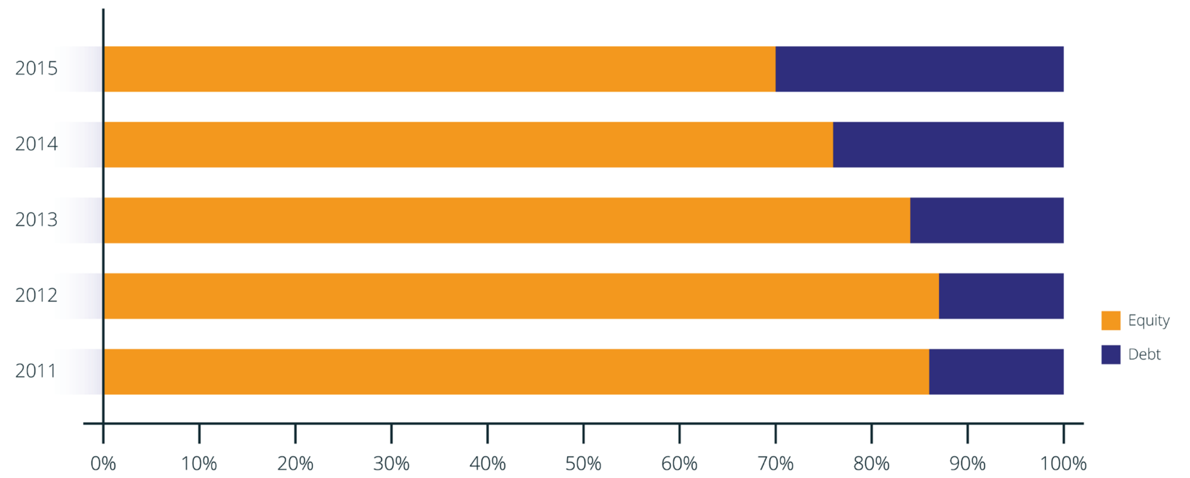
The PRA supervision of the Group referred to above imposes capital adequacy rules upon it. The Group maintains extremely strong capital and leverage ratios, with a CET1 ratio of 19.1% at 30 September 2015 (2014: 19.9%) and a leverage ratio at 7.7% (2014: 8.3%) (note 6) leaving the Group's capital at 30 September 2015 comfortably in excess of the regulatory requirement. Following the acquisition of Five Arrows Leasing Group after the year end, the CET1 ratio will reduce by a little over two percentage points, the final amount to be determined as part of the acquisition accounting.

The Board keeps under review the appropriate level of capital for the business to meet its operational requirements and strategic development objectives. The strength of the Paragon Mortgages and Idem Capital businesses, the diversification which has been achieved in the funding base in recent years and the further opportunities for growth and sustainability provided by Paragon Bank, have now created the foundations on which to develop the Group's next phase of growth.

An analysis of the Group's central funding between corporate debt and equity (note 6) is shown below:

Balance of central funding resources

At 30 September



Given the strong capital base and low leverage in the Company's balance sheet, the Board has determined that the Group should seek to utilise greater levels of debt to support growth and reduce its over-reliance on equity capital, improving returns for shareholders. To enhance this strategy the Group regularly reviews the opportunities available to it to access the sterling senior unsecured debt market and the UK retail bond market to add incremental long-dated debt to the Group balance sheet.

In November 2014 the Group announced a share buy-back programme, initially for up to £50.0 million, to be reviewed periodically to take account of anticipated investment opportunities and the balance of the Group's debt and equity capital resources. During the year the Group bought back 11.7 million of its ordinary shares at a cost of £49.7 million, which are held in treasury (note 47). The Board intends to extend the programme by up to £50.0 million in the financial year ending 30 September 2016. These shares will also be held in treasury.

The Company currently has the necessary shareholder approval to undertake such share buy-backs and will propose the appropriate renewal of the relevant authority at its 2016 Annual General Meeting, when a special resolution seeking authority for the Company to purchase up to 29.6 million of its own shares (10% of the issued share capital excluding treasury shares) will be put to shareholders.

A3.4 MANAGEMENT AND PEOPLE

During the year ended 30 September 2014 the Board reviewed the governance arrangements for the Group. For the purposes of succession planning and to ensure that the Board had in place sufficient non-executive directors to maintain its independence balance in the future (taking into account the dates at which the current non-executive directors would cease to be independent under the requirements of the UK Code on Corporate Governance), it determined that an additional non-executive director should be appointed. It also considered that the increasing demands placed on non-executive directors by the growing size and complexity of the Group further supported this decision.

Following this review, on 24 November 2014, Hugo Tudor was appointed to the Board as a non-executive director. He spent 26 years in the fund management industry, originally with Schroders and most recently with BlackRock, covering a wide range of UK equities. He is a Chartered Financial Analyst and a Chartered Accountant and brings a strong strategic and investor perspective to the Board.

On 1 July 2015 Edward Tilly retired from the Board. Mr Tilly had been a director of the Company since 2008, serving for over two years as Chairman of the Remuneration Committee, before becoming Senior Independent Director in July 2011. Ted's experience and wisdom have been invaluable and his presence on the Board will be greatly missed.

Following a handover period, Fiona Clutterbuck succeeded Mr Tilly in the role of Senior Independent Director of the Group and continues as Chairman of the Risk and Compliance Committee.

The Group has always recognised that its people are its most important asset and are key to its future growth and development. The learning and development of its employees, together with a rigorous recruitment process are a key part of the Group's organic growth strategy and underpin the strong progress it has made. It retains its Gold Investor in People status, reflecting the quality of its internal processes and during the year has continued to act, by invitation, as an Investor in People Champion, sharing its experience with other businesses. This places it in the top 1% of companies in the UK for people development.

The Group prides itself on the fact that its people stay with it for a long time. Its annual employee attrition rate of 11% is below the national average and 33% of its people have been with Paragon for more than ten years, with 12% having achieved over 20 years with the Group. We believe this is due to providing quality development opportunities and creating a place at which people want to work, which has in turn meant that knowledge and experience have been retained in each of our specialist areas. We have continued to add to the team over the past year with an excellent set of people at all levels of the organisation, increasing numbers by 4.9% over the year. We believe our people are well positioned to support the Group's future growth strategy.

The existing operation of Five Arrows Leasing Group, including its people, will transfer across to form part of Paragon Bank. We are looking forward to working with our new colleagues and learning from their skills and experience in asset finance, to further develop our future growth plans.

Succession planning strategy has been an important area of focus during the year, with our key roles identified from a leadership and specialist perspective. Immediate successors are in place for the short term to provide business continuity and our longer term succession plans are being developed, for those with career ambitions and strong potential. This area will remain a priority for the Board during the forthcoming year.

A3.5 **CONCLUSION**

I am delighted to report another year of excellent progress for Paragon, as we continue our strategy of diversifying the Group's income and funding streams, whilst continuing to improve shareholder returns. Paragon Bank's development over a short space of time has been significant and the recent acquisition of Five Arrows Leasing Group takes us into the SME finance market. We are looking forward to working closely with the Five Arrows management team on a business that has substantial growth potential under Paragon's ownership.

The Group's financial performance has been strong, including profit growth of 10.2%. Buy-to-let volumes increased by 102% and our pipeline at the year-end was up 72%. The level of capacity and diversification we have achieved in our funding, including over £950 million in retail deposits raised to date through Paragon Bank, will allow us to capitalise on future growth opportunities.

Capital management remains a priority for the Group. We have delivered improved return on equity, increased the dividend by over 22% and have extended the share buy-back programme by a further £50.0 million as we continue to balance strong growth with increased shareholder returns.

This set of results demonstrates the strength of the Group's existing franchises which are being extended by the ongoing diversification of both our funding and income streams.

Nigel S Terrington
Chief Executive
24 November 2015

A4 FUTURE PROSPECTS

The UK Code of Corporate Governance requires the directors to consider and report on the future prospects of the Group. In particular it requires that they:

- Explain how they have assessed the prospects of the Group and whether, on this basis, they have a reasonable expectation that the Group will be able to continue in operation (the 'viability statement')
- State whether they consider it is appropriate for the Group to adopt the going concern basis of accounting in the preparation of the financial statements presented in section D (the 'going concern statement')

In addition Listing Rule LR9.8.6 R(3) requires the directors to make these statements and to prepare the viability statement in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the FRC in September 2014.

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 Chairman's Statement in section A1 and Chief Executive's review in section A3. The principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described in section B6.5.

Section B6 of this annual report describes the Group's risk management system and the three lines of defence model it is based upon.

Note 6 to the accounts includes an analysis of the Group's working and regulatory capital position and policies, while note 7 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 5.

STRATEGIC REPORT

Financial forecasts

As described under 'Accountability' in section B3.1, the Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows. Detailed plans are produced for a rolling 24 month period with longer term forecasts covering a five year period. These plans provide information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short term and strategic basis.

The plans for the period commencing on 1 October 2015 have been approved by the Board and have been compiled taking into consideration the Group's cash flow, dividend cover, liquidity and capital requirements as well as other key financial ratios throughout the period.

Current economic and market conditions are reflected at the start of the plan with consideration given to how these will evolve over the plan period and affect the business model. The plan is compiled by consolidating separate income forecasts for each business segment and securitisation vehicle to form the top level projection for the Group. This allows full visibility of the basis of compilation and enables detailed variance analysis to identify anomalies or unrealistic movements. Cost forecasts and new business volumes are agreed with the managers of the various business areas to ensure that targets are realistic and operationally viable.

During this process, sensitivity analysis is also carried out on a number of key assumptions that underpin the forecast to evaluate the impacts of the Group's principal risks on profit, cash flow and other key metrics. This is further stress tested as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP'), using a number of severe downside scenarios.

Risk assessment

During the year the directors carried out a detailed risk evaluation facilitated by the Group Chief Risk Officer. As part of this exercise directors were individually required to:

- assess the strength of the Group's risk framework under each of the headings by which the Group categorises risk
- identify present key risk concerns for each part of the business
- identify future key risk concerns for each part of the business over a two to three year time horizon

The results of this exercise were subsequently reviewed by the directors and actions to address areas of concern were determined. Based upon this exercise and their observations throughout the year the directors were able to conclude that the Group's system of risk management was fit for purpose.

A similar exercise also took place with the Group's senior management with similar results.

At the year end the directors reconsidered the results of this exercise and the extent of progress on the identified action areas. They also considered whether there were any subsequent developments which would have impacted on their assessment and whether these had been addressed.

The directors concluded that this process constituted a robust assessment of all of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These principal risks are set out in section B6.5 of the Risk Management Report.

Availability of funding

The securitisation funding structures described in note 7 ensure that both a substantial proportion of the Group's originated loan portfolio and a significant amount of its acquired Idem Capital assets are match-funded. 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 7 are refinanced through securitisation from time to time.

The Group's retail deposits of £708.7 million, accepted through Paragon Bank are repayable within five years. The liquidity exposure represented by these deposits is monitored, a process supervised by the Asset and Liability Committees of the Group and Paragon Bank. The Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 30 September 2015 Paragon Bank held £364.4 million in liquid assets, comprising £41.1 million of short term investments (note 37) and £323.3 million of cash (note 38).

None of the Group's working capital debt matures before 2017, when the £110.0 million corporate bond is repayable.

During the year the Group raised a further £112.5 million of working capital though the issue of retail bonds, increasing the outstanding balance to £297.5 million, none of which is repayable before December 2020. The Group was also granted a public BBB- rating by Fitch, which should increase its access to debt.

The Group also raised external debt finance for its acquired assets in the previous year and after the period end. The Group has therefore significantly enhanced its access to funding for its business during the year and at 30 September 2015 the Group had free cash balances of £199.9 million immediately available for use (note 38).

Viability statement

In considering making the viability statement the directors considered the three year period commencing on 1 October 2015. This aligns with the horizons used for the risk evaluation exercise described above and only includes one year of the less detailed forecasting period.

The directors considered

- the Group's financial and business position at the year end, described in section A3
- the Group forecasts, and the assumptions on which they were based
- the results of the risk assessment exercise and follow up actions taken since it was completed
- the Group's debt issuance in the year and its prospective access to future funding
- stress testing carried out as part of the Group's ICAAP process
- risk monitoring activities carried out by the Risk and Compliance Committee
- internal audit activities in the year

Having considered all the factors described above the directors believe that the Group is well placed to manage its business risks, including solvency and liquidity risks, successfully.

On this basis, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period commencing on 1 October 2015.

While this statement is given in respect of the three year period specified above, the directors have no reason to believe that the Group will not be viable over the longer term. However, given the inherent uncertainties involved in forecasting over longer periods, the shorter period has been adopted.

Going concern statement

In order to assess the appropriateness of the going concern basis the directors considered the Group's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and the potential risks affecting them.

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.

A5 CORPORATE RESPONSIBILITY

The Group believes that the long-term interests of shareholders, employees, customers and other stakeholders are best served by acting in a socially responsible manner. As such, the Group's aim is to ensure that a high standard of corporate governance and corporate responsibility is maintained in all areas of its business and operations.

A5.1 EMPLOYEES

The welfare, development and engagement of the Group's employees are central to developing a strong culture, with employee capability and motivation acknowledged as being central to the delivery of the Group's strategy. Engagement levels are monitored through an annual employee survey. The March 2015 exercise received a response rate of 89% and an overall engagement score of 85%.

Remuneration packages across the business are compliant with the UK's national minimum wage rates. In addition, we are fully committed to the principles of the Living Wage and met this standard for employees in November 2014 and the remainder of the financial year. The Living Wage is an hourly rate set independently, updated annually and calculated according to the cost of living in the UK. We see the Living Wage as an important part of our values and our people strategy and support the Living Wage Foundation's principle of it being good for business, good for the individual and good for society.

Flexible working is actively encouraged across all areas, to promote a work-life balance for individuals and to ensure that the Group retains the skills and experience of its people. The Group monitors working practices to ensure that it complies with the Working Time Regulations to ensure no one is forced to work more than a 48 hour week over an average 17 week period. This includes the monitoring of any second jobs.

When responding to changes in its business, the Group always seeks to minimise the requirement for compulsory redundancy, retraining and redeploying employees wherever possible.

The Human Resources department actively works alongside the Group's management to recruit, develop and retain capable people.

Equality and diversity

The Group is committed to providing a working environment in which employees feel valued and respected and are able to contribute to the success of the business, and to employing a workforce that recognises the diversity of its customers. The Group has invested not only in management training to ensure managers are equipped to support fair working practices, but also in educating all employees to ensure the policy is fully embedded.

The Group's aim is that its employees should be able to work in an environment free from discrimination, harassment and bullying, and that employees, job applicants, customers, retailers, business introducers and suppliers should be treated fairly regardless of:

- race, colour, nationality (including citizenship), ethnic or national origins
- gender, sexual orientation, marital or family status
- religious or political beliefs or affiliations

- disability, impairment or age
- real or suspected infection with HIV/AIDS; or
- membership of a trade union

and that they should not be disadvantaged by unjust or unfair conditions or requirements.

The Group aims to ensure that applications for employment from people with disabilities and other under-represented groups are given full and fair consideration and that all employees have access to the same training, development and job opportunities. Every effort is also made to retrain and support employees who suffer from disabilities during their employment, including the provision of flexible working to assist their return to work.

Composition of the workforce

During the year the workforce has grown by 5% to 1,040 people (2014: 991). Information on the composition of the workforce at the year end is summarised below:

		2015 Females	**2015 Males**	2014 Females	2014 Males
Employees	*(Number)*	**579**	**461**	562	430
	(Percentage)	**55.7%**	**44.3%**	56.7%	43.3%
Management grade employees	*(Number)*	**82**	**109**	72	99
	(Percentage)	**42.9%**	**57.1%**	42.1%	57.9%
Senior managers	*(Number)*	**4**	**17**	4	15
	(Percentage)	**19.0%**	**81.0%**	21.1%	78.9%
Directors	*(Number)*	**1**	**7**	1	7
	(Percentage)	**12.5%**	**87.5%**	12.5%	87.5%

Of these employees, ethnic minority employees comprised 9.7% of the workforce (2014: 13.2%) and 6.3% of management grade employees (2014: 4.7%).

Employees on temporary or short-term contracts accounted for 3% of the workforce (2014: 6.4%).

Our annual employee turnover for the year was 11.0% - below the financial services average of 20.4% reported by the 2014 Xpert HR study.

Composition of the workforce is reviewed on an annual basis and employee satisfaction with equality of opportunity is monitored as part of the regular employee surveys. Human Resources policies are reviewed regularly to ensure that they are non-discriminatory and promote equality of opportunity. In particular, recruitment, selection, promotion, training and development policies and practices are monitored to ensure that all employees have the opportunity to learn and develop according to their abilities.

STRATEGIC REPORT

In March 2015 an externally facilitated and benchmarked employee survey was carried out. Feedback demonstrates that our employees are engaged within their roles with our overall engagement indicator at that time was 85%, which is significantly higher than the financial services sector average of 66%. In addition, 90% of our employees stated that they were proud to work for the Group and 95% said they shared its values.

Training and development

The Group has been accredited under the 'Investors in People' scheme since 1997 and achieved Gold status in February 2013. This demonstrates the Group's commitment to the training and development of all its employees.

In addition, we were also invited by Investors in People to receive Champion Status in May 2014, which is given to organisations who are seen as pioneers in people management practices and role models in strategic leadership and is currently held by only 1% of companies in the UK. This involves the Group in active networking with other organisations and offering mentoring support to smaller organisations that are working towards gaining the Investors in People accolade.

Appraisals are designed to assist employees in developing their careers and to identify and provide appropriate training opportunities, with all employees receiving a review at least annually. Appraisals also provide a method to track individual's progress and identify opportunities to develop them into further roles, thereby supporting the Group's overall succession planning objectives.

The Group's in-house development team deliver leadership development programmes, externally accredited by the Chartered Management Institute ('CMI'), to support our managers.

The corporate training and development strategy focuses on providing opportunities to develop all employees and is central to the achievement of the Group's business objectives. On average employees received 11.4 days training in the year (2014: 13.7 days).

Recruitment

We remain committed to employing individuals from the communities in which we are based and hold open days three times per year to publicise our vacancies. We also run a successful 'refer a friend' scheme whereby employees are awarded with a referral fee if an individual they refer for a role passes probation. This year 38 individuals were successfully recruited through this scheme.

We also engage with local schools and colleges in the Solihull area through careers fairs to offer 'employability workshops' and to promote ourselves as a local employer. In addition, we have offered eleven work experience placements to local students this year.

Employees' involvement

The directors recognise the benefit of keeping employees informed of the progress of the business. The Group operates a People Forum, attended by employee representatives from each area of the business, which exists primarily to facilitate communication and dissemination of information throughout the Group and provides a means by which employees can be consulted on matters affecting them.

Employees are provided with regular information on the performance and plans of the Group, and the financial and economic factors affecting it, through electronic information and presentations.

The Company operates a Sharesave share option scheme and a profit sharing scheme, both of which enable eligible employees to benefit from the performance of the business.

The directors encourage employee involvement at all levels through the appraisal process and communication between directors, managers, teams and individual employees.

Company involvement in industry initiatives on employment standards

This year the business has provided support to external working groups focussing on employment standards organised by industry bodies such as the British Bankers' Association and, in particular, contributing to submissions in respect of:

- European Banking Authority ('EBA') remuneration guidelines consultation (May 2015)
- UK Government consultation on 'Closing the Gender Pay Gap' (July 2015)

Health and Safety policy

It is the Group's policy to comply with the terms of the Health and Safety at Work Act 1974, and subsequent legislation, and to provide and maintain a healthy and safe working environment. Health and safety objectives have been set to minimise the number of instances of occupational accidents and illnesses, while monitoring performance, providing training, raising employee awareness and ultimately achieving an accident-free workplace.

The Group recognises and accepts its duty to protect the health, safety and welfare of all visitors to its premises, including contractors and temporary workers, as well as any members of the public who might be affected by our operations.

While the management of the Group will do all within its power to ensure the health and safety of its employees, it is recognised by all employees that health and safety at work is the responsibility of each and every individual associated with the Group. It is the duty of each employee to take reasonable care of their own and other people's welfare and to report any situation which may pose a threat to the well-being of any other person.

Health and safety policies and procedures are managed by the Group Services Division which liaises with senior management and Human Resources as necessary. A health and safety co-ordinator is employed within Group Services to manage all health and safety matters, including policies, procedures, risk assessments and training records.

All employees are provided with such equipment, information, training and supervision as is necessary to implement the policy in order to achieve the above stated objective. The Group makes available such finances and resources deemed reasonable to mitigate any risks identified.

All injuries, however small, sustained by a person at work are reported internally with the appropriate level of investigation assigned, based on the incident. Accident records are crucial to the effective monitoring and revision of the policy and must therefore be accurate and comprehensive.

The Group recognises the need to ensure that all employees adhere to this health and safety policy and is prepared to invoke the disciplinary process in case of any deliberate disregard for health and safety policies and procedures.

The Group's health and safety policy is continually monitored and updated, particularly when changes in the scale or nature of its operations occur. The policy is reviewed at least every twelve months. Live issues and risks are recorded and monthly management information is issued to the Operational Risk and Compliance Committee and the Occupational Health and Safety Working Group.

BS18001 (The British Standard for Occupational Health & Safety) was obtained during 2013 and is now acknowledged by the third party auditor to be a mature management system. This is highlighted during the audit inspections where the auditor can evidence ongoing reviews and documentation relating to the Group's day-to-day management of risk.

During the year ended 30 September 2015 there have been no prosecutions, reports under the Reporting of Incidents, Disease and Dangerous Occurrences Regulations or any enforcement action from the authorities for non-compliance in respect of health and safety matters. This is in keeping with the Group's record in previous years throughout its 30 year history.

A5.2 **ENVIRONMENTAL POLICY**

The Group is engaged in mortgage and consumer finance and therefore its overall environmental impact is considered to be low. The main environmental impacts of the Group are limited to universal environmental issues such as resource use, procurement in offices and business travel.

The Group's environmental commitment is included within the Health, Safety and Environmental policy that is approved by the Chief Executive and the Human Resources Director and which is publicly displayed in its buildings. Data is collected by the Facilities Team which monitors consumption figures and reports to the business up to board level.

The Group is working to comply with the Energy Savings and Opportunities Scheme (ESOS). This is a UK Government initiative, under an EU Directive, requiring organisations to identify and reduce their energy consumption. The Group is already in the data collection phase of the process to benchmark its current energy consumption to allow it to set achievable targets for reduction. The Group will be appointing an external lead assessor to work with it to verify the evidence required to obtain confirmation of compliance from the Environment Agency. The Group is also in the process of recruiting a Building Services Manager, whose first priority will be to assess energy usage across the Group and make recommendations for its reduction.

The Group complies with all applicable laws and regulations relating to the environment. It operates a Green Charter to raise employees' awareness of recycling and campaigns are also run to reduce various forms of waste such as food, consumables or energy. The Group's Green Charter:

- ensures all buildings occupied by the Group are managed efficiently by its Facilities Team
- encourages employees to conserve energy
- promotes recycling by negotiating contracts and providing facilities to enable employees to re-cycle office waste and other used products
- controls business travel and provides opportunities for employees to travel to work in various ways; such as providing cycle racks
- ensures liaison with the local community
- ensures that redundant IT equipment is disposed of within current directives / regulations (WEEE - Waste Electrical and Electronic Equipment), recycling 98% of such equipment
- ensures that all fluorescent light tubes are disposed of in a safe manner, compliant with appropriate regulations
- arranges for paper waste products to be recycled, securely, by third parties

The Green Charter is kept under continuous review by the Facilities Team.

The Group's paper based stationery is procured from FSC (Forest Stewardship Council) certified suppliers.

The Group operates a Cycle to Work scheme, enabling employees to obtain cycles at preferential rates for commuting purposes.

During the year a new washroom contract was put in place including the installation of smart monitors to the flushing system to reduce water consumption. Light sensors are installed in buildings to detect the absence of movement which automatically turns lights off.

The Group has been involved in no prosecutions, accidents or similar non-compliances in respect of environmental matters.

Performance indicators

The environmental key performance indicators for the Group, determined having regard to the Reporting Guidelines published by the Department for Environment Food and Rural Affairs ('DEFRA') in June 2013, are set out below.

The Group does not consider it has significant environmental impacts under the headings 'Resource Efficiency and Materials', 'Emissions to Land, Air and Water' or 'Biodiversity and Ecosystem Services' set out in the Guidelines, due to the nature of its business activities.

This information is presented for the 12 months ended 30 September in each year and includes all entities included in the Group's financial statements. Normalised data is based on total operating income of £211.5 million (2014: £197.9 million).

Greenhouse gas ('GHG') emissions

	2015	2014
	Tonnes CO_2	Tonnes CO_2
Scope 1 (Direct emissions)		
Combustion of fuel:		
Operation of gas heating boilers	**689**	654
Petrol and diesel used by company cars	**120**	200
Operation of facilities:		
Air conditioning systems	**32**	28
	841	882
Scope 2 (Energy indirect emissions)		
Directly purchased electricity	**1,893**	2,046
Total scope 1 and 2	**2,734**	2,928
Normalised tonnes - scope 1and 2 CO_2 per £m income	**12.9**	14.8
Scope 3 (Other indirect emissions)		
Fuel and energy related activities not included in scope 1 or 2	**285**	312
Water consumption	**8**	8
Waste generated in operations	**7**	16
Total scope 3	**300**	336
Total scopes 1, 2 and 3	**3,034**	3,264
Normalised tonnes - scope 1, 2 and 3 CO_2 per £m income	**14.3**	16.5

There have been no major increases within the capacity of the Group's occupied office space, as a result of which both the absolute and normalised GHG levels have fallen.

A project is in progress to align the building management systems within the Group's premises, which should increase efficiency in the future. The Group has also retained the services of external energy consultants in order to further address issues of consumption and efficiency.

Vehicle fuel usage is based upon expense claims and recorded mileage.

CO2 values above are calculated based on the DEFRA / DECC guidelines published in May 2015. CO2 values for the year ended 30 September 2014 have been restated for the revised conversion factors published by DEFRA / DECC.

The amounts shown above for total scope 1 and scope 2 emissions are those required to be reported under the Companies Act (Strategic Report and Directors Reports) Regulations 2013. Other scope 3 emissions not reported above are not considered to be significant.

STRATEGIC REPORT

Power usage

The Group uses mains electricity and natural gas from the UK grid to provide heat light and power to its office buildings. The amount of power used in the year ended 30 September 2015 is shown below.

	2015	2014
	MWh	MWh
Electricity	**3,564.0**	3,592.8
Natural gas	**3,736.1**	3,536.9
	7,300.1	7,129.7
Normalised MWh per £m income	**34.5**	36.0

Gas and electricity usage is based on consumption recorded on purchase invoices.

Water usage

The Group's water usage is limited to the consumption of piped water in the UK and no water is extracted directly. Water usage in the year ended 30 September 2015 was 7,973m^3 (2014: 7,766m^3), based upon consumption recorded on purchase invoices, a normalised amount of 37.7m^3 per £m income (2014: 39.2m^3 per £m income).

Waste

The Group's waste output consists of general office waste which includes a mixture of principally paper and cardboard with some wood, plastics and metal. All the Group's waste is either recycled or sent to landfill.

Amounts of waste generated in the year ended 30 September 2015 together with the methods of disposal are shown below.

	2015	2014
	Tonnes	Tonnes
Recycled	**85**	87
Landfill	**52**	69
	137	156
Normalised tonnes per £m income	**0.65**	0.79

Waste generation data is based upon volumes reported on disposal invoices. The Group provides facilities in its offices for recycling paper, cardboard, newspapers, glass, plastics and aluminium and steel cans. Batteries, printer and photocopier cartridges are collected and sent for recycling.

A5.3 **SOCIAL, COMMUNITY AND HUMAN RIGHTS**

The Group's activities are based wholly within the United Kingdom. It operates within the legal and regulatory framework of the UK, acknowledging the importance of corporate responsibility and citizenship in its relationships with its customers, the wider community and other stakeholders.

Commitment to our customers

The Group places the needs of customers at the heart of its day-to-day operations. With a commitment from the Board, fairness to our customers is a key consideration and objective at all stages of the lifetime of a loan.

Our vision is to become the UK's most highly regarded specialist provider of finance for people. Putting the interests of our customers at the heart of what we do is an integral part of achieving that objective and we want our customers to have confidence that we will always treat them fairly. The Group therefore strives to ensure that:

- products and services are designed to meet our customers' needs
- customers are given clear, jargon free information
- products perform as customers have been led to expect
- customers do not face unreasonable post-sale barriers to change a product, switch provider, submit a claim or make a complaint
- high quality customer service is provided

We believe our desire to achieve positive outcomes for our customers is an important commercial differentiator which has helped us build strong and positive relationships over many years.

An example of this approach is the way that new customers are welcomed to the Group following portfolio acquisitions made through our Idem Capital business. A change of lender can be confusing for customers so we have robust processes aimed at supporting them at this time and throughout the life of their relationship with the Group.

This pro-active approach accords with the FCA's Principles for Business, particularly with regard to treating customers fairly and ensuring the way in which we communicate is clear, fair and not misleading. We ensure that we know how well we are performing in respect of these requirements, regularly adjusting what we do to deliver better customer solutions.

The Board and executive management are committed to maintaining and developing this culture across the Group.

Complaint handling

We understand that we do not always get things right first time and all complaints from our customers are taken very seriously. We acknowledge each complaint promptly and then work with customers to understand their feedback, investigating fully and responding swiftly in a fair and open manner.

Where applicable, we provide 'Alternative Dispute Resolution' information to customers to allow them to appeal to independent sources if they are not happy with our response. These include the Financial Ombudsman, the FLA and the Credit Services Association.

We genuinely view every complaint as an opportunity to improve our business, an opportunity to identify where we are going wrong and, most importantly, an opportunity to put things right for our customers.

Supporting the community

The Group contributes to registered charities relating to financial services or serving the local communities in which it operates. Contributions of £1,045,000 (2014: £1,137,000) were made by the Group during the year to the work of the Foundation for Credit Counselling which operates the StepChange Debt Charity. The Group also contributed to charities throughout the year by way of single donations.

Other charitable contributions made in the year totalled £19,000 (2014: £17,000). The Group's main objective is to support children's and local charities, although no charity request is overlooked. During the last year the Group has helped many and varied charities and causes such as: Macmillan Cancer Support, The Alzheimer's Society, Get Set Girls, Army of Angels, Chelmsley Colts FC, Strongbones Charitable Trust, Ward 19 Charity, County Air Ambulance, Our Lady of Compassion School, Children with Cancer, Age UK Solihull and 3H Fund Helping Hands.

Employees have been making a difference to the local community in many ways. This year employees have:

- delivered workshops in local schools and colleges focussing on financial awareness and employability skills
- donated over 100 shoeboxes for local Samaritan project 'Operation Christmas purse'; and
- made regular contributions to local food banks

The Group also supports Paragon's Charity Committee, consisting of volunteer employees, which organises a variety of fundraising activities throughout the year. In the calendar year 2014, £14,200 was raised for Wythall Animal Sanctuary and Libby Mae's Little Angels, while in the first nine months of 2015 £8,500 has been raised for Help Harry Help Others. All employees are given the opportunity to nominate a charity each year and a vote is carried out to select the charity or charities to benefit from the following year's fundraising.

Taxation payments

The Group's tax strategy is to comply with all relevant tax obligations while cooperating fully with the tax authorities. The Group recognises that in generating profits which can be distributed to shareholders it benefits from resources provided by government and the payment of tax is a contribution towards the cost of those resources. The Group will only undertake tax planning that supports commercial activities and in the UK context is not contrary to the intention of Parliament.

As a result of the authorisation of Paragon Bank PLC in February 2014 the Group became subject to The Code of Practice on Taxation for Banks ('the Bank Tax Code') as published by Her Majesty's Revenue and Customs ('HMRC') in March 2013. During the year the Group confirmed to HMRC that it was unconditionally committed to complying with the Bank Tax Code, and formally approved the Group's tax governance policies and the tax strategy outlined above.

The Group has an open and positive relationship with HMRC, meeting with their representatives on a regular basis, and is committed to full disclosure and transparency in all matters.

The Group is resident and operates in the UK and its tax payments to the UK authorities include not only corporation tax but also substantial payroll taxes. The amounts of the Group's cash payments to UK national and local tax authorities in the year, including PAYE and NI contributions deducted from employee wages and salaries were as follows:

	2015	2014
	£m	£m
Corporation tax	**22.6**	17.4
PAYE and National Insurance	**20.0**	17.9
VAT	**0.3**	0.3
Stamp duty	**0.2**	1.0
Total national taxation	**43.1**	36.6
Business rates	**1.3**	1.1
	44.4	37.7

Business practices

The Group carries out its business fairly, honestly and openly. It has an anti-bribery and corruption policy, endorsed by the directors and operated throughout the Group. It will not make bribes, nor will it condone the offering of bribes on its behalf. It will not accept bribes, nor will it agree to them being accepted on its behalf and will avoid doing business with those who do not accept its values and who may harm its reputation.

The Group has carried out the risk assessment required by the Bribery Act 2010 and concluded that it is not a company with a high risk of bribery. The Group conducts all of its business within the UK and its only significant outsourcing arrangement relates to the administration of its savings operations by the outsourcing arm of a major UK building society. However, the Group takes its responsibilities seriously and will not tolerate bribery on any scale and as such policies have been strengthened and new ones introduced where appropriate.

The Group's policies cover the conduct of its business, the Group's interaction with suppliers and contractors and the giving or receiving of gifts and corporate hospitality. It prohibits facilitation payments. Before new suppliers are approved, the Group's procedure requires that they must be assessed against the requirements of the anti-bribery and corruption policy.

All employees are required to read the Group's anti-bribery and corruption policy and sign to confirm their acknowledgement, understanding and acceptance of its requirements. The anti-bribery culture forms part of the induction course for all new employees and is reinforced at subsequent training sessions. Any employee found to be in breach of these policies will be subject to disciplinary action. No such disciplinary action has taken place in the year ended 30 September 2015.

The Group Chief Risk Officer, in conjunction with the Head of Financial Crime, who is part of the 'second line' Risk and Compliance function, is responsible for ensuring the Bribery Act risk assessment and resulting policies and procedures are in place and reviewed on a regular basis. They are also responsible for ensuring any changes in the law are noted and applied to the Group's policies and procedures, where appropriate.

The Head of Internal Audit is responsible for providing assurance that the business heads have the appropriate controls in place to ensure all employees adhere to the anti-bribery and corruption policies and procedures at all times.

The Group has not been involved in any prosecutions, fines, penalties or similar non-compliances in respect of bribery and corruption.

Human rights

The Group operates exclusively in the UK and, as such, is subject to the European Convention on Human Rights and the UK Human Rights Act 1998.

The Group respects all human rights and in conducting its business the Group regards those rights relating to non-discrimination, fair treatment and respect for privacy to be the most relevant and to have the greatest potential impact on its key stakeholder groups of customers, employees and suppliers.

The Board and the Group Chief Risk Officer have overall responsibility for ensuring that all areas within the Group uphold and promote respect for human rights. The Group seeks to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through its policies and procedures and, in particular, through its policies regarding employment, equality and diversity, treating customers fairly and information security. Group policies seek both to ensure that employees comply with the relevant legislation and regulations in place in the UK and to promote good practice. The Group's policies are formulated and kept up to date by the relevant business area, authorised in accordance with the Group's governance procedures and communicated to all employees through the Human Resources Policies Manual.

The Group is aware of the provisions of the Modern Slavery Act 2015 which include the requirement to publish a Slavery and Human Trafficking Statement, which is expected to apply to the Group for the first time in respect of the financial year ending 30 September 2016. The Group is considering guidance and emerging best practice in this field as it develops and currently considers that it is well placed to make the required statement.

The Group undertakes extensive monitoring of the implementation of all of its policies and has not been made aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

A6 APPROVAL OF STRATEGIC REPORT

Section A of this Annual Report comprises a Strategic Report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

It should be noted that the Strategic Report has been prepared for the Group as a whole, and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiaries when viewed as a whole.

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

Pandora Sharp
Company Secretary
24 November 2015

B CORPORATE GOVERNANCE

How the Group is run and how risk is managed

B1 Chairman's statement on corporate governance **PAGE 59**
An overview of governance in the year

B2 The Board of Directors **PAGE 60**
The directors and their qualifications

B3 Corporate governance **PAGE 64**
The system of governance, how the Board operates and how the Group complies with the UK Corporate Governance Code

B3.1 Governance framework PAGE 64
B3.2 Nomination Committee PAGE 71

B4 Audit Committee **PAGE 72**
How the Group controls its external and internal audit processes and its financial reporting systems

B4.1 Statement by the Chairman of the Audit Committee PAGE 72
B4.2 Operations of the Committee PAGE 73
B4.3 Significant issues addressed in relation to the financial statements PAGE 73
B4.4 External auditor PAGE 76
B4.5 Internal audit PAGE 78
B4.6 Whistleblowing PAGE 79

B5 Directors' remuneration report **PAGE 80**
Policies and procedures determining how directors are remunerated

B5.1 Statement by the Chairman of the Remuneration Committee PAGE 81
B5.2 Annual report on remuneration PAGE 83
B5.3 Policy report PAGE 105
B5.4 Approval of the Directors' Remuneration Report PAGE 113

B6 Risk management **PAGE 114**
How the Group identifies and manages risk in its businesses

B6.1 Statement by the Chairman of the Risk and Compliance Committee PAGE 114
B6.2 Risk governance PAGE 115
B6.3 Risk management culture PAGE 117
B6.4 Risk management framework PAGE 117
B6.5 Principal risks and uncertainties PAGE 120

B7 Directors' report **PAGE 129**
Other information about the structure of the Group required by legislation

B8 Statement of directors' responsibilities **PAGE 133**
Statement of the responsibilities of the directors in relation to the preparation of the financial statements

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

B1 CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

Dear Shareholder

As I noted earlier, governance is central to the operations and structure of the Paragon Group and corporate governance is an essential part of the ethos of the Board.

During the year ended 30 September 2015 we have built on and embedded the revised governance framework introduced from May 2014. The Risk and Compliance Committee has now completed its first full year of operation, together with its sub-committee the Operational Risk and Compliance Committee, and June 2015 saw the appointment of the Group's first Chief Risk Officer who will lead a newly established and reinforced Risk and Compliance team.

In July 2015 Fiona Clutterbuck was appointed as Senior Independent Director. Fiona holds this position in another organisation and this experience, together with her knowledge of the Group and the Board means that she brings significant expertise to this important role.

I would like to express my thanks and those of the Group as a whole to Ted Tilly who has been a director since 2008 and helped steer the Group through both the financial crisis and its developments over recent years. We wish him well in his retirement.

In November 2014 we welcomed Hugo Tudor to the Board and he has proved a strong and positive fit, bringing an investor perspective to the Board's discussions. A tailored induction was provided for Hugo and this is reported on further in section B3 below.

The major activities of the Board during the year, in addition to its regular business, were:

- Reviewing and ultimately approving the potential acquisition of Five Arrows Leasing Group
- Considering, in conjunction with the Risk and Compliance Committee, the Group's Internal Capital Adequacy Assessment Process ('ICAAP') and, in addition, reviewing that of Paragon Bank PLC. These represented the first ICAAPs undertaken across the Group since the Bank became fully operational
- Approving the Audit Committee's recommendation for the appointment of KPMG LLP ('KPMG') as external auditors to the Company and the Group, in succession to Deloitte LLP ('Deloitte')
- Updating its Conflicts of Interest policy to ensure that it reflects current best practice and the current operations of the Group

In the financial year ending 30 September 2016 a main area of focus for the Board will be on ensuring that the incorporation of Five Arrows Leasing Group into Paragon Bank maintains the high level of governance that the Board expects. In addition the ongoing regulatory developments in certain areas of the business will be reviewed and considered by the Board from an independently objective standpoint.

The Board will also be undertaking its triennial externally facilitated board evaluation during the coming year and the results of this exercise will be reported on in the next annual report and accounts. In addition the Board will review guidance arising from the FRC's recently published discussion paper on UK board succession planning against its current practices.

I have had the pleasure of engaging with various shareholders and other stakeholders during the year and I look forward to continuing to reflect on their views and challenges as part of the Board's ongoing commitment to corporate governance, as both the Group's operations and the corporate governance environment develop in the future.

Robert G Dench
Chairman
24 November 2015

B2 BOARD OF DIRECTORS

Directors of the company at the year end were:

	Robert G Dench (Age 65)	**Nigel S Terrington** (Age 55)
	Chairman	**Chief Executive**
APPOINTED TO THE BOARD	**Non-executive director:** 2004 **Chairman:** 2007	**Finance Director:** 1990 **Chief Executive:** 1995
COMMITTEE MEMBERSHIP	**Chairman:** Nomination Committee **Member:** Remuneration Committee and Risk and Compliance Committee	**Member:** Nomination Committee
PREVIOUS BOARD AND MANAGEMENT EXPERIENCE	During an extended career with Barclays he held a number of senior positions in the UK and overseas, leaving in 2004.	Nigel began his career in investment banking, working for UBS. He joined the Group in 1987 as Treasurer, before being appointed as Finance Director and then Chief Executive. He has been Chairman of the CML, Chairman of the Intermediary Mortgage Lenders Association ('IMLA'), Chairman of the 'FLA' Consumer Finance Division and a Board member of the FLA. He is an associate of the Chartered Institute of Bankers.
CURRENT EXTERNAL APPOINTMENTS	Non-executive director of AXA UK PLC and Chairman of AXA Ireland Limited and other AXA Group companies.	Member of HM Treasury's Home Finance Forum, the Bank of England's Residential Property Forum and the Chairman's Executive Committees of the CML.

KEY

Non-Executive Directors | Executive Directors | Audit Committee | Nomination Committee | Remuneration | Risk and Compliance Committee

Richard J Woodman (Age 50)

Group Finance Director

Director of Corporate Development: 2012
Group Finance Director: 2014

None.

Richard joined the Group in 1989 and has held various senior strategic and financial roles, including Director of Business Analysis and Planning and Managing Director of Idem Capital. He has taken a lead role in the Group's strategic development and, in particular, in the loan portfolio acquisition programme through Idem Capital. Richard is a member of the Chartered Institute of Management Accountants.

None.

John A Heron (Age 56)

Managing Director Paragon Mortgages

2003

None.

John joined the Group in January 1986 and is the Group's longest serving employee. He played a pivotal role in re-establishing the Group's mortgage lending operations in 1994 as Managing Director of Paragon Mortgages. John is responsible for the Group's first mortgage business. He is a fellow of the Chartered Institute of Bankers.

Chairman of the CML buy-to-let panel and a board member of IMLA.

B2 BOARD OF DIRECTORS

paragon

		
	Alan K Fletcher (Age 65)	**Peter J N Hartill** (Age 66)
	Non-executive Director	**Non-executive Director**
APPOINTED TO THE BOARD	2009 - Six years served	2011 - Four years served
COMMITTEE MEMBERSHIP	**Chairman:** Remuneration Committee **Member:** Audit Committee, Nomination Committee and Risk and Compliance Committee	**Chairman:** Audit Committee **Member:** Nomination Committee, Remuneration Committee and Risk and Compliance Committee
PREVIOUS BOARD AND MANAGEMENT EXPERIENCE	Alan has considerable experience in financial services, including pension fund trusteeship and investment fund management. He was Chairman of Nevill James Holdings prior to its acquisition by Challenger International of Australia, following which Alan was Sales and Marketing Director of Challenger Group Services and a director of Challenger Life (UK) between 2002 and 2003. Alan was Chairman of the professional training company, Fresh Professional Development between 2003 and 2010 and was a member of the General Synod of the Church of England between 2007 and 2010. Alan has also served as Director and Trustee of Paragon Pension Trustees Limited since 2010.	Peter spent forty years with Deloitte, becoming a senior audit partner and a business advisor with experience across a wide range of industries and business issues. Specifically he has considerable experience in acquisitions and disposals, capital raising, risk control and corporate governance in the financial services sector. He is a Chartered Accountant and has been Chairman of the Audit Committee since 2011, meeting the requirement for an appropriately qualified person to fill that role.
CURRENT EXTERNAL APPOINTMENTS	Trustee of the Church of England Pensions Board since 2009, member of its Pensions Committee and Chairman of its Investment Committee. Chairman of the Diocese of Leicester Investment Committee and member of the Finance Committee of Leicester Cathedral. Director of CEPB Mortgages Limited since February 2010.	Chairman of Deeley Group Limited and a non-executive director of Scott Bader Limited.

KEY

Non-Executive Directors | Executive Directors | Audit Committee | Nomination Committee | Remuneration | Risk and Compliance Committee

Fiona J Clutterbuck (Age 57)

Non-executive Director and Senior Independent Director

2012 - Three years served

Chairman: Risk and Compliance Committee

Member: Audit Committee, Nomination Committee and Remuneration Committee

Fiona has many years of corporate finance experience at leading UK and international investment banks, specialising in financial institutions. During her career, Fiona has held the positions of Managing Director and Head of Financial Institutions Advisory at ABN AMRO Investment Bank, Managing Director and Global Co-Head of Financial Institutions Group at HSBC Investment Bank and was a Director at Hill Samuel Bank Limited.

Head of Strategy, Corporate Development and Communications at Phoenix Group. Senior independent director of WS Atkins PLC.

Hugo R Tudor (Age 52)

Non-executive Director

2014 - One year served

Member: Audit Committee, Nomination Committee, Remuneration Committee and Risk and Compliance Committee

Hugo spent 26 years in the fund management industry originally with Schroders and most recently with BlackRock, covering a wide range of UK equities. He is a Chartered Financial Analyst and a Chartered Accountant and brings an investor perspective to the Board.

Director of Damus Capital Limited.

B3 CORPORATE GOVERNANCE

B3.1 GOVERNANCE FRAMEWORK

The Board is responsible for overall Group strategy and for the delivery of that strategy within a strong corporate governance and corporate responsibility framework. That framework is described in the following pages.

The Board of Directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council ('FRC') in September 2014 and which is publicly available at www.frc.org.uk. Throughout the year ended 30 September 2015 the Company complied with the provisions of the Code.

Leadership

The Board of Directors is responsible for overall Group strategy, for approving major agreements, transactions and other financing matters and for monitoring the progress of the Group against budget. All directors receive sufficient relevant information on financial, business and corporate issues prior to meetings and there is a formal schedule of matters reserved for decision by the Board, which includes material asset acquisitions and disposals, granting and varying authority levels of the Chairman and the executive directors, determination and approval of the Group's objectives, strategy and annual budget, investment decisions, corporate governance policies and financial and dividend policies.

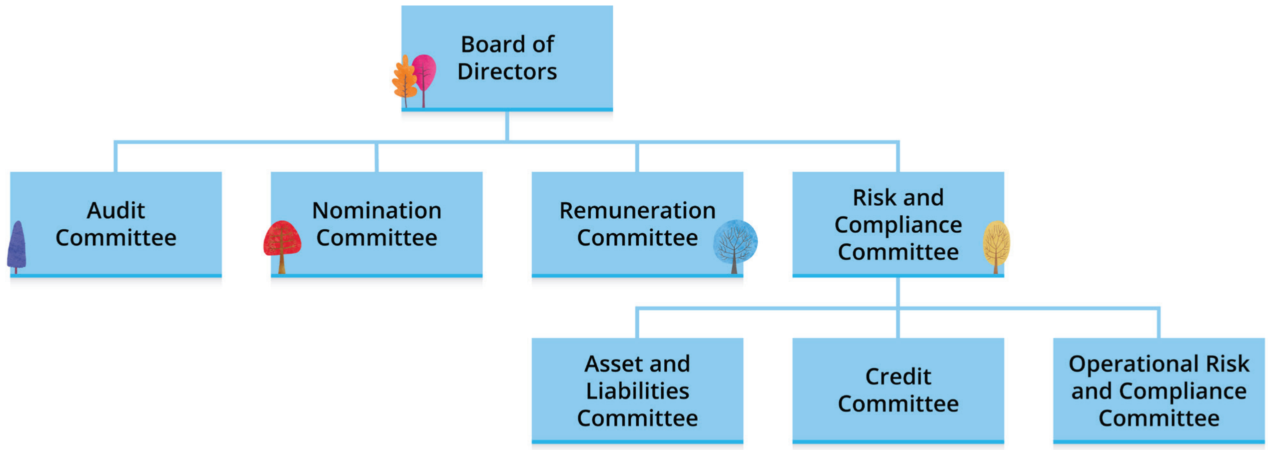
During the year the Board of Directors consisted of the Chairman, three executive directors and four non-executive directors, except that between November 2014 and July 2015 there was an additional non-executive director. All the directors bring to the Company a broad and valuable range of experience and further detail of this together with additional biographical details are set out in section B2.

The division of responsibilities between the Chairman and Chief Executive is clearly established, set out in writing and agreed by the Board. There is a strong non-executive representation on the Board, including the Senior Independent Director, Edward Tilly until 1 July 2015 and Fiona Clutterbuck since that date. This provides effective balance and challenge.

The Chairman's other business commitments are set out in the biographical details in section B2 and there have been no significant changes during the period to those commitments.

The Board has agreed a set of guiding principles on managing conflicts and a process to identify and authorise any conflicts which might arise, which was updated during year. At each meeting of the Board actual or potential conflicts of interest in respect of any director are reviewed.

The Board also operates through a number of committees covering certain specific matters, illustrated in the chart below.



Board committees

- The Audit Committee, which during the year consisted of Peter Hartill (who chairs the Committee), Fiona Clutterbuck, Alan Fletcher, Edward Tilly, until his resignation on 1 July 2015 and Hugo Tudor, from his appointment on 24 November 2014, all of whom were independent non-executive directors. The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Committee meets at least three times a year.

  Further information on the work of the Audit Committee is given in section B4.

- The Nomination Committee, consisting of Robert Dench, who chairs the Committee, Nigel Terrington and all of the non-executive directors, ensuring that a majority of the Committee's members are independent non-executive directors.

  Further information on the work of the Nomination Committee is given in section B3.2.

- The Remuneration Committee, which during the year consisted of Alan Fletcher (who chairs the Committee), Fiona Clutterbuck, Peter Hartill, Edward Tilly, until his resignation on 1 July 2015, and Hugo Tudor, from his appointment on 24 November 2014, all of whom were independent non-executive directors, and the Chairman of the Company, Robert Dench.

  Further information on the work of the Remuneration Committee is given in section B5.

- The Risk and Compliance Committee, which was established during the previous year and consisted of Fiona Clutterbuck (who chairs the Committee), Peter Hartill, Alan Fletcher, Edward Tilly, until his resignation on 1 July 2015 and Hugo Tudor, from his appointment on 24 November 2014, all of whom were independent non-executive directors and the Chairman of the Company, Robert Dench. The Committee meets at least four times a year.

  Further information on the work of the Risk and Compliance Committee is given in section B6.

Executive committees

Three executive committees, the Asset and Liability Committee, the Credit Committee and the Operational Risk and Compliance Committee, consisting of executive directors and appropriate senior employees, report to the Risk and Compliance Committee and are described further in the Risk Management section B6.

All board committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The terms of reference of the board committees are available on request from the Company Secretary.

The attendance of individual directors at the regular meetings of the Board and its committees in the year is set out below, with the number of meetings each was eligible to attend shown in brackets. Directors who are unable to attend meetings will receive the papers and any comments will be reported to the relevant meeting. Directors have attended a number of ad hoc meetings during the year in addition to the regular Board meetings and have contributed to discussions outside of the regular meeting calendar. Directors also attended a two day strategy event to enable further, more detailed, discussion of the Group's position and future development.

Director	Board	Audit Committee	Risk and Compliance Committee	Remuneration Committee	Nomination Committee
Robert G Dench	9 (9)	-	3 (4)	4 (4)	2 (2)
Nigel S Terrington	9 (9)	-	-	-	2 (2)
Richard J Woodman	9 (9)	-	-	-	-
John A Heron	9 (9)	-	-	-	-
Edward A Tilly	6 (7)	1 (2)	3 (3)	1 (2)	1 (2)
Alan K Fletcher	9 (9)	3 (3)	4 (4)	4 (4)	2 (2)
Peter J N Hartill	9 (9)	3 (3)	4 (4)	4 (4)	2 (2)
Fiona J Clutterbuck	9 (9)	3 (3)	4 (4)	4 (4)	2 (2)
Hugo R Tudor	7 (7)	2 (2)	3 (3)	3 (3)	1 (1)

The Board regularly receives, reviews and considers reports on the following matters:

- Strategic matters
- Potential acquisition opportunities
- Business performance
- Results, management accounts and financial commentary
- Operational reports from business areas
- Treasury and funding matters
- Legal and governance matters
- The work of the Board's committees
- Matters arising from subsidiary company boards, including that of Paragon Bank
- Investor relations and shareholder feedback

Effectiveness

All of the non-executive directors are independent of management and all are appointed for fixed terms. They are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues. The non-executive directors meet with the Chairman, from time to time, without the presence of the executive directors.

All of the directors holding office at 30 September 2015 had been reappointed at the Annual General Meeting on 12 February 2015 and all of them have submitted themselves for re-election at the forthcoming Annual General Meeting.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are complied with. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

All directors are able to take independent professional advice in the furtherance of their duties whenever it is considered appropriate to do so and have access to such continuing professional development opportunities as are identified as appropriate in the Board appraisal process.

The Board considers that each of the non-executive directors are independent of the Group and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Alan Fletcher serves as a director of the corporate trustee of the Paragon Pension Plan (the 'Plan') and receives £10,000 per annum in respect of that appointment from Paragon Finance PLC, the sponsoring company of the Plan and a subsidiary of the Company. The Board considers that this does not impact on his independence because the Plan is a trust which is independent of the Company and, as a director of its corporate trustee, Mr Fletcher has a fiduciary duty to act in the best interests of the trust and the Plan's beneficiaries.

In determining that Hugo Tudor was independent, as defined by the Code, the Board considered his former role at BlackRock, where he was an active fund manager until 2013. BlackRock has been one of the Company's major shareholders for a number of years and the Company's dealings with it were, and remain, on the same basis as those with any other major shareholder, being limited to communication and consultation in accordance with normal market practice. This does not constitute a material business relationship, and hence does not impact on Mr Tudor's independence.

The composition of the Board and its committees is kept under review, with the aim of ensuring that there is an appropriate balance of power and authority between executive and non-executive directors and that the directors collectively possess the skills and experience necessary to direct the Company and the Group's business activities. The directors review actual or potential conflicts of interest in respect of any director at each meeting of the Board and its committees.

There is an established process for external appointments through the Nomination Committee. Ultimately, the appointment of any new director is a matter for the Board. Executive director appointments are based upon merit and business need. Non-executive appointments are based upon the candidates' profiles matching those agreed by the Nomination Committee. In all cases the Board approves the appointment only after careful consideration.

Succession planning for the Board has been reviewed and developed during the year under review and further detail is provided in the Nomination Committee section B3.2.

The Human Resources department has a wider succession development plan for senior management roles across the Group, to prioritise those roles which are likely to require recruitment within the next five years. This data has been considered against internally identified individuals, with high potential and the capability to fulfil those roles as they become vacant, to ensure that succession requirements can be met. Internal individuals will be developed for future senior roles and this will be complemented with external recruitment at a senior level where necessary, to balance the required skills and experience of the senior management team and ensure continuing success in the future.

The Board, individual directors and the Board's main committees are reviewed annually, with this year's review being internally facilitated. No issues arose that were required to be addressed but the Board's discussion of the review's output will help to shape the future development of the Group's Risk and Compliance Committee as it becomes further embedded.

The most recent externally facilitated review was carried out during the year ended 30 September 2013, when the Board conducted a formal and rigorous performance review, which was facilitated by Socia Limited, who have no other connection with the Group. The facilitator's formal report stated that the review indicated that the Company met the requirements of the Code.

The non-executive directors meet to review the performance of the Chairman. The performance of the Chief Executive is appraised by the Chairman. The performance of the other executive directors is appraised by the Chief Executive in conjunction with the Chairman. The results of these appraisals are presented to the Remuneration Committee for consideration and determination of remuneration.

The Chairman appraises the performance of the non-executive directors, identifying any development opportunities or training needs.

All of the non-executive directors have received presentations during the year on various aspects of the Group's activities. In addition training has been provided by the external auditors, Deloitte and other external advisers on topics such as the economy, governance, financial reporting and the regulatory environments in which the Group operates or is considering operating in.

Following his appointment to the Board, Hugo Tudor received a tailored induction during the year which included a strategic and financial overview as well as high level introductions to all divisions and functions of the Group. This was followed up later in the year by detailed briefings into specific business areas. Mr Tudor also met with external advisors and representatives of a major shareholder to help develop as wide a perspective as possible of the Group.

Ongoing development opportunities for all directors will be provided, as required, through the Board's training and development programme.

The Board's training programme will be enhanced and developed during the year to ensure that all development requirements, whether regulatory, such as those under the FCA approved person regime, or arising from the needs of the business, are met on an ongoing basis. Training will take account of individual's skill sets and be designed to meet the needs of each director as well as the collective requirements of the Board and its committees.

At the Annual General Meeting the Chairman will confirm to shareholders, when proposing the re-election of any non-executive director, that, following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role. The letters of appointment of the non-executive directors will be available for inspection at the Annual General Meeting.

Accountability

Detailed reviews of the performance of the Group's main business lines are included within the Strategic Report. The Board uses this to present a fair, balanced and understandable assessment of the Company's position and prospects.

The directors' responsibility for the financial statements is described in section B8.

An on-going process for identifying, evaluating and managing the significant risks faced by the Group, which is regularly reviewed by the Board, was in place for the year ended 30 September 2015 and to the date of these financial statements. The directors confirm that they have reviewed the effectiveness of the Group's system of internal control for this period and that these procedures accord with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the FRC.

The directors are responsible for the system of internal control throughout the Group, including the system of internal control over financial reporting, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide reasonable, but not absolute, assurance against the risk of material misstatement or loss and that assets are safeguarded against unauthorised use or disposition. In assessing what constitutes reasonable assurance, the directors have regard to the relationship between the cost and benefits from particular aspects of the control system.

The system of internal control includes documented procedures covering accounting, compliance, risk management, personnel matters and operations, clear reporting lines, delegation of authority through a formal structure of mandates, a formalised budgeting, management reporting and review process, the use of key performance indicators throughout the Group and regular meetings of the Asset and Liability, Credit and Operational Risk and Compliance Committees and senior management.

Internal control over financial reporting within the Group is provided by a process designed, under the supervision of the Group Finance Director and senior financial management of the Group, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes, including the process of preparing the Group's consolidated financial statements.

Internal control over financial reporting includes policies and procedures intended to ensure that records are maintained that fairly, and in reasonable detail, reflect transactions and dispositions of assets, to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements, to ensure that receipts and expenditures are only being made in accordance with management authorisation and to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may reduce.

The Board receives regular reports setting out key performance and risk indicators. In addition the Board operates a formal risk management process, described in more detail in section B6, from which the key risks facing the business are identified. The process results in reports to the Board, though its Risk and Compliance Committee on how these risks are being managed. The Board has a programme of regular presentations from senior management to enable the Board to review the operation of internal controls in relation to the risks associated with their specific areas.

The system of internal control is monitored by management and by an internal audit function that concentrates on the areas of greater risk and reports its conclusions regularly to management and the Audit Committee. The internal audit work plan is approved annually by the Audit Committee, which reviews the effectiveness of the system of internal control annually and reports its conclusions to the Board. Further details of the role and activities of the Audit Committee and its relationship with the internal and external auditors are set out in section B4. The Risk and Compliance Committee is responsible for reviewing the Group's risk management framework and the effectiveness of the Group's systems and controls. Further details of the role and activities of the Risk and Compliance Committee and the Group's risk management system are set out in section B6.There is some overlap between the work of the Audit Committee and that of the Risk and Compliance Committee and the Board monitors these areas to ensure that no gaps develop in the system of internal control.

Remuneration

Information on how the Group has applied the provisions of the Corporate Governance Code relating to remuneration is set out in the Directors' Remuneration Report in section B5.

Relations with shareholders

The Board encourages communication with the Company's institutional and private investors. All shareholders have at least twenty working days' notice of the Annual General Meeting at which the directors and committee chairmen are available for questions. The Annual General Meeting is held in London during business hours and provides an opportunity for directors to report to investors on the Group's activities, to answer their questions and receive their views. At all general meetings shareholders have an opportunity to vote separately on each resolution and all proxy votes lodged are counted and the balances for, against and directed to be withheld in respect of each resolution are announced.

The Chairman, Chief Executive and Group Finance Director have a full programme of meetings with institutional investors during the course of the year and investors' comments are communicated to all members of the Board, enabling them to develop an understanding of the major shareholders' views of the Group. During the year ended 30 September 2015 meetings were held with investors from the UK, Europe and North America. From time to time other presentations are made to institutional investors and analysts to enable them to gain a greater understanding of important aspects of the Group's business.

The Chairman and the Chairman of the Remuneration Committee hold annual meetings with leading shareholders to discuss remuneration policies and other corporate governance matters and the comments received are reported to the Board and considered by the Remuneration Committee in determining or varying the Group's approach to executive compensation.

During the year, Peter Hartill, Chairman of the Audit Committee, also met with a number of major shareholders as part of the audit tender process, to discuss the process initially and as it developed. Hugo Tudor met with a major shareholder during the year as part of his induction process and all non-executive directors are available to meet with shareholders as requested.

The results of all of these meetings are reported to the Board so that all directors are aware of shareholder views.

The Senior Independent Director has informally met with major shareholders, is made aware of views expressed to other members of the Board and via the Company's brokers and is available to meet with shareholders should they wish. Such meetings can be arranged via the Company Secretary.

The Company's website at www.paragon-group.co.uk provides access to information on the Company and its businesses.

B3.2 **NOMINATION COMMITTEE**

The Nomination Committee consists of the Chairman of the Company, Robert Dench, who chairs the Committee, Nigel Terrington and all of the non-executive directors, ensuring that a majority of the Committee's members are independent non-executive directors. The Committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board. It considers whether the size and membership of each Board committee is appropriate and recommends to the Board which directors should be appointed to which committee. It also proposes candidates for Board roles, such as committee chairmanships and the senior independent director position, for approval by the Board.

The Group recognises the importance of diversity, including gender diversity, at all levels of the organisation including the Board and the contribution which it can make to board effectiveness. The Group's diversity policies are described in section A5.1 of the Annual Report, where information on the composition of the workforce is also given. The Group recognises the importance of diversity on the Board, not only of gender, but also of experience and background, and the valuable contribution which such diversity can make towards achieving the appropriate balance of skills and knowledge which an effective board of directors requires. Diversity quotas or targets are not considered appropriate by the Board. The Board believes in appointing the best person to the role regardless of gender or other points of diversity and this belief is reflected and operates across all appointments made by the Group.

The Committee engages in the process of identification of suitable candidates for appointment to the Board of Directors when requested by the Board. It has a formal process for the appointment of directors, which includes reviewing the board structure, size and composition. This leads to the identification of the skills required and consequently to the selection of potential candidates. The choice of appointee is based entirely on merit. The Committee ensures that prospective non-executive directors can devote sufficient time to the appointment. The Board recognises the benefits that can flow from non-executive directors holding other appointments but requires them to seek the agreement of the Chairman before entering into any commitments that might affect the time they can devote to the Company.

During the year Hugo Tudor was appointed to the Board and to all of its committees. Mr Tudor had come to the attention of the Board as a potentially strong candidate, suitable for any vacant non-executive director appointment, who might not be available by the time such a position arose. Having regard to the increasing demands on non-executive directors and the need for succession planning, the Committee was asked to consider whether it might be appropriate for the Board to appoint him as an additional non-executive director. Neither an external search consultancy nor open advertising were used for this appointment as no specific vacancy was open at the time of recruitment.

The Committee considered Mr Tudor's breadth of experience in the UK equities markets and his personal attributes and subsequently recommended his appointment to the Board and its main sub-Committees. As part of the appointment process Mr Tudor met with the Chairman, Chief Executive and other Board members, and attended as an observer meetings of the Board and its committees. Reference checking by the Company was also completed.

During the year Edward Tilly indicated to the Board that he was considering retiring as a director and therefore relinquishing the position of Senior Independent Director. The Committee considered the requirements of the role and concluded that, on the basis of her experience of undertaking that role in another organisation, together with her knowledge of the Board and the Group, Fiona Clutterbuck was best suited to fill this post. The Committee therefore recommended to the Board that she should be appointed and she succeeded Mr Tilly on his retirement on 1 July 2015.

After year end the Committee, together with the Risk and Compliance Committee, undertook a full review of succession planning for positions at board level and immediately below board level, together with certain senior specialist roles. The Committee and the Risk and Compliance Committee satisfied themselves that there were plans in place for immediate cover and will work with the Group's Director of Human Resources and other relevant employees over the forthcoming year to ensure that the identified area of risks arising from senior employees leaving the Group for other roles or on retirement are mitigated. Risk mitigation will continue to include the ongoing development of employees so that, where possible, internal candidates are appointed to senior roles.

B4 **AUDIT COMMITTEE**

B4.1 **STATEMENT BY THE CHAIRMAN OF THE AUDIT COMMITTEE**

Dear Shareholder

The year ended 30 September 2015 has seen continuing change, both in the Group's businesses and in the regulatory environment in which it operates with the financial services industry as a whole being the subject of increased regulatory focus.

As a Committee our responsibility is to ensure that financial information published by the Group properly presents its activities to stakeholders in a changing landscape, as well as overseeing the effective delivery of both external and internal audit services.

This year has been the first following the setting up of the Risk and Compliance Committee and the transfer to it of responsibilities for compliance, allowing the Committee to focus on its other responsibilities.

During the year the Committee met three times and its principal activities were as follows:

- The review of the annual and half-yearly financial statements to ensure these properly present the Group's activities in accordance with accounting standards, law, regulations and market practice
- In particular the consideration of the Group's accounting policies for the recognition of interest income and loan impairment amongst other significant accounting issues
- The selection of KPMG as new external auditors for the Group from the year ending 30 September 2016, following a formal tender process
- The supervision of the internal audit function as it adapts to changes in the business and the wider implementation of the three lines of defence model
- Considering the Group's readiness to address forthcoming accounting changes which will affect it, principally IFRS 9

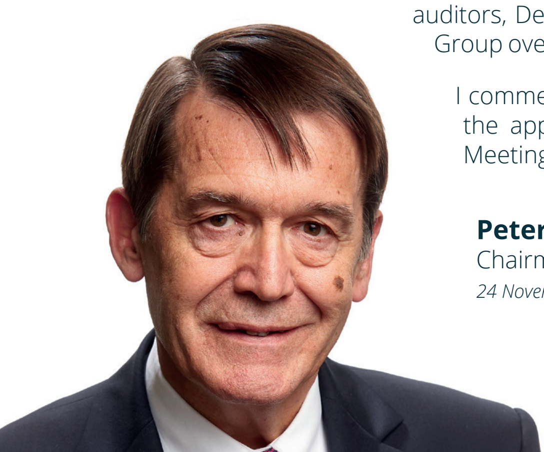
During the year, I consulted with major shareholders on the audit tender process, which is discussed in more detail in the report below.

In the financial year ending 30 September 2016 the Committee's main priorities will include:

- supervising the transition of the external audit from Deloitte to KPMG
- the review of acquisition accounting on the Group's purchase of Five Arrows Leasing Group
- continued monitoring of the Group's IFRS 9 implementation programme
- ensuring that the Group's control processes develop alongside developments in the business

I would like to take this opportunity to express the thanks of the Committee to the outgoing external auditors, Deloitte, and their predecessor firms, for the support and challenge provided to the Group over the thirty years since their appointment, as Touche Ross, on its foundation in 1985.

I commend this report to shareholders and ask you to support the resolutions concerning the appointment of KPMG as auditors and their remuneration at the Annual General Meeting in 2016.



Peter J N Hartill
Chairman of the Audit Committee
24 November 2015

B4.2 **OPERATIONS OF THE COMMITTEE**

The Audit Committee comprises all of the independent non-executive directors of the Company and its terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code.

The Committee's responsibilities include:

- monitoring the integrity of the Group's financial reporting
- reviewing the Group's internal control systems
- monitoring and reviewing the effectiveness of the Group's internal audit function
- monitoring the relationship between the Group and the external auditor

It also provides a forum through which the Group's external and internal audit functions report to the non-executive directors.

The Committee meets at least three times a year and has an agenda linked to events in the Group's financial calendar. The Committee normally invites the Chairman, the executive directors, Group Financial Controller, Head of Internal Audit and a partner and other representatives from the external auditor to attend meetings of the Committee, although it reserves the right to request any of these individuals to withdraw.

For part of each meeting the Committee will meet separately with representatives of the external auditor and the Head of Internal Audit without any other persons present.

At each meeting the Committee receives reports of reviews conducted throughout the Group by the Internal Audit and, from time to time, Compliance functions.

The Chairman of Paragon Bank's audit committee and its finance director are invited to meetings of the Committee when matters relating to the Bank are to be discussed.

B4.3 **SIGNIFICANT ISSUES ADDRESSED BY THE COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS**

The Committee considers whether the accounting policies adopted by the Group are suitable and whether significant estimates and judgements made by the management are appropriate. In evaluating the Group's financial statements for the year ended 30 September 2015 the Committee considered particularly:

- the calculation of interest income under the Effective Interest Rate ('EIR') method for both internally originated and purchased loan assets
- the levels of impairment provision against loan assets
- the valuation of the deficit in the Group's defined benefit pension scheme
- the viability statement which the Group is required to make under the Code
- the Group's capital and funding position and the Group forecasts for future periods

The Committee also considered whether this 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.

In each of these areas the Committee was provided with papers discussing the position shown in the accounts, the underlying market conditions and assumptions and the methodology adopted for any calculations. The papers also detailed any changes in approach from previous periods. These were reviewed in detail and discussed with the relevant Group employees and the results of this work were considered, together with the results of testing by the external auditor. There were no material or significant disagreements between the management and the external auditor.

Particular matters which the Committee focused on in each of these areas were

Matter	Particular areas of focus
Income recognition	As required by IAS 39, the Group recognises income from loan balances on an EIR basis, which is intended to produce a constant yield throughout the behavioural life of the loan, taking account of such things as costs of procuration, and initially fixed or discounted interest rates. The calculation therefore rests on assumptions about the future behaviour of the Group's customers. The Committee assessed the appropriateness of the assumptions made, considering performance of the portfolios against expectations and the impact of changes in product specifications. Redemption profiles used in the modelling of mortgage books and the availability of alternative offerings in the market were areas of particular focus. The Committee also paid particular attention to the accounting for new Idem portfolio purchases, which are generally made at a discount to the gross balance owed by customers on the accounts purchased, and where portfolio performance is a major driver of the EIR calculation. *Further information on these estimates can be found in note 5b to the accounts, and the interest income recognised on this basis is shown in note 10.*
Impairment	IAS 39 requires that companies provide for any financial assets, held at amortised cost, considered to be impaired at the balance sheet date, to the extent that the carrying value might not be recovered. The Group's calculation of impairment provision relies on assumptions to determine when an account might require provision and how large that provision would need to be. In order to satisfy itself that this calculation resulted in appropriate provisioning, the Committee considered actual out turns against historical impairment provision amounts calculated by the Group's models and the continued relevance of historical cash flow experience to the current loan book, based on present economic conditions and account administration practices. This included an assessment of the impact of the Group's receiver of rent processes on cash flows and ultimate impairment levels, consideration of the likely effects of movements in property prices on security values and an examination of exposure on large portfolios. *Further information on these estimates can be found in note 5a to the accounts, the impairment charge for the year is shown in note 18 and movements in provision for impairment are shown in note 32.* *The Group's exposure to credit risk is discussed in note 7.*

Matter	Particular areas of focus
Pension deficit	The deficit on the Group's defined benefit pension plan is valued in accordance with IAS 19, which requires an actuarial valuation of the plan liabilities. Such a valuation is based on assumptions concerning, inter alia, market interest rates, inflation and mortality rates in the Plan. In order to satisfy itself as to the appropriateness of these assumptions, the Committee considered their derivation and the market data underlying them. These were compared to market benchmarks and advice from the Plan actuary. The Committee also considered benchmarking data provided by the external auditor. *Further information on the Plan deficit, the basis of valuation and the assumptions underlying it can be can be found in note 52 to the accounts, along with an analysis of sensitivities to the more significant assumptions.*
Viability statement	The Board are required by the Code and the Listing Rules to make a viability statement in the Annual Report. The Committee have been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered aspects of the work of the Board and its various committees which addressed the Group's business model, risk profile, access to funds and future strategy, they also considered guidance issued by the FRC and stress testing which had been carried out in the year. As this is a new area of disclosure the Committee considered particularly the advice of the external auditor and other advisers as to the form of the exercise and of the way it is described in the Annual Report. *A fuller discussion of the directors' consideration of the viability statement in set out in section A4.*
Capital and funding	The Board are required by the Code and the Listing Rules to make a going concern statement in the Annual Report. The Committee have been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered the Group's detailed forecasts, and the implicit cash and capital requirements. The Committee discussed availability of funding, potential stress events and the impact of the economic environment. *A fuller discussion of the directors' consideration of the going concern statement in set out in section A4.*
Fair, balanced and understandable	The Board are required by the Code to state whether, in its view, the Annual Report is fair, balanced and understandable. The Committee have been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered the draft Annual Report for the financial year, as a whole, satisfying itself that the process for the preparation and review of its various sections, was appropriate. The Committee especially focused on areas where disclosure requirements had changed or where new activities were to be reported on. Based on this exercise, and the Committees own understanding of the business in the year, it determined whether the annual report, overall, portrayed the Group's activities, position and results properly.

The Committee was able to reach satisfactory conclusions on all of these areas and therefore resolved to commend the Annual Report to the Board for approval, and to advise the Board that it can conclude that the Annual Report is fair, balanced and understandable.

Earlier in the year the Committee had considered each of these areas, where applicable, in the same manner in concluding that it could commend the Group's half-yearly financial report for the six months ended 31 March 2015 to the Board for approval.

B4.4 **EXTERNAL AUDITOR**

The Committee is responsible for assessing the effectiveness of the external audit process, for monitoring the independence and objectivity of the external auditor and for making recommendations to the Board in relation to the appointment of external auditors. The Committee is also responsible for developing and implementing the Group's policy on the provision of non-audit services by the external auditor.

Audit tendering

On 24 September 2014 the Competition and Markets Authority finalised its investigation in to the audit market and published The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order'). The provisions of the Order are consistent with new requirements being introduced by European legislation.

The Order applies to the Group with effect from 1 October 2015 and requires that only the Committee can agree the fees and terms of service of the external auditors, initiate and supervise a tendering process or recommend the appointment of an external auditor to the Board following a tender process.

Deloitte and its predecessor firms have been the auditors of the Group since its foundation in 1985, although in recent times the lead audit partner has rotated every five years, with the current audit partner taking over following the completion of the audit for the year ended 30 September 2011. Due to this length of service the Order requires that the Group replace Deloitte as external auditor at or before the Annual General Meeting to be held in 2020.

The Committee, having considered the terms of the Order and the increasing frequency of audit tenders seen among comparable companies, concluded that the interests of good governance would be best served by putting the Group audit out to tender and this decision was communicated to shareholders in the Group's 2014 Annual Report.

During the year the Committee supervised the tender process, the structure of which was agreed by the Committee at the outset, and which is summarised below.

- The Committee considered its priorities in making the appointment would be to select the firm which could best address the Group's business and regulatory environment, the Group's position as a FTSE 350 listed company and its geographical location, while providing a good fit with the organisation's culture
- The Committee considered which firms should be invited to tender. Audit firms outside the 'big four' large firms which dominate the audit market were considered, but most of these were not considered to have the depth and breadth of resource to provide the required service and even the larger ones were not thought to be well placed to meet the criteria agreed
- The Committee considered the position of the incumbent auditor, Deloitte, and concluded that, despite being satisfied with the quality of the audit and the objectivity and independence of Deloitte, the short period which they would be able to serve, if re-appointed, together with emerging best practice meant that it would be inappropriate to reappoint them, and Deloitte were not invited to tender
- Formal invitations to tender were issued to Ernst and Young LLP, KPMG and PricewaterhouseCoopers LLP. All bidders were provided with detailed information about the business and given opportunities to meet the Group's financial and operational management, including representatives of the Committee
- Meetings took place with referees nominated by the bidders, at both management and Audit Committee level
- A panel nominated by the Committee evaluated written and verbal presentations by the bidders, making a recommendation to the Committee. The panel included executive directors, financial management and non-executive directors of both the Group and Paragon Bank and was chaired by the Audit Committee chairman

As a result of this process the Committee concluded that the Group would be best served by the appointment of KPMG as auditors and a resolution to this effect will be placed before the members for approval at the Annual General Meeting to be held in 2016. If approved they will first report on the financial year ending 30 September 2016.

Before recommending the appointment of KPMG to the Board, the Committee engaged with them to ensure that they were able to provide the required quality of service and were independent of the Group. More specifically the Committee considered whether KPMG's understanding of the Group's business, their access to appropriate financial services and regulatory specialists within their firm, both locally and nationally, and their understanding of the sectors in which the Group operates were appropriate to the Group's needs.

Other than the legal requirements of the Order, the Committee has not identified any factors which might restrict its choice of external auditor.

Audit effectiveness

The Committee has considered the effectiveness of the external audit for the year ended 30 September 2015 and the Group's relationship with the external auditor, Deloitte, on an on-going basis, and has conducted a formal review of the effectiveness of the annual audit before commending this Annual Report to the Board. This review consisted of the following steps;

- A list of relevant questions was considered by senior management who submitted their responses in writing to the Committee in advance of the meeting convened to consider the Annual Report
- The Committee members, with reference to the same questions considered their experience of the audit process in advance of that meeting
- At the meeting the Committee discussed the results of the exercise with the senior financial management of the Group, without the external auditor present
- The Committee then addressed the evaluation, as appropriate, with the external auditors

The Committee was able to conclude, on the basis of this exercise and its experience over the year that the external audit process remained effective and that the auditor was independent and objective. A further review will be carried out following the completion of audit procedures on all Group companies and reported on in next year's annual report.

The effectiveness review undertaken at the time of approval of the 2014 Group accounts was updated once the external audit process for all Group companies had been completed and affirmed the original conclusion that the external audit was independent and objective and that the audit process was effective for that financial year.

Independence policy

Both the Committee and the external auditor have safeguards in place to avoid any compromise of the independence and objectivity of the external auditor. The Committee considers the independence of the external auditor annually and the Group has a formal policy for the engagement of its external auditor to supply non-audit services. The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditor's opinion on the Group's financial statements.

The policy precludes the appointment of the external auditor to provide any service where there is involvement in management functions or decision making, or any service on which management may place primary reliance in determining the adequacy of internal controls, financial systems or financial reporting. The external auditor may provide corporate finance and similar services (provided there is no significant advocacy role) or tax services but, if the advice given or the position taken would be material to the Group, the prior consent of the Committee would be required. Internal audit services will not be provided by the external auditor. Other services may be procured by management without the prior consent of the Committee, but are reported to the Committee on an ongoing basis.

Following the audit tender process, and in the light of changes in legislation addressing services which can be provided by the external auditor, which are expected to come into force with effect from the Group's year ending 30 September 2020, this policy and its implementation will be reviewed in the new financial year.

Fees paid to external auditors

Fees paid to the external auditor are shown in note 17 to the Accounts. Other than services required to be provided by external auditors by legislation or regulation, non-audit services relate to taxation, securitisation reporting, corporate finance activity and accounting advisory work in respect of the Group's preparation for the introduction of IFRS 9 (shown as 'other services' in note 17).

In respect of taxation services the Committee has considered the services provided and concluded that the understanding of the Group and the industry demonstrated by the advisers make them well placed to meet the Group's needs. In respect of the securitisation reporting services, the external auditor's firm was selected to provide these services as they were considered to offer the most appropriate skills and experience for the projects concerned in a cost-effective manner, given their existing knowledge of the Group's systems.

Overall the fees paid to the external auditor for non-audit services (excluding VAT), were £486,000 (2014: £1,158,000), which is equivalent to 44.4% of the total fees paid to them.

The Group actively considers other providers for the type of non-audit services provided by the external auditor's firm and has engaged with other audit firms in the period. When considering discrete projects, such as transaction support or specialist internal audit assistance in the year, the Group engaged with a number of firms, including some outside the big four, assessing each firm's appropriateness for the particular assignment before an appointment was made. Fees paid to audit firms, excluding the Group audit and related fees can be analysed as shown below:

	2015	2014
	£000	£000
Auditors	**486**	1,158
Other big four firms	**89**	42
Other firms	**18**	-
	593	1,200

It should be noted that the Group instructed a non-big four firm in connection with the acquisition of Five Arrows Leasing Group, which completed after the year end.

The audit tender process described above has helped to further relationships with all of the big four firms, not simply the incoming auditors, and it is felt that this will enhance the Group's ability to access other services from these organisations in the future.

B4.5 **INTERNAL AUDIT**

The Committee is responsible for considering and approving the remit of the internal audit function and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee also ensures that the internal audit function has adequate standing and is free from management or other restrictions which may impair its independence.

An external quality assessment of the Internal Audit function, as it related to Paragon Bank, commenced in December 2014. The assessment was undertaken by the Chartered Institute of Internal Auditors and concluded that there was very clear commitment from the Executive teams and the Audit Committees, of both the Bank and the Group, to establish a strong and appropriately qualified and experienced internal audit team; and plans were clearly in place to strengthen the Internal Audit framework which would enable appropriate conformance with the Standards and the Chartered Institute of Internal Auditors Financial Services Code. The Internal Audit team was considered to be well placed and had the requisite skills, experience and resources to deliver the 2014-15 audit plan.

During the year the Committee has considered and approved the Group internal audit plan, which is based on an assessment of the key risks faced by the Group. It has monitored progress of the internal audit function against that plan, ensuring that the internal audit function has sufficient resource to carry out its duties effectively.

Two internal audit reviews on the 2014-15 audit plan were co-sourced with third party accounting firms. These addressed specialist areas within Paragon Bank where the internal team lacked experience. The co-source also provided the opportunity to benchmark and measure the Bank's relative maturity in the areas under review.

Reports on internal audit work have been received by the Committee and, where necessary, appropriate actions have been recommended to the Board. The Committee meets with the Group's Head of Internal Audit without the presence of management on a regular basis.

The results of this work, together with the Committee's engagement with the management information of the Group and the executive directors, have enabled them to conclude that the statements given in section B3 relating to the Group's systems of internal control and its management of risk are appropriate.

Following the acquisition of Five Arrows Leasing Group after the year end, a review of the Internal Audit departmental structure has taken place and a decision taken to enhance financial audit, and recruitment of a suitably qualified and experienced Financial Audit Manager has begun. There will also be a need for asset finance expertise within the team, and, if this cannot be achieved through recruitment, for the initial Five Arrows Leasing Group reviews a co-source internal audit arrangement with a third party firm will be considered.

The Committee wishes to congratulate the Internal Audit team on being named as winner of the 'outstanding team' award at the 2015 Audit and Risk Awards organised by the Chartered Institute of Internal Auditors.

B4.6 **WHISTLEBLOWING**

There is an established procedure whereby employees can make disclosures regarding malpractice within the Group on a confidential basis, in accordance with the Public Interest Disclosure Act 1998 ('PIDA').The policy also makes provision to ensure that no employee making such a disclosure suffers any detriment by doing so. This process is supervised by the Committee and any amendments to the policy require the approval of the Chairman of the Committee. There is a right of appeal to the Chairman where the employee is dissatisfied with the outcome and his decision is final in all cases.

To ensure that the policy is embedded in the operations of the Group all employees received training on the requirements of PIDA and the Group's policy during the year and were tested to ensure their understanding.

During the year ended 30 September 2015 no reports were made through the Group's whistleblowing process which necessitated action being taken.

B5 DIRECTORS' REMUNERATION REPORT

This report covers the activities of the Remuneration Committee for the year ended 30 September 2015 and sets out the remuneration policy and remuneration details for the executive and non-executive directors of the Company. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008, as amended in August 2013, and the principles of the UK Corporate Governance Code.

The report is split into three main areas: the Statement by the Chairman of the Committee (B5.1), the Annual Report on Remuneration (B5.2) and the Policy Report (B5.3), the content of each of which is prescribed by the Regulations. The Directors' Remuneration Report (excluding the Policy Report) will be subject to an advisory shareholder vote at the Annual General Meeting. The directors' remuneration policy set out in the Policy Report was subject to a binding shareholder vote at the Annual General Meeting held on 6 February 2014. This policy will apply until the Annual General Meeting in 2017, unless revised by a vote of shareholders ahead of that time. It is not proposed to amend the directors' remuneration policy at the Annual General Meeting in 2016.

The Companies Act 2006 requires the auditors to report to the shareholders on certain parts of the report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Annual Report on Remuneration that are subject to audit are indicated in that report. The Statement by the Chairman of the Remuneration Committee and the Policy Report are not subject to audit.

B5.1 STATEMENT BY THE CHAIRMAN OF THE REMUNERATION COMMITTEEE

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Dear Shareholder

The philosophy underpinning the Group's remuneration policy seeks to produce an outcome which is fair and appropriate to the Company, its shareholders, senior executives and employees. Company performance is central, with the focus being on short and long term qualitative and quantitative objectives with an emphasis on strong risk management.

The Group has made excellent progress against the objectives set at the beginning of the financial year: underlying operating profit has increased by 10.2% to £134.7 million, £1,326.6 million of first mortgage and £59.1 million of consumer loans were advanced, whilst maintaining high credit standards, £104.4 million was invested in loan portfolios, three public securitisations were completed, warehouse funding facilities were increased and extended, savings deposits increased to £708.7 million and a third retail bond issue was launched. After the year end, on 2 October 2015, the Group announced that its subsidiary, Paragon Bank, had agreed to acquire the entire share capital of Five Arrows Leasing Group, an acquisition which broadens the Group's activities and is expected to be immediately enhancing to earnings and return on equity.

The Committee has reflected the positive performance in the year in applying the remuneration policy. Performance bonuses of 100% of maximum for Mr N S Terrington and Mr R J Woodman and 75% of maximum for Mr J A Heron have been awarded. In reaching this decision, the Committee has reviewed performance against a number of financial and risk based targets, taking into account individual performance in particular for Mr Terrington and Mr Woodman the exceptional development of future profit streams, the further development of the Group's operational and financial model, and delivery against longer term strategic goals. The objectives are detailed in section B5.2.2 below.

Long term incentives ('LTIs') which were granted in December 2011 matured in December 2014. These awards were subject to a Total Shareholder Return ('TSR') performance condition, measured against the FTSE-250 Index over the three year period from the date of grant. The Company's performance over the period ranked in the upper quartile and it was the judgement of the Committee that these rewards to executives were a fair reflection of performance over the period, and therefore the awards vested in full.

During the year the Committee considered various aspects of its policy on executive director remuneration. In particular the use of Earnings Per Share ('EPS') performance conditions in the Group's LTIs and the levels at which these are set are kept under annual review.

Following this year's review and taking into consideration feedback received from major shareholders, it was decided that the EPS targets for the grant to be made in the financial year ending 30 September 2016, which will constitute the performance test for 50% of the award, should be determined following the publication of the Group's preliminary announcement. The Committee will then set performance targets which are appropriately stretching given business plan expectations, consensus and the challenges to achievement.

The Committee conducted a review of the Chairman's compensation during the year in the light of the considerable changes in the Group's operations since the last benchmarked review in 2008. In the light of this review the Chairman's fee was increased to £240,000 with effect from 1 October 2015.

The other key decisions made by the Committee during the year are as follows:

- Salaries for the year ending 30 September 2016 have been increased by 2.25%, in line with the general level of increases to other employees
- Awards of performance shares with a market value of 200% of salary, vesting of half of which is subject to a relative TSR performance condition measured against the constituents of the FTSE-250 Index and vesting of half of which is subject to an EPS performance related target, will be awarded in the financial year ending 30 September 2016
- Deloitte are to be appointed as remuneration advisers in place of New Bridge Street ('NBS') with effect from the conclusion of the 2016 AGM

The Committee concluded that no other changes were required in the application of the remuneration policy, including other performance metrics used for awards of LTIs, and that the overall remuneration policy remained appropriate. Therefore there have been no changes to remuneration policy during the year and none are currently proposed.

Together with the Group Chairman, and accompanied by the Company Secretary and the Group's Director of Human Resources, I consulted with major shareholders and shareholder advisory bodies prior to the Committee's finalisation of the decisions above and received broad support.

During the year ended 30 September 2015 the Committee has undertaken a review of the new requirements in respect of executive remuneration introduced in the revised version of the UK Code on Corporate Governance applicable to financial years commencing on or after 1 October 2014. No significant changes resulting from this review were required to executive remuneration or the related incentive plans. Clawback and malus have been in operation within the Company's discretionary share plans for a number of years and will be introduced for cash bonuses with effect from those paid in respect of the financial year ended 30 September 2016. The Committee determined that given the current levels of executive director shareholdings, which are significantly in excess of that required by the Company's share ownership policy, and the long service of the management team, it would be inappropriate at this point to require directors to hold their shares for an additional period after the vesting of an LTI grant. This will be kept under review annually.

The Group's present remuneration policies were approved at the AGM in 2014 and as it is required to submit its remuneration policies to shareholders for approval every three years, a vote on policy will be required at the 2017 AGM. In view of the significant changes the Group has undergone since the present policy was drafted, the Committee intends to take this opportunity to undertake a thorough review of the way the Group rewards executive directors and senior employees, covering all aspects of the packages offered, including bonus arrangements, share based rewards and post-retirement provision.

This review will consider the growth, diversification and increased complexity of the Group, the challenges this presents, the changes in its exposure to regulation and developments over recent years in shareholder expectations, governance rules, regulatory requirements and developing best practice. It will also take account of potential new requirements, including those which might arise from the European Banking Authority's consultation on remuneration policies.

The Committee intends to complete this review during the financial year ending 30 September 2016 and will be seeking input from major shareholders, investor groups and external consultants. We will report on the results of this review in next year's Directors' Remuneration Report and shareholders will be asked to approve the revised policy at the 2017 AGM, with the intention that the new policy will remain in place until 2020 unless the Group's circumstances change significantly.

The most important challenge for the Committee will be to continue to ensure that the remuneration policy remains appropriately structured to retain and motivate executive directors, whilst providing alignment with shareholders and, most importantly, directly linking to the achievement of the Company's strategy.

I commend this report to shareholders and ask you to support the resolution to approve the Company's Directors' Remuneration Report (excluding the Policy report) for the year ended 30 September 2015 at the AGM in 2016.

Alan K Fletcher
Chairman of the Remuneration Committee
24 November 2015

B5.2 **ANNUAL REPORT ON REMUNERATION**

B5.2.1 **APPLICATION OF POLICY**

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Consideration by directors of matters relating to directors' remuneration

Remuneration Committee

During the year, the Committee consisted of Alan Fletcher (who chaired the Committee), Fiona Clutterbuck, Peter Hartill, Edward Tilly, until his retirement on 1 July 2015, and Hugo Tudor, from his appointment on 24 November 2014, all of whom were independent non-executive directors, and the Chairman of the Company, Robert Dench.

The Board introduced a conflicts policy in 2015 which takes into account the requirements of the UK Code on Corporate Governance in recognising and managing conflicts at remuneration committees. None of the non-executive directors who sit on the Committee has any personal financial interest (other than as a shareholder or debt holder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business. The Chairman of the Company does not participate in discussions on his own remuneration.

The Committee determines the Company's policy on executive remuneration and specific compensation packages for each of the executive directors and the Chairman. No director contributes to any discussion about his own remuneration.

The Committee also reviews the level and structure of remuneration of senior management.

The terms of reference of the Committee are available on request from the Company Secretary.

In determining the directors' remuneration for the year, the Committee consulted Mr N S Terrington (Chief Executive) and the Group's Director of Human Resources about its proposals.

Remuneration advisers

The Committee retained the services of New Bridge Street ('NBS'), a brand of Aon Hewitt Limited, as its independent advisor on remuneration matters throughout the year. NBS is a member of the Remuneration Consultants Group and has signed up to its Code of Conduct. NBS also advised the Company on various sundry remuneration matters during the year, which did not conflict with its advice to the Committee. In evaluating the independence of NBS the Committee considered the following:

- other services provided to the Company and the fees paid by it to the advisor's wider group, Aon Hewitt
- fees paid to NBS as a percentage of its wider group's total revenues in the year
- the policy of NBS to prevent conflicts of interest
- whether there were any relationships between NBS and any member of the Committee
- whether there were any shares in the Company owned by NBS or its wider group
- any business or personal relationships between NBS or its wider group and any senior executive of the Company

Aon Hewitt provided administration services to the Corporate Trustee of the Group's retirement benefits plan during the year but given the independence of the Trustee this was not considered to be advice to the Board. Aon Hewitt also acted as the administrators of the Group's stakeholder (defined contribution) pension plan during the year. It provided no advice to the Board in this capacity.

NBS has written to the Committee Chairman to confirm its position on these matters. Its total fees including VAT for the year ended 30 September 2015 were £59,000 (2014: £73,000), which were charged on the basis of the work carried out by it.

During the year the Committee reviewed its remuneration advice requirements and decided to appoint Deloitte as its remuneration advisers with effect from the conclusion of the AGM in 2016. At this point Deloitte will have vacated office as the Group's auditors.

Bank remuneration

During the year the Committee reviewed and considered the potential impact of the European Banking Authority's consultation on remuneration practices and will keep under review the outcomes of this consultation and any potential impact on the Company and Paragon Bank PLC.

Paragon Bank PLC has its own remuneration committee, reporting to the Bank's board of directors, which considers remuneration policy across the Bank including the application of the Prudential Regulation Authority's Remuneration Code ('Remuneration Code') which governs the compensation of senior personnel in the banking sector, referred to as 'Remuneration Code Staff'. The Bank's remuneration committee ensures that Paragon Bank complies with the Remuneration Code on an ongoing basis in respect of those employees. The Committee reviews the work undertaken by the Bank's remuneration committee through regular reports submitted to it.

However, the Remuneration Code states that in certain circumstances its requirements must also be applied at Group level. The Committee has reviewed and discussed the requirements in this complex area and, after due consideration, has concluded that, at present, the Remuneration Code does not apply to employees outside Paragon Bank. This conclusion will be kept under review to take account of developments both within the Group and in the regulatory approach to directors' remuneration.

Application of remuneration policy for the year ending 30 September 2016

Salary

The Chairman's fee and executive directors' salaries are determined by the Committee immediately prior to the start of each financial year. In deciding appropriate levels, the Committee considers remuneration levels within the Group as a whole, individual and business performance during the year and in the past has also utilised periodic objective research which gives up-to-date information on comparable FTSE-250 companies.

The current Chairman's fee and the salaries of the executive directors with effect from 1 October 2015 are as follows:

Position	Director	Fee / salary with effect from	
		1 October 2015	1 October 2014
		£	£
Chairman	R G Dench	**240,000**	211,250
Chief Executive	N S Terrington	**462,700**	452,500
Group Finance Director	R J Woodman	**291,400**	285,000
Director - Mortgages	J A Heron	**246,700**	241,250

In view of the progress made by the Group during the year, the Committee agreed that the salaries of Mr N S Terrington, Mr R J Woodman and Mr J A Heron would be increased by 2.25% from 1 October 2015. This is in line with the level of increases for the Group's wider workforce.

Over recent years the Group has grown rapidly, expanding the range of products and services it offers as well as its customer reach. These changes have delivered substantial, and sustained, financial growth and returns for its shareholders. The resulting group, which now includes Paragon Bank, is now larger and more profitable but also operates in a more complex regulatory environment. In this context the Committee reviewed the Chairman's annual fee.

This fee had not been comprehensively reviewed since 2008 with annual increases being applied within the 1.5% to 4.5% range since then, in line with executive directors and other employees. Following this comprehensive benchmarked review, the Committee agreed an uplift of 13.6% with effect from 1 October 2015. The decision to increase the Chairman's fee reflects the increased scope and complexity of the role and additional time commitment that he is required to dedicate to the Group. The Committee feels that the revised fee is appropriate based on the contribution which the Chairman makes to the Group.

The non-executive directors' fees have been benchmarked against the wider market during the year and it was agreed that the present levels were appropriate. Consequently from 1 October 2015 the fees remain as follows:

• Base fee	£50,000	(2015: £50,000)
• Additional fee for Senior Independent Director	£20,000	(2015: £20,000)
• Additional fee for chairmen of committees	£20,000	(2015: £20,000)

The additional fee for chairmen of committees is currently payable to the Chairmen of the Remuneration, Audit and Risk and Compliance Committees, but would be payable for the chairmanship of such additional Committees as should be authorised by the Board.

The Company's Articles of Association include a limit on the total aggregate fees that can be paid to non-executive directors. The present limit of £400,000 was approved by the shareholders at the 2014 Annual General Meeting.

In addition to fees earned as a non-executive director, Mr A K Fletcher serves as a director of the Corporate Trustee of The Paragon Pension Plan (the 'Plan') and receives £10,000 per annum in respect of that appointment from Paragon Finance PLC, the sponsoring company of the Plan and a subsidiary of the Company. The Plan is a trust which is independent of the Company and, as a director of its corporate trustee, Mr Fletcher has a fiduciary duty to act in the best interests of the trust and the Plan's beneficiaries.

Pension contributions

The executive directors are members of the Plan, which provides for a pension of 1/37.5 of basic annual salary (to a maximum of 2/3) for every year of eligible service. Directors may also have accrued entitlements under the plan in their early years of service at the rate of 1/60 of basic annual salary for every year of eligible service, the rate applicable to employees in general.

As described below the executive directors have each ceased pension accrual for future years' service in return for a cash supplement calculated to equate to the cost of the Group's contributions towards future service benefits had each individual stayed within the Plan for his future service accrual. The accrued entitlement of each director under the Plan is set out below. The cash supplement is not a defined contribution pension scheme but a contractual entitlement and is cost neutral to the Group.

Dependants of executive directors who are members of the Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service. There are no unfunded promises or similar arrangements for directors.

Benefits

The Chairman and executives are entitled to family private medical health cover, life insurance cover of up to seven times their salary and a car allowance of up to £12,000 per annum.

Performance bonuses

The purpose of the bonus is to provide a meaningful cash incentive focused on improving the performance of the Company through the achievement of a number of predetermined objectives. The annual bonus is non-pensionable.

The bonus payable to executive directors under the bonus scheme is capped at 200% of salary. A target level of 100% of salary is awarded for delivery of the base business plan and agreed objectives, with achievement of the planned profit level forming a major element.

For the year ending 30 September 2016, the annual bonus will be based on performance against the following performance measures: (1) operational profit, (2) future value of new business and (3) risk, each with equal weightings together with each director's performance against strategic and personal objectives, which will determine the level of a scale factor to be applied of between 0.5 and 1.5 times.

The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these are felt to be commercially sensitive. Retrospective disclosure of the targets and performance against them will be set out in next year's Annual Report on Remuneration except to the extent that any measure/target remains commercially sensitive.

25% of amounts awarded in excess of £50,000 are deferred, to be payable in shares (together with the aggregate amount of accrued dividend thereon), after three years, net of any clawback applied (see below). The Committee may require higher levels of deferment.

Clawback provisions apply to awards granted under the deferred bonus scheme. The provisions give the Committee scope to reduce awards that have been granted, but have not vested (if appropriate, to zero) in the event of a material misstatement of the Group's accounts or if the number of shares granted was based on any other kind of error that resulted in more shares being awarded than there should have been. The provisions also enable the Committee to claw back amounts that have vested under the plan, in the event of a material misstatement, miscalculation as a result of an error or in the event of misconduct. Clawback can be implemented at any time prior to the second anniversary of the vesting date.

Share awards

Executive directors are eligible for awards under the Paragon Performance Share Plan ('PSP') and are entitled to participate in the Paragon UK Sharesave Plan 2009 ('Sharesave Plan'), on the same terms as other employees. The terms of the Sharesave Plan were reviewed during the year and amended to bring them in line with the Finance Act 2014.

Paragon Performance Share Plan ('PSP')

The PSP has an annual award limit to an individual of shares worth 200% of salary. Awards over shares with a market value of 200% of salary will be granted to the current executive directors in the year ending 30 September 2016. No awards will be made to former directors.

50% of awards are subject to the TSR test and 50% are subject to an EPS test. In each case the testing period is the three financial years commencing with the year of grant.

The TSR test compares the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 Index. 25% of awards vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance. The FTSE-250 has been chosen because it is a broad-based index and because of the lack of comparable listed financial services organisations at the current time. The Committee believes that TSR usefully aligns the long-term performance conditions with the best interests of the shareholders.

The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus a threshold percentage, increasing on a straight line basis to full vesting for EPS growth equal to the increase in the retail price index plus a higher threshold percentage or more. In addition, prior to any awards vesting, the Committee must be satisfied that the requirements of a financial underpin test have been met.

For awards granted between February 2013 and December 2014 the lower threshold was 3% and the higher threshold 7%. The lower and higher thresholds for awards to be granted in the financial year ending 30 September 2016 will be announced at the time of grant.

Vesting percentages for vested awards made under the PSP and its predecessor plans in the last ten years are summarised below.

Year of grant	Date of grant	Vesting percentage	Basis of test
2012	21/12/2011	100.0%	TSR
2011	17/12/2010	100.0%	TSR
2010	04/01/2010	100.0%	TSR
2009	21/05/2009	100.0%	TSR
2008	29/09/2008	85.1%	Share price growth
	18/03/2008	100.0%	50% TSR, 50% EPS
	26/11/2007	58.6%	50% TSR, 50% EPS
2007	26/09/2007	58.6%	50% TSR, 50% EPS
	14/06/2007	58.6%	50% TSR, 50% EPS
	28/03/2007	58.6%	50% TSR, 50% EPS
	09/01/2007	58.6%	50% TSR, 50% EPS
2006	25/09/2006	0.0%	50% TSR, 50% EPS
	25/05/2006	0.0%	50% TSR, 50% EPS
	07/03/2006	0.0%	50% TSR, 50% EPS

Clawback provisions have applied to awards granted under the PSP since 2013. The provisions give the Committee scope to reduce awards that have been granted, but have not vested (if appropriate, to zero) in the event of a material misstatement of the Group's accounts or if the number of shares granted was based on any other kind of error that resulted in more shares being awarded than there should have been. The provisions also enable the Committee to claw back amounts that have vested under the plan, in the event of a material misstatement, miscalculation as a result of an error or in the event of misconduct. Clawback can be implemented at any time prior to the second anniversary of the vesting date.

Paragon Matching Share Plan ('MSP')

The Committee does not intend to grant any awards in the year ending 30 September 2016 under the MSP, which expires in February 2016. As part of its review of the remuneration policy in the coming year the Committee will examine the appropriate structure and relative importance of share based compensation within the Group's executive remuneration packages.

B5.2.2 DIRECTORS' REMUNERATION FOR THE YEAR ENDED 30 SEPTEMBER 2015

The information provided in this section has been audited.

Single total figure of remuneration for each director

The following tables have been prepared using the measures prescribed by The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

In accordance with the Regulations, the amounts shown in respect of pension accrual have been calculated by applying a factor of 20 to the increase in accrued pension, after adjusting for inflation, whilst the values shown for share awards vesting in the year have been calculated on the basis of the share price at the vesting date, which may not necessarily equate to the price at which the awards have been or may be exercised.

Year ended 30 September 2015

	Fixed remuneration				Variable remuneration				Total
	Salaries and fees	Allowances and benefits	Pension allowance	Pension accrual	Cash bonus	Deferred bonus	Dividend on vested deferred bonus	Share awards	
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**
Chairman									
R G Dench	211	12	-	-	-	-	-	-	**223**
Executive directors									
N S Terrington	452	14	172	29	691	214	20	1,975	**3,567**
R J Woodman	285	12	133	14	440	130	8	903	**1,925**
J A Heron	241	12	92	16	284	78	7	1,053	**1,783**
N Keen	-	-	-	-	-	-	-	-	**-**
Non-executive directors									
E A Tilly	53	-	-	-	-	-	-	-	**53**
A K Fletcher	70	-	-	-	-	-	-	-	**70**
P J N Hartill	70	-	-	-	-	-	-	-	**70**
F J Clutterbuck	75	-	-	-	-	-	-	-	**75**
H R Tudor	43	-	-	-	-	-	-	-	**43**
Total	**1,500**	**50**	**397**	**59**	**1,415**	**422**	**35**	**3,931**	**7,809**

Year ended 30 September 2014

	Fixed remuneration				Variable remuneration				Total
	Salaries and fees	Allowances and benefits	Pension allowance	Pension accrual	Cash bonus	Deferred bonus	Dividend on vested deferred bonus	Share awards	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman									
R G Dench	207	13	-	-	-	-	-	-	220
Executive directors									
N S Terrington	443	14	169	-	677	209	12	1,589	3,113
R J Woodman	253	12	111	6	370	107	5	726	1,590
J A Heron	236	12	90	-	278	76	6	847	1,545
N Keen	221	10	135	-	332	-	9	1,190	1,897
Non-executive directors									
E A Tilly	60	-	-	-	-	-	-	-	60
A K Fletcher	60	-	-	-	-	-	-	-	60
P J N Hartill	60	-	-	-	-	-	-	-	60
F J Clutterbuck	50	-	-	-	-	-	-	-	50
H R Tudor	-	-	-	-	-	-	-	-	-
Total	**1,590**	**61**	**505**	**6**	**1,657**	**392**	**32**	**4,352**	**8,595**

Mr E A Tilly retired from the Board on 1 July 2015 and Mr H R Tudor was appointed to the Board on 24 November 2014. Mr Tilly received no additional remuneration on cessation of office.

Mr N Keen retired from the Board on 31 May 2014 and the remuneration shown above is in respect of his service to that date. He received no additional remuneration on cessation of office.

Allowances and benefits include private health cover, fuel benefit and company car provision. The company car allowance paid to executive directors (£10,000 - £12,000) is also included in allowances and benefits.

Dividend is the accrued dividend paid on deferred bonuses which vested during the year.

Remuneration in respect of share awards is calculated by multiplying the number of shares vesting during the year by the mid-market closing price of the shares on the vesting date.

The link between pay and performance

Annual bonus for the year ended 30 September 2015

The annual bonus for the year under review was based on performance against financial and risk measures; performance against each of these measures is then subject to individual scale factors according to performance against personal strategic objectives. The performance for the year, and the resulting accrual levels, were as follows:

	Measure	Weighting	Outcome	Award level*
Financial performance	Adjusted operating profit	33.33%	£134.7m	17%
Future value of new business	Projected profits from lending and investment activities in the year and projected residual cash flow from acquired portfolios	33.33%	Paragon Mortgages lending £976.6m Idem Capital investments £104.4m Paragon Bank lending £409.1m Five Arrows Leasing Group acquisition	28%
Risk	The business having operated within the key risk tolerance levels agreed by the Board	33.33%	See below	24%
Totals		100.0%	Bonus achieved for 2015	69%

**Of maximum under scheme, subject to individual performance scale factors of 0.5 to 1.5 times.*

Financial performance

Operating profit for the year exceeded the target level of £132.0 million and the consensus at 30 September 2015 of £134.5 million. Cash generation from both the originated and acquired portfolios was also strong. Tight control was maintained over costs, with the underlying cost:income ratio remaining broadly similar in the year. The costs associated with the initial operations of Paragon Bank were favourable to those originally forecast.

Future value

Buy-to-let volumes, at £1,326.6 million (£976.6 million in Paragon Mortgages and £350.0 million in Paragon Bank), were in excess of the original target of £969.5 million, with margins broadly in line with target. In addition to volumes completed during the year, the buy-to-let business ended the financial year with a pipeline of £713.7 million to support future growth in originations.

Acquisitions by Idem Capital, the Group's debt purchase division, were also above the target of £100.0 million at £104.4 million. Cash flow from purchases continues to exceed the value at the point of underwriting, supporting the growth in the profit contribution by the division in 2015.

During the year a process took place leading to the announcement of the acquisition of Five Arrows Leasing Group, which was announced on 2 October 2015. This diversifies the Group's operations and is expected to be immediately enhancing to earnings and return on capital following completion.

The enhanced diversification of the Group's funding sources, with the expansion of savings volumes, the granting of a public rating of the Group's corporate debt by Fitch, a further retail bond issue and the Group's first issuance in Euros since the credit crisis, provides the foundation for future sustainable growth.

Risk

The Group has operated within the risk tolerance levels approved by the Board in respect of capital ratios, liquidity positions, the risk appetite for new business, the management of operational and regulatory risk and the development of plans to mitigate longer-term strategic risk. During the year, complaint levels have been minimal, arrears levels remain below industry averages, funding sources have been further diversified, liquidity has remained comfortably in excess of policy limits and capital ratios remain highly prudent.

Target figures are not disclosed for the year ahead because the Committee believes that the disclosure of targeted margins, arrears levels, volumes, cash plans and financing assumptions is commercially sensitive.

The final level of each executive director's bonus is adjusted to reflect personal performance against strategic objectives related to each of the elements. These individual performance scale factors are between 0.5 and 1.5 times, according to performance. The Committee's assessment of performance and delivery on objectives is noted in the Chairman's letter and the objectives for the year ended 30 September 2015 are detailed below:

N S Terrington

- To deliver strategic leadership working within the parameters of the Group's risk appetite. To deliver the planned financial performance for the year, whilst ensuring fair outcomes for customers, future profit streams and positioning the Group to meet its longer term strategic goals. To ensure the business as a whole meets all risk, compliance and regulatory changes.

R J Woodman

The Committee, with advice from the Chief Executive, assessed the performance of the director with reference to the following objectives:

- To deliver strategic leadership working within the parameters of the Group's risk appetite. To deliver the planned financial performance for the year, whilst ensuring fair outcomes for customers, future profit streams and positioning the Group to meet its longer term strategic goals. To ensure the business as a whole meets all risk, compliance and regulatory changes.
- Additionally to:
    - implement the risk and compliance framework and revised governance structures during the year
    - support the continued development of the Idem Capital Managing Director
    - continually develop personal capabilities as Group Finance Director; including leadership of the Group's culture in terms of finance, risk and control

J A Heron

The Committee, with advice from the Chief Executive, assessed the performance of the director with reference to the following objectives:

- To deliver strategic leadership working within the parameters of the Group's risk appetite. To deliver the planned financial performance for the year, whilst ensuring fair outcomes for customers, future profit streams and positioning the Group to meet its longer term strategic goals. To ensure the business as a whole meets all risk, compliance and regulatory changes
- In respect of the Paragon Mortgages division to:
    - achieve its target operating profit
    - achieve its target new origination volume at agreed return levels
    - improve application conversion rates and cost per application levels

- manage resource levels to meet immediate and longer term strategic requirements
- ensure the mortgage business operates within the key risk tolerance levels agreed by the Board
- facilitate Paragon Bank buy-to-let lending originations
- develop the product range
- maintain a balanced and sustainable distribution profile

Performance against the objectives is assessed by the Committee at the end of the year (with input from the Chief Executive as appropriate). Each objective is scored from 0 to 4, with target scale factor being for a score of 2, equating to a scale factor of 1.0 times, as set out in the table below:

Scale factor	Average score	Performance
0.50	0	Poor
0.75	1	Below target
1.00	2	Target
1.25	3	Above target
1.50	4	Exceptionally good

The Committee, having considered individual performance against the objectives set at the beginning of the year, has agreed the following scale factors for the year ended 30 September 2015:

N S Terrington	1.5
R J Woodman	1.5
J A Heron	1.1

The resulting bonuses for 2015, after applying the scale factors to the award levels, were as follows:

Executive	Financial performance	Future value of new business	Risk	Scale factor	Total (percentage of max capped at 100%)	Total	Cash	Share value
	(max 33%)	(max 33%)	(max 33%)					
				times		£000	£000	£000
N S Terrington	17%	28%	24%	1.5	100.0%	905	691	214
R J Woodman	17%	28%	24%	1.5	100.0%	570	440	130
J A Heron	17%	28%	24%	1.1	75.2%	362	284	78

The maximum bonus entitlement is 200% of salary for the period.

25% of amounts awarded in excess of £50,000 are deferred, to be payable in shares after three years, net of any clawback applied (see below). No further performance conditions apply to the deferred shares.

The Committee is satisfied that the level of bonus earned by each director reflects both the performance of the individual and the Group during the year.

Directors' pensions

The total amount charged to the profit and loss account of the Group in respect of pension provision for directors was £397,000 (2014: £505,000).

Mr N S Terrington, Mr R J Woodman and Mr J A Heron were members of the Group defined benefit pension plan during the year. Their entitlements under the Plan are shown below.

Director	Description of entitlement	Accumulated total accrued annual pension at 30 September	
		2015	2014
		£000	£000
N S Terrington	Entitled to 1/48.375th of final salary per year of service, payable from age 60. May take reduced early retirement from age 55. Ceased pension accrual on 6 April 2006 but retains final salary linkage.	**174**	170
R J Woodman	Entitled to 1/46.625th of final salary per year of service, payable from age 60. May take reduced early retirement from age 55. Ceased pension accrual on 9 October 2007 and opted out of final salary linkage from 1 April 2011.	**61**	60
J A Heron	Entitled to 1/49.125th of final salary per year of service, payable from age 60. May take reduced early retirement from age 55. Ceased pension accrual on 6 April 2006 but retains final salary linkage.	**98**	96

The pension accrual figure included in the single total figure of remuneration table represents the increase in the accrued pension, excluding the effect of CPI inflation, during the year multiplied by 20, in accordance with the methodology set out in the Regulations.

The entitlements shown above represent the weighted average of service years for which accrual was earned at 1/60 of final salary and those for which accrual was earned at 1/37.5.

The executive directors have each ceased pension accrual, as shown in the table above. This was in return for a cash supplement calculated to equate to the cost of the Company's contributions towards future service benefits had each individual stayed within the Plan for his future service accrual. These contributions in respect of further pension provision for each of the directors are shown as 'pension allowance' in the single total figure of remuneration table.

Details of share-based awards

Awards granted in December 2011 under the Group's PSP which vested during the year were subject to performance conditions measured over three financial years, comparing the Group's relative TSR performance against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. The vesting percentage was then reviewed by the Committee against a financial underpin. The Company was ranked above the upper quartile position, giving a 100% vesting percentage and the Committee determined that such level of vesting was consistent with the Company's financial performance.

Paragon Performance Share Plan

Awards under this plan comprise a right to acquire shares in the Company for nil or nominal payment and will vest on the third anniversary of their grant to the extent that the applicable performance criteria have been satisfied.

The awards granted during the year were calculated so as to have a face value of 200% of salary, using the average closing mid-market price of the Company's shares on each of the five dealing days up to and including the day before the grant date. Therefore the face value of the awards granted during the year (being the number of shares in each case multiplied by £3.956, that being the average of the closing prices of the Company's shares at the end of each of the five dealing days ending on the day before the grant date) were £905,000 for Mr Terrington, £570,000 for Mr Woodman and £482,000 for Mr Heron.

Details of individual entitlements of the directors under the PSP at 30 September 2014, and 30 September 2015 are:

Award date	Date from which exercisable	Expiry date	Market price at award date	N S Terrington	R J Woodman	J A Heron
				Number	Number	Number
Awards outstanding at 30 September 2014						
21/05/2009	21/05/2012	20/05/2019	70.00p	-	385,714	-
04/01/2010	04/01/2013	03/01/2020	135.00p	133,815	-	-
17/12/2010	17/12/2013	16/12/2020	182.00p	450,661	205,886	-
21/12/2011	21/12/2014§	20/12/2021	176.90p	480,912	219,943	256,410
28/02/2013	28/02/2016‡	27/02/2023	321.20p	278,757	148,595	148,595
10/12/2013	10/12/2016‡	09/12/2023	345.30p	260,838	139,051	139,051
				1,604,983	1,099,189	544,056
Awards made in the year						
18/12/2014	18/12/2017‡	17/12/2024	409.60p	228,766	144,085	121,967
Awards exercised in the year:						
On 5 December 2014						
04/01/2010	04/01/2013	03/01/2020	135.20p	(133,815)	-	-
17/12/2010	17/12/2013	16/12/2020	182.00p	(132,490)	-	-
On 13 February 2015						
17/12/2010	17/12/2013	16/12/2020	182.00p	(318,171)	-	-
21/12/2011	21/12/2014§	20/12/2021	176.90p	(181,829)	-	(256,410)
Awards lapsing in the year:				-	-	-
At 30 September 2015				1,067,444	1,243,274	409,613

§ These awards were subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250, on the date of grant over the three years commencing on the date of grant. 25% of the awards would vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

‡ 50% of these awards are subject to the TSR test, as above, and 50% are subject to an EPS test. The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus a lower threshold, increasing on a straight line basis to full vesting for EPS growth equal to the increase in the retail price index plus an upper threshold or more. In each case the testing period is the three financial years commencing with the year of grant.

For awards granted between February 2013 and December 2014 the lower threshold was 3% and the upper threshold 7%. The thresholds applicable to grants to be made in the financial year ending 30 September 2016 will be announced at the time of grant.

The share prices at the exercise dates were £4.168 on 5 December 2014 and £4.247 on 13 February 2015.

The awards maturing during the year, granted on 21 December 2011, achieved 100% vesting after the application of the performance criteria.

Awards are exercisable from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied to the day before the tenth anniversary of the grant date.

Clawback provisions apply to awards granted under the PSP. The provisions give the Committee scope to reduce awards that have been granted, but have not vested (if appropriate, to zero) in the event of a material misstatement of the Group's accounts or if the number of shares granted was based on any other kind of error that resulted in more shares being awarded than there should have been. The provisions also enable the Committee to claw back amounts that have vested under the plan, in the event of a material misstatement, miscalculation as a result of an error or in the event of misconduct. Clawback can be implemented at any time prior to the second anniversary of the vesting date.

Share option schemes

Details of individual options held by the directors at 30 September 2014 and 30 September 2015 are:

Award date	**Date from which exercisable**	**Expiry date**	**Option price**	**N S Terrington**	**R J Woodman**	**J A Heron**
				Number	Number	Number
Awards outstanding at 30 September 2014						
01/12/2004	01/12/2007	01/12/2014	555.34p	68,874	22,778	27,730
				68,874	22,778	27,730
Awards exercised in the year:				-	-	-
Awards lapsing in the year:						
01/12/2004	01/12/2007	01/12/2014	555.34p	(68,874)	(22,778)	(27,730)
At 30 September 2015				-	-	-

Sharesave Plan

Awards made under the Sharesave Plan are granted to directors on the same terms which are available to employees in general. Details of individual options held by the directors at 30 September 2014 and 30 September 2015 are:

Award date	**Date from which exercisable**	**Expiry date**	**Option price**	**N S Terrington**	**R J Woodman**	**J A Heron**
				Number	Number	Number
Awards outstanding at 30 September 2014				-	-	-
Awards made in the year:						
11/06/2015	01/08/2018	01/02/2019	345.68p	-	-	5,207
11/06/2015	01/08/2020	01/02/2021	345.68p	8,678	8,678	-
Awards exercised in the year:				-	-	-
Awards lapsed in the year:				-	-	-
At 30 September 2015				8,678	8,678	5,207

Deferred Bonus Shares

Details of individual entitlements of the directors under the Paragon Deferred Share Bonus Plan at 30 September 2014 and 30 September 2015 are:

Award date	Date from which exercisable	Expiry date	Market price at award date	N S Terrington	R J Woodman	J A Heron
				Number	Number	Number
Awards outstanding at 30 September 2014						
20/01/2011	01/10/2013	19/01/2015	184.00p	82,248	13,446	-
21/12/2011	01/10/2014	20/12/2015	176.91p	108,198	44,980	36,117
23/11/2012	01/10/2015	22/11/2016	248.40p	83,297	62,003	27,977
10/12/2013	10/12/2016	09/12/2023	345.30p	55,302	36,906	24,258
				329,045	157,335	88,352
Awards made in the year						
18/12/2014	18/12/2017	17/12/2024	409.60p	52,888	26,965	19,249
Awards exercised in the year:						
On 5 December 2014						
20/01/2011	01/10/2013	19/01/2015	184.00p	(82,248)	(13,446)	-
21/12/2011	01/10/2014	20/12/2015	176.91p	(108,198)	(44,980)	-
On 13 February 2015						
21/12/2011	01/10/2014	20/12/2015	176.91p	-	-	(36,117)
At 30 September 2015				191,487	125,874	71,484

The Deferred Bonus Shares awarded before 2013 can be exercised from the third anniversary of the start of the financial year in which the award was made until the day before the fourth anniversary of the award date. The Deferred Bonus Shares awarded during 2013 and thereafter can be exercised from the third anniversary of the award date until the day before the tenth anniversary of the date of grant.

The face value of the awards granted during the year (being the number of shares in each case multiplied by £3.956, that being the average of the closing prices of the Company's shares at the end of each of the five dealing days ending on the day before the grant date) were £209,000 for Mr Terrington, £107,000 for Mr Woodman and £76,000 for Mr Heron.

The share prices at the exercise dates were £4.168 on 5 December 2014 and £4.247 on 13 February 2015.

Rights to further shares under the Deferred Bonus Share Plan are due to be granted in respect of the compulsory deferral of performance bonuses for the year ended 30 September 2015, shown in the single total figure of remuneration table above. The number of shares to be awarded will be determined based on the average market price of the Company's shares on the five dealing days before the awards are granted. The shares, less any clawback, which can be applied by the Remuneration Committee in certain circumstances, will be exercisable by the recipients from the third anniversary of the grant date, subject, in normal circumstances, to the recipient being employed by the Company at that time.

Clawback provisions apply to awards granted under the deferred bonus scheme. The provisions give the Committee scope to reduce awards that have been granted, but have not vested (if appropriate, to zero) in the event of a material misstatement of the Group's accounts or if the number of shares granted was based on any other kind of error that resulted in more shares being awarded than there should have been. The provisions also enable the Committee to claw back amounts that have vested under the plan, in the event of a material misstatement, miscalculation as a result of an error or in the event of misconduct. Clawback can be implemented at any time prior to the second anniversary of the vesting date.

Matching Share Plan

The individual interests of the directors in the MSP at 30 September 2014 and 30 September 2015 are:

Award date	Market price at award date	N S Terrington	R J Woodman	J A Heron
		Number	Number	Number
Awards outstanding at 30 September 2014:				
05/01/2010§	133.40p	43,249	43,808	-
		43,249	43,808	-
Awards exercised in the year:				
On 5 December 2014				
05/01/2010§	133.40p	(43,249)	(43,808)	-
At 30 September 2015		-	-	-

§ These awards were subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of the awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

No awards were granted under the MSP during the year ended 30 September 2015.

The awards exercised during the year were exercised on 5 December 2014 when the price of the Company's shares was £4.168 per share.

Awards are exercisable from the date on which the Remuneration Committee determined the extent to which the performance conditions were satisfied to the tenth anniversary of the grant date.

Directors' interests in shares

The interests of the executive directors in the shares of the Company at 30 September 2015 were:

	N S Terrington	R J Woodman	J A Heron
	Number	Number	Number
Unvested awards subject to vesting conditions			
PSP	768,361	431,731	409,613
Sharesave	8,678	8,678	5,207
	777,039	440,409	414,820
Unvested awards not subject to vesting conditions			
Deferred bonus plan	191,487	125,874	71,484
Total unvested awards	968,526	566,283	486,304
Vested awards			
PSP	299,083	811,543	-
Deferred bonus plan	-	-	-
Total vested awards	299,083	811,543	-
Total outstanding awards	1,267,609	1,377,826	486,304
Shares beneficially held	647,972	109,691	252,680
Total interest in shares	1,915,581	1,487,517	738,984
Awards exercised in the year			
PSP	766,305	-	256,410
Deferred bonus plan	190,446	58,426	36,117
MSP	43,249	43,808	-
	1,000,000	102,234	292,527

The interests of the Chairman and the non-executive directors at 30 September 2015, which consist entirely of ordinary shares, beneficially held, were as follows:

	Number
R G Dench	**30,000**
A K Fletcher	**60,000**
P J N Hartill	**7,000**
F J Clutterbuck	**3,214**
H R Tudor	**385,000**

Share ownership guidelines

All executive directors are encouraged to hold a minimum number of shares in the Company with a value of 200% of their salary, calculated at 31 December each year on the basis of the average price of the Company's shares over a rolling three year period. During the year ended 30 September 2013 the Remuneration Committee increased the guideline holding from the previous level of 100% of salary and executive directors had to meet the increased requirement by 30 September 2015. For new appointments the guideline is 100% of salary by the fifth anniversary of their appointment, increasing to 200% by the seventh anniversary. The number, net of income tax and national insurance, of vested but unexercised shares granted under the Deferred Bonus Plan and under the PSP and MSP count towards the aggregate shares held by each director in respect of the policy.

Guideline holdings and the actual shares held at 30 September 2015 are set out below:

<table>
<tr><th></th><th>N S Terrington</th><th colspan="2">R J Woodman</th><th>J A Heron</th></tr>
<tr><th></th><th>200%</th><th>100%</th><th>200%</th><th>200%</th></tr>
<tr><td>Salary (£)</td><td>452,500</td><td>285,000</td><td>285,000</td><td>241,250</td></tr>
<tr><td>Average share price (p)†</td><td>302.99</td><td>307.03</td><td>307.03</td><td>302.99</td></tr>
<tr><td>Guideline holding (shares)</td><td>298,689</td><td>92,825</td><td>185,650</td><td>159,246</td></tr>
<tr><td>Beneficially owned shareholding</td><td>647,972</td><td colspan="2">109,691</td><td>252,680</td></tr>
<tr><td>Vested PSP (net of tax)</td><td>158,514</td><td colspan="2">430,118</td><td>-</td></tr>
<tr><td>Deferred Bonus Plan (net of tax)</td><td>-</td><td colspan="2">-</td><td>-</td></tr>
<tr><td>Calculated holding at 30 September 2015</td><td>806,486</td><td colspan="2">539,809</td><td>252,680</td></tr>
</table>

† Average share price over a rolling three year period (since appointment to the Board for Mr R J Woodman).

At 30 September 2015, all of the executive directors' holdings were in accordance with guideline levels.

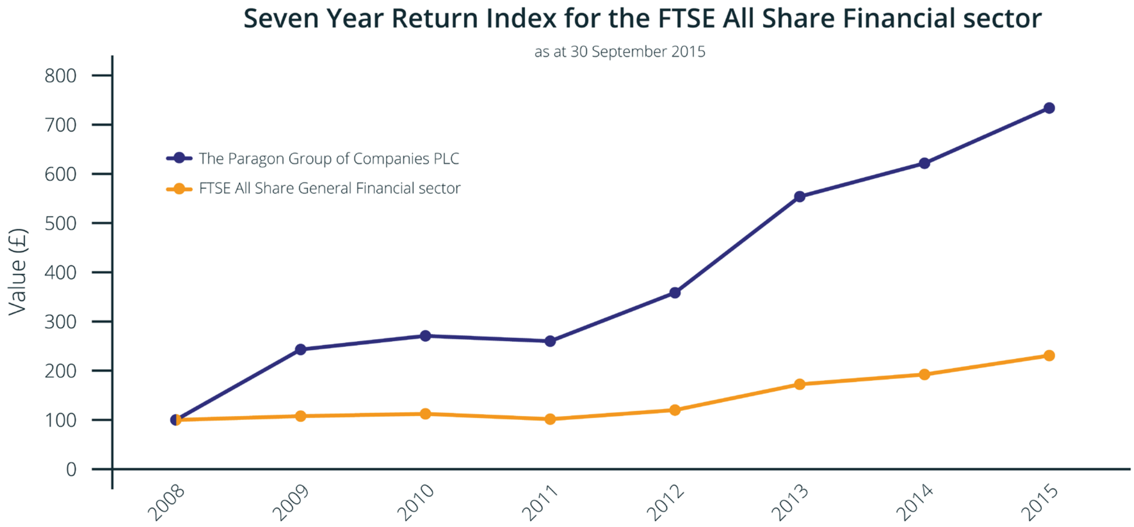
The Committee has decided, for the present, not to mandate that executive directors hold awards granted under LTI plans for an additional period after the vesting date.

B5.2.3 **OTHER INFORMATION**

The information provided in this section of the Directors' Remuneration Report is not subject to audit.

Performance graph and table

The following graph shows the Company's TSR performance compared with the performance of the FTSE All Share General Financial sector index. The General Financial sector has been selected for this comparison because it is the sub-sector index that contains the Company's shares.



This graph shows the value, by 30 September 2015, of £100 invested in The Paragon Group of Companies PLC on 30 September 2008, compared with £100 invested in the FTSE General Financial sector index. The other points plotted are the values at the intervening financial year ends.

Table of historic data

The following table shows the total remuneration, as defined by the Regulations, and the amount vesting under short-term and long-term incentives as a percentage of the maximum that could have been achieved, in respect of Mr Terrington, the Chief Executive.

Year	Single figure of total remuneration	Annual bonus against maximum opportunity	Long-term incentive rates against maximum opportunity
	£000	%	%
2015	**3,567**	**100.0**	**100.0**
2014	3,113	100.0	100.0
2013	2,655	85.0	100.0
2012	2,565	87.5	100.0
2011	2,382	87.5	58.6 and 85.1
2010	1,209	75.0	58.6
2009	932	50.0	-

CORPORATE GOVERNANCE

Percentage change in the remuneration of the Chief Executive

The following table shows the change in certain aspects of the remuneration of Mr Terrington:

Component	**2015**	2014	Change
	£000	£000	%
Salary	**452**	443	2.0%
Benefits	**14**	14	-
Bonus	**905**	886	2.1%

The Group's pay review taking effect on 1 October 2014 awarded average percentage increases in wages and salaries to employees as a whole of 2.0%.

The nature and level of benefits available to employees in the year ended 30 September 2015 was broadly similar to that in the previous year.

The total amount of bonus paid to employees, excluding the directors in respect of the year ended 30 September 2015 was 30.4% higher than in 2014, while the profit related pay pool distributed to employees other than directors and heads of function increased by 9.3% between the two years.

Relative importance of spend on pay

The Regulations require an illustration of the significance of the Group's expenditure on pay in the context of its operations. Set out below is a summary of the Group's levels of expenditure on pay and other significant cash outflows.

	Note	2015	2014	Change
		£m	£m	£m
Wages and salaries	14	**35.9**	31.8	4.1
Dividend paid	45	**29.1**	23.7	5.4
Loan advances and investment in portfolios		**1,490.0**	832.3	657.7
Corporation tax paid	57	**22.6**	17.4	5.2

Loan advances and investment in portfolios is shown above as this is the principal application of cash used to generate income for the Group. Corporation tax is contributed out of profit to the UK Government.

Consultations with Shareholders and AGM voting

At the AGM held on 12 February 2015, all resolutions were passed on a show of hands, other than the resolution in respect of remuneration for employees covered by the Remuneration Code, on which a poll was procedurally necessary. Proxy votes lodged in respect of directors' remuneration were as follows:

Resolution	Votes for	% for	Votes against	% against	Discretion	Total votes cast	Votes witheld
Adopt remuneration report	191,051,899	94.06	11,948,974	5.90	80,439	203,117,312	1,238,682

Annual meetings take place between the Chairman of the Committee and the Chairman of the Group and major shareholders and their representative bodies. The views expressed in these meetings help the Committee in determining how to implement the Company's remuneration policy.

B5.3 **POLICY REPORT**

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Introduction

This part of the Directors' Remuneration Report sets out the directors' remuneration policy that has applied since the Annual General Meeting held on 6 February 2014. The policy will apply until the Annual General Meeting in 2017, unless revised by a vote of shareholders ahead of that time.

In setting the remuneration policy for the executive directors, the Committee takes into account:

- the need to attract, retain and motivate high quality executive directors to fulfil the Company's strategy
- the maintenance of a clear link between rewards and company performance
- the objective of achieving an appropriate mix of fixed and variable pay
- the views of our investors and shareholder bodies
- the requirement to comply with the UK Corporate Governance Code ('the Code')
- the need to encourage management to adopt a level of risk which is in line with the risk appetite of the business as approved by the Board
- the need to ensure a long-term focus through the deferral of part of the annual bonus and the requirement for executive directors to maintain a significant level of investment in the Company's shares
- pay and benefit practice within the Group and within the sector
- periodic peer group comparisons

Contractual commitments already made to directors will continue to be honoured as part of this policy.

Remuneration policy for the Chairman and executive directors

The Company's policy is to ensure that the executive directors are fairly rewarded for their individual performance, having regard to the importance of retention and motivation. The performance measurement of the executive directors and the determination of their annual remuneration packages are undertaken by the Committee. The Committee also sets the salary for the Chairman, taking account of his performance and time commitment in the role.

In forming and reviewing remuneration policy the Committee has given full consideration to the Code and has complied with its provisions relating to directors' remuneration throughout the year. Moreover, the Committee has given due regard to the link between remuneration and strategy, seeking to ensure that the remuneration structures in place do not encourage excessive risk or activities that are not in line with the agreed strategy.

The remuneration packages of the individual directors are assessed after a review of their individual performances and an assessment of comparable positions in the financial sector and within a group of pan-sectoral comparators comprising a number of FTSE-250 companies with market capitalisations similar to the Group's.

The Committee pays due regard to the levels of remuneration within the Group when determining the remuneration of executive directors and other senior employees. It also seeks to ensure that the incentive structure for directors and senior management does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

Key aspects of the remuneration policy for executive directors

The executive directors receive a combination of fixed and performance-related elements of remuneration. Fixed remuneration consists of salary, benefits in kind and pension scheme contributions (see under 'Pension contributions' below). Performance-related remuneration consists of participation in the annual bonus plan, the award of shares under the PSP and invitations to participate in the award of shares under the MSP from time to time. The performance-related elements of remuneration are intended to provide a significant proportion of executive directors' potential total remuneration.

Purpose and link to strategy	Operation	Maximum opportunity	Performance condition
Base salary			
To provide a competitive, fixed cash component that reflects the scope of individual responsibilities and recognises sustained individual performance in the role.	Remunerate fairly for individual performance, having regard to the importance of motivation. Take into account remuneration levels in the Group as a whole, individual and business performance and objective research into comparable companies.	Salaries for the year ending 30 September 2016 are set out in the Annual Report on Remuneration. Increases, if the Committee is satisfied with the individual's performance will normally broadly follow those awarded for the rest of the organisation. Changes in the scope or responsibilities of a director's role may require an adjustment to salary above the normal level of increase.	None.
Benefits			
To provide market levels of benefits on a cost-effective basis.	Private health cover for the executive and their family, life insurance cover of up to seven times salary and company car or cash alternative. Other benefits may be offered from time to time broadly in line with market practice.	Private health care benefits are provided through third party providers and therefore the cost to the company and the value to the director may vary from year to year. The maximum car allowance is £12,000 per annum. It is intended the maximum value of benefits offered will remain broadly in line with market practice.	None.
Pension			
To provide competitive post-retirement benefits.	1/37.5 of basic annual salary for each year of eligible service. A cash alternative is offered in lieu of pension accrual, equating to the approximate cost to the Company of defined benefit provision, normally reviewed every five years. For new external appointments a cash allowance or company pension contribution set at a rate lower than that for existing directors may be awarded.	Maximum pension 2/3 of salary at retirement or the value of the annual cash alternative calculated by the Company's actuary.	None.

Purpose and link to strategy	Operation	Maximum opportunity	Performance condition
Annual bonus			
To incentivise executives to achieve specific, predetermined goals that drive delivery of the Company's operational objectives over a one-year period. To reward individual performance. To encourage retention and alignment with shareholders' interests through a three-year deferral of a proportion of bonus, awarded in shares.	Each executive director's annual bonus is based on a challenging mix of financial, strategic and risk-related performance measures. 25% of amounts awarded in excess of £50,000 are deferred, to be satisfied in shares (together with the aggregate amount of accrued dividend thereon), for three years. Higher levels of deferment may be required by the Committee. The deferral is operated under the Deferred Bonus Plan which contains a clawback and malus mechanism applicable to all participants in the event of misconduct or a material misstatement of the Group's accounts. The annual bonus is non-pensionable.	Maximum bonus potential is 200% of salary. For target performance a bonus of 100% of salary will be awarded, with additional amounts being awarded for exceptional performance. If a bonus is awarded the minimum that could be paid is 8.25% of salary. For performance below threshold, no bonus is payable.	The performance targets are set by the Committee at the start of the year with input, as appropriate, from the Chairman and Chief Executive. The bonus is calculated as follows: • Performance against a range of measures, with the majority relating to financial metrics and the remainder reflecting risk-related measures • Each element is then subject to a scale factor that can reduce or increase the bonus (subject to the overall cap of 200% of salary) according to performance against personal and strategic objectives relating to the three elements This determines the percentage pay out of the annual bonus, which is capped at the maximum opportunity of 200% of salary. Details of the performance targets set for the year under review and performance against them are provided in the Annual Report on Remuneration.

Purpose and link to strategy	Operation	Maximum opportunity	Performance condition
Performance Share Plan ('PSP')			
To incentivise executives to achieve enhanced returns for shareholders. To encourage long-term retention of key executives. To align the interests of executives and shareholders.	An annual award of shares subject to continued service and performance conditions over a three year performance period. The performance conditions used are reviewed on an annual basis to ensure they remain appropriate. Awards are structured as nil cost options with a ten year life. Executives are entitled to any dividends which accrue over the period on vested awards.	Maximum award is 200% of salary in any year.	Granted subject to a combination of challenging financial (eg adjusted EPS) and relative TSR targets, tested over three years. 25% of the awards will vest for threshold performance, with full vesting taking place for equalling or exceeding the maximum performance target. The Committee retains the ability to amend the performance conditions for future grants to ensure that such grants achieve the stated purpose.
Matching Share Plan ('MSP')			
To provide additional incentive for executives to achieve enhanced returns for shareholders. To encourage long-term retention of key executives. To encourage key executives to hold personal investment in the Company's shares.	Key executives invited, from time to time, to invest the after tax equivalent of up to 25% of salary (50% in exceptional circumstances). At the end of a three year performance period and subject to the shares being held and the satisfaction of performance criteria determined by the Committee, participants receive a match for shares on a two for one basis. Awards are structured as nil cost options with a ten year life. The MSP expires in February 2016 and the last grant made under this plan was in 2010.	Normal maximum permissible award is 50% of salary after tax. Exceptional maximum permissible award is 100% of salary after tax.	Granted subject to a combination of challenging financial (eg adjusted EPS) and relative TSR targets, tested over three years. 25% of the awards will vest for threshold performance, with full vesting taking place for equalling or exceeding the maximum performance target.

Purpose and link to strategy	Operation	Maximum opportunity	Performance condition
Sharesave plan			
To provide all employees with the opportunity to become shareholders on similar terms.	Periodic invitations are made to participate in the Company's Sharesave Plan. A savings contract over three or five years with the funds used on maturity either to purchase shares by exercising options or returned to the participant. The option is granted at a discount to the share price at the time of grant of up to 20%. The Plan provides tax benefits in the UK subject to satisfying certain HMRC requirements and is operated on an 'all employee' basis.	HMRC monthly savings limits apply.	None.

Key aspects of the remuneration policy for the Chairman and non-executive directors

The Chairman receives a salary, a company car or cash alternative and is eligible for private health cover for himself and his family in the same way as the executive directors. Non-executive directors are remunerated solely by fees. Neither the Chairman nor the non-executive directors are eligible to participate in any of the Company's incentive or pension schemes and they are not entitled to receive compensation for early termination of their terms of engagement.

Benefits may also be provided to non-executive directors related to the performance of their duties (eg travel and hospitality).

Purpose and link to strategy	Operation	Maximum opportunity	Performance condition
Salary and fees			
To ensure that the Group can attract and retain the appropriate number and mix of non-executive directors with the correct experience to provide balance, oversight and challenge.	Non-executive director fees are reviewed on a periodic basis and are subject to the Articles of Association. The Chairman's fee is set annually by the Committee, whilst the non-executive directors' fees are determined by the Board. The Board will exercise judgement in determining the extent to which non-executive directors fees are altered in line with market practice, given the requirement to procure and retain the appropriate skills and given the expected time commitments. Non executive directors are paid an annual base fee with additional fees for the roles of Senior Independent Director and / or chairman of a board committee.	Salaries and fees for the year ending 30 September 2016 are set out in the Annual Report on Remuneration. Increases above those awarded for the rest of the organisation may be made to reflect the periodic nature of any review. Changes in the scope, responsibilities of a director's role, or the time commitment required, may require an adjustment to the level of their fee. The Articles of Association of the Company contain a maximum level of fees that can be paid annually to non-executive directors (currently £400,000). This is reviewed by the Board from time to time.	None.

Remuneration Committee flexibility, discretion and judgement

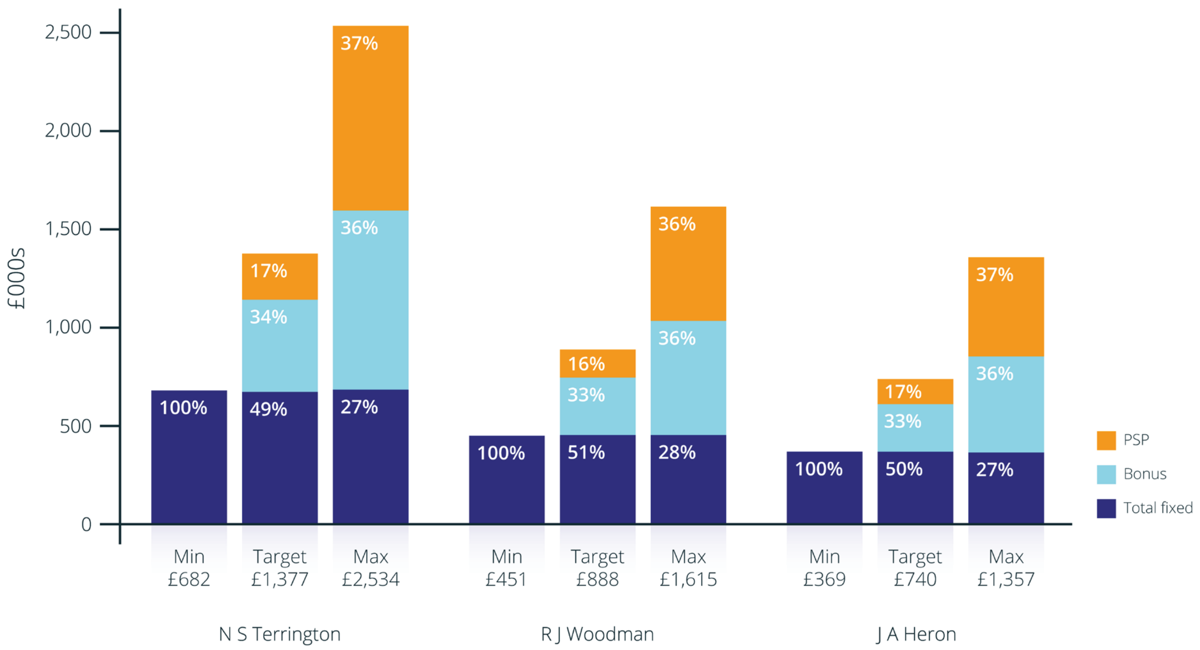
The Committee operates the variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans the Committee has certain operational powers. These include the determination of:

- the participants of the plans on an annual basis
- the timing of grant of award and/or payment
- the quantum of an award and/or a payment (within the limits set in the policy table above)
- the extent of vesting based on the assessment of performance
- adjustments required in certain circumstances (eg change of control, rights issues, corporate restructuring, events and special dividends)
- good/bad leaver status for incentive plan purposes and the appropriate treatment chosen
- the annual performance measures weighting, and targets for the annual bonus plan, PSP and MSP from year to year

If an event occurs which results in the annual bonus or LTI performance conditions and/or targets being deemed no longer appropriate (ie a material acquisition or divestment) then the Committee will have the ability to adjust the measures and/or targets and alter weightings so that the conditions are not materially less difficult to satisfy.

Illustrations of the application of the remuneration policy

The chart below illustrates the remuneration opportunity provided to each executive director at different levels of performance for the coming year:



In developing the above scenarios the following assumptions have been used:

Total fixed pay is based on the latest salary, benefits and pension allowances (including both the accrual under the defined benefit scheme and the cash supplement), with the amounts being calculated on a basis consistent with those shown in the single total figure of remuneration table for the year ended 30 September 2015.

	Salary	**Benefits**	**Pension**	**Total fixed**
	£000	£000	£000	£000
N S Terrington	463	14	205	682
R J Woodman	291	12	148	451
J A Heron	247	12	110	369

Target is based on what each director would receive if performance was in line with targets. Annual bonuses pay out at 50% of the maximum for on-target performance. At median performance PSP awards would vest at 25%.

Maximum is based on 100% of the annual bonus and 100% vesting of the PSP awards.

No share price appreciation has been included in the above analysis.

As Sharesave awards are provided on an all employee basis they have not been included in the above analysis.

Choice of performance measures and approach to target setting

The choice of the performance measures applicable to the annual bonus scheme reflect the Committee's belief that incentives should be appropriately challenging and tied to the achievement of both forward and backward-looking financial objectives, risk metrics and specific individual objectives linked to the Company's strategy.

The Committee reviews the measures each year and varies them as appropriate to reflect the priorities for the business in the year ahead. A sliding scale of targets is set for each measure to encourage continuous improvement and challenge the delivery of above-target performance.

The PSP and MSP are subject to a combination of relative TSR and EPS growth measures. EPS is considered appropriate as the activities of the Company in developing its new lending and other income streams should result in improvements to profitability and including a profit measure such as EPS will be reflective of long term performance. It also provides a balance to relative TSR, which considers shareholder value creation and is a measure of market expectations of future performance.

The use of relative TSR and EPS growth in the LTIs provides a combined focus on the Group's financial performance and shareholder value creation. Targets for EPS are set by reference to internal budgeting plans and external market expectations. TSR targets are set on a standard practice, median to upper quartile ranking range. Only 25% of the award is payable for threshold levels of performance.

Policy on recruitment and promotion

Salaries for newly recruited directors will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new director on a below market salary (for example, to allow the director to gain experience in the role) the individual's salary may be increased to a market level by way of a series of above inflation increases over two to three years, subject to their performance and development in the role.

A new appointment would be offered benefits comparable to existing directors, as well as other reasonable expenses such as legal, tax equalisation and relocation costs (if necessary on a net of tax basis).

A new external appointment might be invited to participate in the defined benefit scheme on the same terms as those offered to existing directors. Alternatively a cash supplement may be offered to new appointments.

The prevailing maximum bonus opportunity for existing directors will not be exceeded for any newly recruited director and would be pro-rated to reflect the proportion of the year worked. It may be necessary to set different performance measures and targets initially, dependent on the timing of the appointment and the nature of the role taken up. Guaranteed bonuses will not be offered.

LTI awards will be granted in line with the policy outlined for existing directors, with the same maximum opportunity for any newly recruited director. Awards may be granted shortly after an appointment (subject to the Company not being in a prohibited period).

Current entitlements (for example, bonus and share awards) which will lapse on the executive's departure from a previous position may be replaced with awards that have no shorter time horizons, are subject to performance conditions (if replacing awards subject to performance conditions) and do not have a higher theoretical fair value. The Committee retains flexibility to do so on such basis as it deems appropriate in the circumstances.

In the event that an existing employee is promoted to the Board, any contractual commitments made to the employee prior to such promotion will continue to be honoured even if they would not otherwise be consistent with the policy prevailing when the commitment is fulfilled.

Current service contracts and terms of engagement

The Chairman and executive directors hold one year rolling contracts in line with current market practice and the Committee reviews the terms of these contracts regularly.

The current contracts are dated as follows:

R G Dench	-	8 February 2007
N S Terrington	-	1 September 1990 (amended 16 February 1993, 30 October 2001 and 10 March 2010)
R J Woodman	-	8 February 1996 (amended 10 March 2010)
J A Heron	-	1 September 1990 (amended 14 January, 8 February 1993 and 10 March 2010)

In the event of early termination, the directors' contracts provide for the payment of one year's salary, benefits, pension and bonus in lieu of notice at the Company's option, payable on termination. No provision exists for additional compensation in the event of termination due to a change of control of the Company. These arrangements will continue to be honoured as they are contractual obligations of the Company.

All new executive directors externally recruited in future will have service contracts that are terminable by the Company on a maximum of twelve months' notice, subject to a payment of salary, benefits and pension. Provisions will be included in each new contract permitting the Company to make any termination payments by instalments, and requiring directors to mitigate their loss in such circumstances.

Of the directors seeking re-election at the Annual General Meeting, Mr Dench, Mr Terrington, Mr Woodman and Mr Heron each has a service contract with the Company.

Executive directors may accept an external non-executive appointment with the approval of the Board. Any fees earned are retained by the executive. None of the executive directors currently earns remuneration from external non-executive appointments.

Current terms of engagement for the non-executive directors apply for the following periods:

A K Fletcher	-	25 February 2015 to 25 February 2018
P J N Hartill	-	11 February 2014 to 11 February 2017
F J Clutterbuck	-	12 September 2015 to 12 September 2018
H R Tudor	-	24 November 2014 to 24 November 2017

Non-executive director appointments are for three years unless terminated earlier by, and at the discretion of, the director or the Company upon three months' notice.

Policy on termination payments

The provisions of the executive directors' service contracts (as noted above) will determine their entitlement to salary, benefits, pension and bonus as compensation for loss of office. Specific change of control provisions or entitlements to enhanced redundancy payments are excluded.

Any statutory entitlements or sums to settle or compromise claims in connection with the termination would be paid as necessary. In specific circumstances, outplacement services and relocation expenses may be provided at normal market rates for directors.

For current executive directors, any entitlement to a bonus on termination would be based on an assessment of the performance over the period.

For a new appointment, bonuses would normally only be payable where the individual remains employed and is not under notice at the payment date. However, in certain good leaver situations (injury or disability, redundancy, employment transferred outside the Group, or any other reason the Committee decides) a bonus may be payable at the Committee's discretion, based on an assessment of the performance of the individual and the Company over the period of the bonus year worked.

The treatment of share based incentive awards will be determined by the Committee based on the relevant rules of the plan concerned.

The default treatment for outstanding unvested PSP awards will be that they lapse on cessation of employment. In certain circumstances the Committee may determine a good leaver status, whereby an award shall continue on its original terms, until the normal vesting date unless the Committee decides it shall vest on the date of cessation subject to time pro-rating and assessment of the performance conditions. The Committee may disapply time pro-rating if it considers the reduction is inappropriate. If a participant dies before the normal vesting date the Committee may allow early vesting of the award, unless it considers it appropriate to continue to the normal vesting date. Awards are subject to time pro-rating and assessment of the performance conditions unless the Committee considers the reduction by time pro-rating to be inappropriate, whereby it can be disapplied.

The default treatment for outstanding unvested MSP awards will be that they lapse on cessation of employment. In certain circumstances the Committee may determine a good leaver status, whereby an award shall continue on its original terms, until the normal vesting date unless the Committee decides it shall vest on the date of cessation subject to time pro-rating and assessment of the performance conditions. The Committee may disapply time pro-rating if it considers the reduction is inappropriate. If a participant dies before the normal vesting date the award shall vest in full on the date of cessation.

For awards granted under the deferred share bonus plan, good leaver status would result in awards vesting on the date of cessation unless the Committee determines they should continue to the normal vesting date.

On determination of a good leaver status or as the result of a death, then awards under all plans may be exercised within twelve months of the date of vesting.

Consideration of employment conditions elsewhere in the Group

Directors and senior executives participate in the annual bonus scheme, which is designed to incentivise executives to achieve specific, predetermined goals, reward individual performance and encourage retention through deferral of a proportion of the bonus. All employees whose performance has been exceptional are eligible for a discretionary bonus.

Directors and senior employees are eligible to participate in the PSP and the MSP, although no awards have been made under the MSP since January 2010 and the Remuneration Committee has no current intention of making any further grants before the expiry of the MSP in 2016 or replacing the plan with an equivalent one when it expires. The two plans are in place to encourage the long-term retention of key executives who are considered to have the potential to influence shareholder value creation and awards are not offered to employees generally.

Employees below director and head of function level are eligible to participate in the Group's profit related pay scheme, which pays out a flat sum to all eligible staff based on a percentage of the Group's profits.

The Group's pension arrangements provide for a pension of 1/37.5 of basic annual salary (to a maximum of 2/3 for every year of eligible service) for directors and certain senior executives, whereas the accrual rate for other employees who are members of the Paragon Pension Plan is 1/60. The Plan was closed to new entrants in 2002 and participation in a stakeholder defined contribution scheme was offered to new employees from that date.

In determining pay levels for the employees as a whole, the Group annually considers externally provided benchmark levels for comparable jobs as well as individual development and performance. The general level of increase resulting from this review informs the Committee's deliberations on appropriate pay levels for the executive directors, together with external data specific to their roles which is used to ensure that the levels of remuneration are appropriate.

The Committee does not formally consult employees on executive remuneration. However, they have the opportunity to make comments on any aspect of the Company's activities through employee forums and surveys and their comments are considered by the Committee.

Consideration of shareholders' views

The Committee considers shareholder feedback received in relation to the AGM each year at a meeting shortly following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy.

In addition, the Chairman of the Committee and the Chairman of the Company regularly engage directly with major shareholders and their representative bodies and report their views back to the Committee, who take them into account when formulating any material changes to the remuneration policy.

Details of votes cast for and against the resolution to approve last year's remuneration report and any matters relating to remuneration discussed with shareholders during the year are set out in the Annual Report on Remuneration.

Legacy arrangements

For the avoidance of doubt, in approving this Policy Report, authority was given to the Company to honour any commitments entered into with current or former directors (such as the payment of pension or the unwinding of legacy share schemes) that have or will have been disclosed to shareholders in remuneration reports before the Policy took effect. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise.

B5.4 **APPROVAL OF DIRECTORS' REMUNERATION REPORT**

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

This Directors' Remuneration Report, section B5 of the Annual Report and Accounts, including the Statement by the Chairman of the Committee, the Annual Report on Remuneration and the Policy Report, has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended and has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Alan K Fletcher
Chairman of the Remuneration Committee
24 November 2015

B6 RISK MANAGEMENT

B6.1 STATEMENT BY THE CHAIRMAN OF THE RISK AND COMPLIANCE COMMITTEEE

Dear Shareholder

The year ended 30 September 2015 has been the first full year of operation for the Committee, a year which has seen significant changes in the Group's risk management structure and the regulatory environment in which it operates. Whilst the Committee continues to develop its role, it is pleasing that the annual board effectiveness review concluded that the Committee was operating effectively.

The Risk and Compliance Committee is the senior risk committee within the Group. It operates under an authority delegated by the Board and assists the Board in fulfilling its responsibilities for risk management across the Group. The Committee met on four occasions during the year and the attendance records of the members are detailed in section B3.1 of this report.

As a Committee, our responsibility is to maintain oversight of the effectiveness of the Group's risk management framework and of the Group's systems and controls for compliance with its statutory and regulatory obligations. The Committee also oversees the Group's risk culture to ensure that risk appetite is appropriate, adhered to and that key risks to the Group are identified, managed and monitored satisfactorily.

One of the principal tasks for the Committee was monitoring the development of the Group's risk management framework in the year, which saw the embedding of an enhanced executive risk committee structure, described in section B6.2, the setting of thresholds for material risk event reporting and the formation of an independent Group Risk and Compliance division, including the appointment of the first Group Chief Risk Officer. This process of development will continue in the forthcoming period.

In addition to its regular business, during the year the Committee:

- Reviewed the ICAAP report
- Reviewed key documentation relating to the application for FCA Consumer Credit authorisation by the Group's principal trading subsidiary, Paragon Finance PLC

During the coming year the Committee's main priorities will include:

- Overseeing the further development and implementation of the Group's risk management framework, ensuring it is in line with emerging regulatory, corporate governance and industry best practice
- Monitoring management's progress in securing relevant regulatory permissions
- Monitoring the Group's implementation, where applicable, of the FCA/PRA requirements in relation to the Senior Managers and Certification Regime
- Monitoring the Group's implementation of the FCA's revised rules on complaint handling
- Reviewing the effectiveness of risk management in relation to the integration of the acquired Five Arrows Leasing Group business

The Committee considers that it has made significant progress in its first year of operation and we look forward to further developments in the Group's risk management and compliance framework as the business expands and the regulatory environment evolves.

Fiona J Clutterbuck
Chairman of the Risk and Compliance Committee
24 November 2015

B6.2 **RISK GOVERNANCE**

The Risk and Compliance Committee comprises the independent non-executive directors and the Chairman of the Company. Its terms of reference include all matters indicated by the UK Corporate Governance Code.

The Committee's responsibilities include reviewing:

- the effectiveness of the Group's risk management framework and the extent to which risks inherent in the Group's business activities are controlled within the risk appetite established by the Board
- the effectiveness of the Group's systems and controls for compliance with statutory and regulatory obligations, as well as its obligations under significant contracts
- the appropriateness of the Group's risk culture, to ensure it supports the Group's stated risk appetite

The Risk and Compliance Committee was established in 2014 and provides oversight and challenge to the Group's enterprise-wide risk management arrangements. The Risk and Compliance Committee is now supported by an executive level Operational Risk and Compliance Committee together with an established Credit Committee and Asset and Liability Committee.

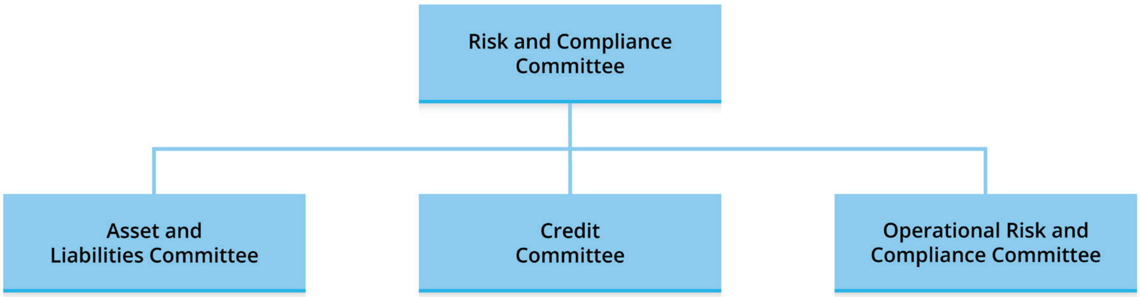
The Committee meets at least four times a year and normally invites the executive directors, Group Chief Risk Officer, Chief Operating Officer and Head of Internal Audit to attend its meetings, although it reserves the right to request any of these individuals to withdraw. The Committee will also meet with the Group Chief Risk Officer at least once a year, without the presence of executive management, to discuss his remit and any issues arising from it. The first such meeting will take place within twelve months from the appointment of the Group Chief Risk Officer, which was in June 2015.

The Committee also has the opportunity to meet with the Head of Internal Audit and/or the external auditor without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.

The Committee is developing its annual schedule of events as the Group's governance and risk framework is developed and embedded. Agenda items for regular meetings of the Committee will include:

- Receiving and considering reports relating to the Group's consolidated risk profile, its performance against risk appetite and the progress of any resulting management actions and key risks
- Reviewing any proposed material changes to the Group's risk appetite prior to approval by the Board
- Reviewing the Group's Compliance Monitoring Plan
- Receiving reports relating to key regulatory developments affecting the Group
- Reviewing the Group's conduct strategy and receiving reports from management on conduct risk to include product governance, complaint handling and outcomes testing
- Receiving reports from the Group's Money Laundering Reporting Officer on compliance with Anti Money Laundering requirements
- Reviewing the Group's capital adequacy assessments and stress testing analysis
- Considering the minutes of its executive sub-committees

The structure of the executive committees reporting to the Committee and their reporting lines is illustrated below:



Each of the executive committees operates within terms of reference formally approved by the Risk and Compliance Committee. The primary functions of each of these committees is described below.

Asset & Liability Committee (ALCO)

ALCO comprises heads of relevant functions and is chaired by the Group Finance Director.

The principal purpose of the ALCO is to monitor and review the financial risk management of the Group's balance sheet. As such, it is responsible for overseeing all aspects of market risk, liquidity risk and capital management as well as the treasury control framework. ALCO operates within clear delegated authorities, monitoring exposures and providing recommendations on actions required.

Credit Committee

The Credit Committee comprises senior managers from the finance and risk functions and is chaired by the Group Finance Director.

The Credit Committee approves credit risk policies and defines risk grading and underwriting criteria for the Group. It also provides guidance and makes recommendations in order to implement the Group's strategic plans for credit. This committee oversees the management of the credit portfolio, the post origination risk management processes and the management of past due or impaired credit accounts. It also makes recommendations for credit risk appetite and monitors performance against appetite on an on-going basis.

Operational Risk and Compliance Committee

The Operational Risk and Compliance Committee comprises heads of relevant functions and is chaired by the Group Chief Risk Officer (the Chief Operating Officer until June 2015).

The Committee is responsible for overseeing the Group's operational risk management and compliance systems, ensuring that the business is operating within its risk appetite. It considers key operational risk information such as loss events, emerging risks and control failures.

With respect to Compliance, the Committee is responsible for overseeing the maintenance of effective systems and controls to meet regulatory and conduct obligations and for countering the risk that the Group might be used to further financial crime. It is also responsible for reviewing the quality, adequacy, resources, scope and nature of the work of the Group Compliance function, including the annual Compliance Monitoring Plan.

B6.3 **RISK MANAGEMENT CULTURE**

The Board is committed to maintaining an effective risk management framework that is consistent and commensurate with the nature, complexity and risk profile of the business and is responsive to both internal and external events. The Group is an inherently risk averse organisation which is expressed through the culture promoted by the Board and senior management. This has resulted in historically low levels of credit and operational losses and the absence of any material conduct issues affecting customers. The Group aims to help its customers by offering financial options which meet individual needs and achieve fair customer outcomes in a well-controlled environment.

The following risk principles are designed to support and protect the Group's strategic goals:

- Risk management is used to protect the Group's customers, shareholders, creditors and its reputation
- The fair treatment of customers and the delivery of fair outcomes is central to the Group's risk management approach
- The Group encourages a risk culture that has robust risk management at the heart of all decision-making within an open and transparent environment
- The Group only carries out business where the potential risk to itself and its customers has been considered together with the potential reward and where the residual risk exposure is within its designated risk appetite
- The Group utilises appropriate risk management processes to ensure that risks are identified, assessed, prioritised and managed in a consistent way
- Appropriate, timely and accurate risk management information is maintained and developed to support business decisions and to ensure the Group operates within agreed risk appetite

B6.4 **RISK MANAGEMENT FRAMEWORK**

Introduction

The Group's risk management framework is designed to enable management to identify and focus attention on the risks most significant to its objectives and to provide an early warning of events that put those objectives at risk. The framework includes:

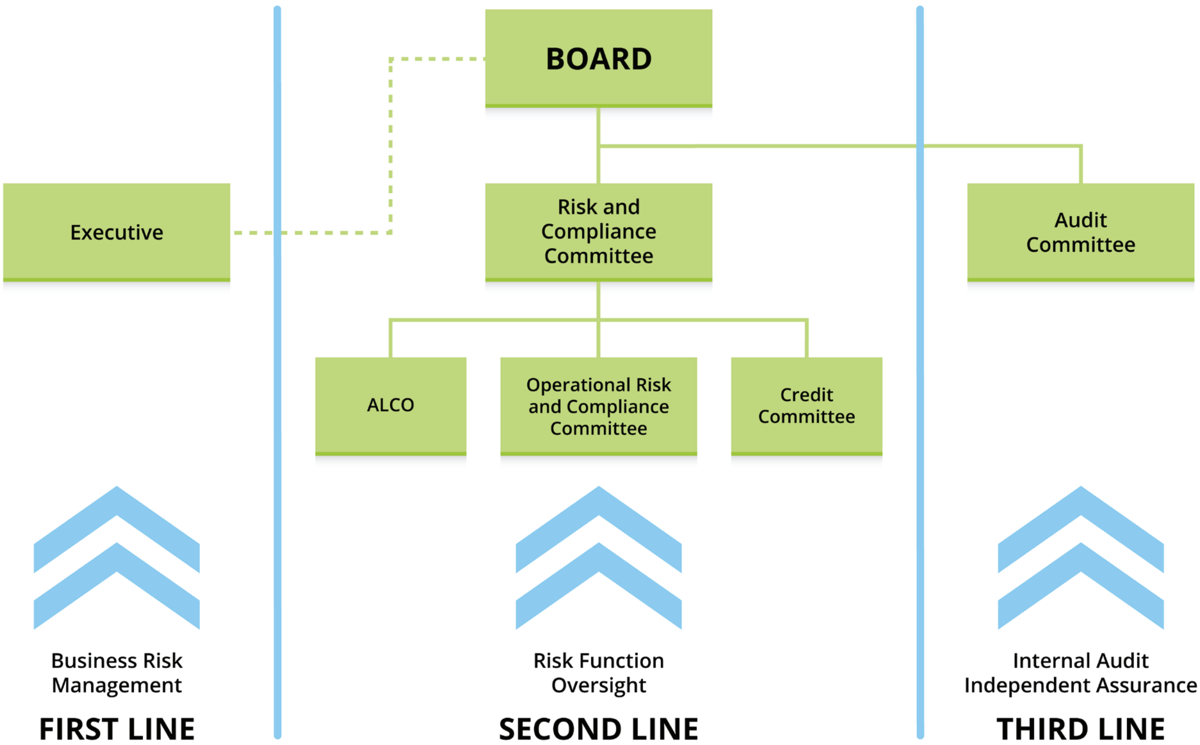
- The Board Risk and Compliance Committee and its sub-committees described in B6.2
- Dedicated teams within the Risk and Compliance function covering particular risk areas, described below
- A suite of risk policies, which include policies addressing:
  - Conduct risk
  - Complaint handling
  - Forbearance
  - Vulnerable customers
  - Operational risk
  - Credit risk
  - Compliance
  - Financial crime
- A professional Internal Audit function

Three lines of defence model

The committee structures outlined above form the cornerstone for the governance of risk in a management framework organised within a developing Three Lines of Defence model as follows:

- The ***first line of defence***, comprising executive directors, managers and employees, holds primary responsibility for designing, operating and monitoring risk management and control processes
- The ***second line of defence*** is provided by the Risk and Compliance function together with oversight provided by the Risk and Compliance Committee and supporting sub-committees
- The ***third line of defence*** is provided by the Internal Audit function and the Audit Committee which are responsible for reviewing the effectiveness of the first and second lines of defence

The way in which this three lines of defence model aligns with the wider governance framework is illustrated below:



The risk management framework is intended to provide a structured and disciplined approach to the management of risk. The key objectives of the risk management framework are to:

- Establish standards for the consistent identification, measurement, monitoring, management and reporting of risk exposure and loss experience
- Outline the approach that will be taken in respect of setting and defining risk appetite and risk tolerances
- Promote risk management and the proactive reduction of the frequency and severity of risk events
- Facilitate adherence to regulatory requirements, including threshold conditions, capital standards and to support the regulatory requirements associated with the ICAAP
- Provide senior management and relevant committees with risk reporting that will be relevant and appropriate, enabling timely action to be taken in response to the information included within these reports
- Promote an appropriate risk culture across the Group

Risk management function

In order to further strengthen the effectiveness of the risk management structure, an integrated Group Risk and Compliance function was created with effect from 1 June 2015, reporting to the Group Chief Risk Officer, a new role within the Group.

Integral to the Group's risk management framework are dedicated second line teams covering:

- Credit Risk
- Compliance and Conduct Risk
- Operational Risk
- Property Risk
- Financial Crime

The key responsibilities of the Group Chief Risk Officer are to:

- Develop and maintain the risk management framework covering all areas of the Group
- Develop and maintain Group risk policies within that framework, ensuring these are consistent with the Board's risk appetite
- Ensure that risks generated by the business are measured, monitored, controlled and reported on a timely basis
- Ensure compliance with all new and existing regulatory requirements
- Maintain open and constructive engagement with the regulatory authorities

The Chief Risk Officer is also responsible for the effective day-to-day running of the Risk and Compliance function and its relationship with the Board, its committees and senior management as well as for championing the Group's risk culture, providing support and advice to employees in the discharge of their risk responsibilities.

Risk categorisation

The maintenance of a standard, common risk language across the Group is a key enabler for risk identification and effective risk management. It provides a consistent basis for risk assessment and the development of policy, risk appetite and appropriate risk management structures. It also facilitates risk aggregation, risk reporting and segregation of accountabilities. Accordingly, we use the following common risk categorisations:

- Business risk
- Credit risk
- Conduct risk
- Operational risk
- Liquidity and capital risk
- Market risk
- Pension obligation risk

The principal risks identified under each of these headings are discussed in detail below.

B6.5 PRINCIPAL RISKS AND MITIGATION

The Group is exposed to a number of principal risks and uncertainties that arise from the operation of its business model and strategy. A summary of those risks and uncertainties which could prevent the achievement of the Group's strategic objectives, how the Group seeks to mitigate those risks and the change in the perceived level of each risk in the last financial year are described below.

This summary should not be regarded as a complete statement of all potential risks and uncertainties faced by the Group but rather those which the Group believes have the potential to have a significant impact on its financial performance and future prospects.

To identify and control the risks to which it is exposed, the Group employs a risk management framework, described in section B6.4. As part of this framework, principal risks are identified and assessed within the key categories of, Business Risk, Credit Risk, Conduct Risk, Operational Risk, Liquidity & Capital Risk, Market Risk, and Pension Obligation Risk.

Changes in risks are identified as shown below:

RISK INCREASING	RISK DECREASING	RISK STABLE

Business Risk

Economic Risk

Description	Mitigation
The Group could be materially affected by a severe downturn in the UK economy given its income is wholly derived from activities within the UK. Adverse economic conditions could reduce demand for the Group's loan products, increase the number of customers that default on their loans and cause security asset values to fall.	The Group operates as a specialist lender in chosen markets where its employees have significant levels of expertise. Robust underwriting and monitoring processes are employed which reflect prudent credit policies designed to be maintained through economic cycles. To support the validation of asset values for its core buy-to-let lending products, the Group maintains an in-house team of Chartered Surveyors with considerable experience and understanding of the sector. The Group closely monitors economic developments in the UK and overseas, with support from a leading independent macro-economic research company. This ensures it is able to consider various economic scenarios and stresses within its formal business planning cycle.

Change		
	Whilst the general domestic economic and property outlook has remained positive, the potential impact on the UK of any prolonged deterioration in the global economy remains uncertain.	Risk stable

Business Risk

Concentration Risk

Description	Mitigation
The Group is heavily reliant on lending to customers investing in the UK private rented sector. It is therefore exposed to any systemic deterioration in performance of the sector, which will be influenced by underlying factors such as house prices, supply of rental property, demographic changes and government policy.	The Group has a very deep understanding of the private rented sector built up over many years of successful operations in the buy-to-let market. It seeks to use this expertise constructively by playing an active role in shaping the development of policy for the private rented sector both directly and through membership of the CML, the IMLA and the National Landlords Association. The Group also continues to exploit prudent opportunities to diversify the range of its activities and income streams. This is illustrated by the development of its Idem Capital debt acquisition business and the establishment and development of Paragon Bank.

Change

Whilst the Group has diversified its areas of operation materially in the last financial year, it continues to have significant exposure to buy-to-let lending. Proposed changes to the UK taxation regime for private landlords and potentially greater regulatory intervention in the sector could reduce demand for buy-to-let loan products in the longer term

Competition Risk

Description	Mitigation
The Group operates in highly competitive markets and faces strong competition in all of the core areas in which it is active, including lending, savings, debt purchase and asset servicing. There is a danger that the Group's profitability and / or market share may be impaired if its offerings do not remain competitive.	The Group has a strong track record of operating successfully in its chosen specialist areas which has been most recently illustrated by the development of a competitive product range by Paragon Bank. The Group maintains strong relationships with its customers, business introducers and other significant participants in the markets in which it operates, as well as being very active in industry-wide organisations and initiatives. This enables market trends to be identified and addressed within the relevant business strategy. The Group undertakes comprehensive monitoring of competitor products pricing and strategy.

Change

Whilst the Group has maintained a competitive position in each of its core markets, it continues to see increased competition in all areas of its operations. This is likely to intensify as the UK economy improves and new participants enter the market.

Credit Risk

Customer Risk

Description	Mitigation
As a lender, the Group is exposed to the risk of unexpected material losses in the event of customers being unable to repay their debts.	The Group has comprehensive policies in place that set out detailed criteria which must be met before loans are approved. Credit policies incorporate limits for concentration risk arising from factors such as large exposures to particular counterparties, geographical areas or types of lending. Exceptions to these policies require approval by the Group's Credit Risk function, operating under a mandate from the Credit Committee. The Credit Risk function provides regular reports to the Credit Committee and Risk and Compliance Committee on the performance of each of the Group's lending portfolios. Originated loan assets are subject to individual underwriting approval with robust control and support provided by well-established decision tools, while purchased assets are subject to extensive pre-contract due diligence and rigorous ongoing analysis and monitoring. The majority of the Group's loans by value are secured against residential property in England and Wales at conservative loan to value levels. Rigorous and timely collections and arrears management processes are also in place.

Change	The Group's impairment rate has remained very low, reflecting the maintenance of robust, proven credit disciplines, generally favourable economic conditions and the credit quality of its borrowers.	« »

Counterparty Risk

Description	Mitigation
The Group is exposed to the failure of counterparties with which it places deposits. In addition it is exposed to the risk of loss in the event of the failure of a counterparty with which it has negotiated hedging agreements to mitigate interest rate and foreign exchange risk.	The Group has a strictly controlled number of approved treasury counterparties. In order to be approved, counterparties must meet specific credit rating criteria. Exposure to these counterparties is monitored daily by senior management within the Group's Treasury function with all trading performed within approved limits. The credit quality of all treasury counterparties and the Group's exposure to them is reported monthly to ALCO. Treasury counterparties are typically highly rated banks and, for all cash deposits and derivative positions held within the Group's securitisation structures, they must comply with criteria set out in the financing arrangements, which are monitored externally. Where a derivative counterparty fails to meet the required credit criteria they are obliged under the terms of the instruments to set aside a cash collateral deposit. Interest rate and foreign exchange derivatives are held solely for hedging purposes

Change	The credit quality of the treasury counterparties, with whom the Group transacts has been maintained, taking into account collateral arrangements. The Group's approach to the management of credit risk and the systems in place to mitigate that risk on both originated and purchased assets are described in note 7 to the accounts.	« »

Conduct Risk

Fair outcomes

Description	Mitigation
The Group is exposed to the risk that its financial performance and reputation could suffer significantly if it fails to deliver fair outcomes for customers.	The Group has a suite of policies in place covering areas of particular importance to the fair treatment of customers. These include: • conduct risk • complaint handling • responsible lending • forbearance and • vulnerable customer treatment There is an Operational Risk and Compliance Committee whose remit extends to overseeing compliance with the FCA's rules and guidance, including those relating to the fair treatment of customers. The Committee receives reports each month from selected business areas relating to customer treatment and complaint handling. During the year, the Group has strengthened its Compliance function which now sits within a Group Risk and Compliance division reporting to a newly created role of Group Chief Risk Officer. The Compliance function has developed a formal monitoring plan which is heavily focused on conduct risk. The plan is reviewed by both the Operational Risk and Compliance Committee and Board Risk and Compliance Committee. Within the Group's consumer loan servicing area there is also a dedicated Quality and Control team which monitors the activities of customer facing employees to validate the delivery of fair treatment for customers. The team also undertakes thematic reviews and customer experience reviews to help inform management of changes required to processes or training. The Group maintains a centralised complaint handling function to ensure complaints are dealt with in a consistent and efficient manner. All employees are required to undertake conduct risk related training with those in consumer facing roles also receiving monthly focused training which is subject to performance testing.

Change	The increasingly regulated nature of the Group's operations and the continuing changes to the regulatory conduct landscape heightens the potential risk of financial losses or censure.	

Operational Risk

People Risk

Description

The Group is exposed to the risk that it is unable to recruit and retain skilled senior management and key personnel at all levels. Failure to maintain the necessary skills within its workforce could have a material impact on the Group's ability to deliver its business plan and strategic objectives.

Mitigation

The Group has effective recruitment, development, retention and succession planning strategies in place which include:

- Monitoring external remuneration and reward structures to ensure it remains competitive and is able to recruit and retain key personnel
- Offering a range of employee benefits in addition to base salaries including a defined contribution pension scheme, Sharesave Plan and an annual profit related performance scheme for most employees
- Having an effective performance appraisal system to identify and provide appropriate training and development opportunities for employees
- Providing regular internal training for all employees and financial support to employees undertaking relevant external professional qualifications; and
- Undertaking formal succession planning reviews covering all key roles

The Group has been accredited under the 'Investors in People' scheme since 1997 and achieved Champion status in May 2014. This is awarded to a very small proportion of accredited organisations who are seen as pioneers in people management practices and role models in strategic leadership.

Change

The improving employment market and demand for skilled financial services employees has resulted in increasing competition to recruit and retain employees. However the Group remains confident in its ability to manage this risk successfully as evidenced by the results of an employee survey during the year which indicated an 85% engagement level. This level is above the average for the financial services sector.

Systems Risk

Description

The Group is exposed to the risk that its IT infrastructure and systems are unable to support its operational needs and fail to offer adequate protection against the threat of cyber crime.

Mitigation

The Group has a formally agreed IT Strategy which ensures that priority is given to those areas which are most critical to the delivery of the Group's strategy and business plan.

The Group maintains an ongoing programme of investment in IT infrastructure and systems. This includes investment in security solutions to counteract cyber security threats. There is also continued focus on the information security management system to ensure that controls, testing and user awareness is maintained and improved. The Group is currently certified to ISO 27001 (Information Security Management).

Change programmes are closely managed with robust control and testing processes to ensure that system developments meet operational requirements and are effectively implemented.

The Group has a robust vendor management process to select and monitor third party IT suppliers.

In order to ensure it can deal effectively with unexpected operational disruptions, the Group has a well-established Business Continuity plan which is updated and tested regularly. The Group is currently certified to ISO 22301 (Business Continuity).

Change

Whilst the Group continues to maintain a robust and secure IT infrastructure that supports its operational needs, the heightened level and sophistication of cyber crime has increased the risk that this could impact its business model and strategic objectives.

Operational Risk

Regulatory Risk

Description	Mitigation
The Group is exposed to the risk that its financial performance and reputation could suffer significantly if it fails to identify, interpret and comply with relevant regulatory and legal obligations. The customers and market sectors to which the Group supplies products, and the capital markets from which it obtains much of its funding, have been subject to legislative and other intervention by UK Government, European Union and other regulatory bodies. Certain of the Group's own activities are also subject to direct regulation. The levels of regulation to which the Group is subject have increased over recent years and this trend is expected to continue in the future.	The Group has Risk and Compliance and Legal teams who review key regulatory and legal developments to assess the impact on the Group's operations. These teams work with business areas to provide advice on the implementation of appropriate measures to meet identified requirements. Expert third party advice is also sought where necessary. Major regulatory or legal change initiatives are subject to formal change governance with progress reporting to the Risk and Compliance Committee. The Compliance function has developed a formal monitoring plan which is reviewed by the Operational Risk and Compliance Committee and Board Risk and Compliance Committee. The Group's Financial Crime function provides independent oversight of business areas' adherence to anti-money laundering and financial crime requirements. All employees are required to undertake regulatory training. Relevant group companies have submitted applications within the prescribed timescales for full permissions under the FCA's consumer credit regime. Applications have or are about to be submitted to the FCA for other required regulatory permissions and registrations including regulated mortgages (second charge lending) and consumer buy-to-let.

Change	The increasingly regulated nature of the Group's operations heightens the potential risk of financial losses or censure as a result of a failure to comply with relevant regulations or legislation.

Liquidity and Capital Risk

Funding Risk

Description	Mitigation
The Group is exposed to the risk that increases in the cost or reductions in the availability of funding could adversely impact its business model and strategic objectives. 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's banking subsidiary, Paragon Bank PLC, relies on retail deposits and therefore changes in market liquidity could impact the ability of the business to maintain the level of liquidity required to sustain normal business activity. In addition, there is a risk that the Group could face sudden, unexpected and large cash outflows from customer withdrawals.	Comprehensive Treasury Polices are in place for both the Group and the Bank to ensure sufficient liquid assets are maintained and that all financial obligations can be met as they fall due. The Group has a dedicated Treasury function which is responsible for the day to day management of its overall liquidity and wholesale funding arrangements. The Board, through the delegated authority provided to the ALCO, sets strict limits as to the level, composition and maturity of liquidity arrangements. Compliance to the approved limits is monitored daily. Detailed management information is reported monthly to ALCO in order to ensure that the Group can maintain adequate liquidity even under stressed conditions. The Group maintains a diversified range of both retail and wholesale medium and long term funding sources to cover future business requirements and liquidity to cover shorter term funding needs. The Group uses securitisation to mitigate its exposure to liquidity risk on its borrowings, ensuring, as far as possible, that the maturities of assets and liabilities are matched. The Company has a BBB- investment grade credit rating from Fitch to support maintenance of its access to funding markets. Paragon Bank is authorised to accept deposits. As such it is subject to regulation by the PRA, which aims to ensure that sufficient liquid assets are held to mitigate the liquidity risk inherent in deposit taking.

Change	
Whilst wholesale funding markets have tightened somewhat during the financial year, the Group remains well funded with sufficient liquidity to meet all its financial obligations as they fall due. It is also well placed to access further funding if required.	« »

Market Risk

Interest rate risk

Description	Mitigation
The Group is exposed to the risk that changes in interest rates may adversely affect its net income and profitability. In particular, the Group's profitability is determined by the difference between the interest rates at which it lends and those at which it borrows. Therefore changes in market interest rates could materially impact the Group's profits as a result of significant interest rate mismatches between its assets and liabilities.	Comprehensive Treasury Polices are in place to ensure that the risk posed by changes and mismatches in interest rates is effectively managed. The Group manages this risk by maintaining floating rate liabilities and matching these with floating rate assets, by hedging fixed rate assets and liabilities using interest rate swap or cap agreements and by maintaining a proportion of fixed rate liabilities. The Group has a dedicated Treasury function which is responsible for the day to day management and control of its exposure to interest rate risk. ALCO monitors the interest rate risk exposure on the Group's loan assets and asset backed loan notes on a monthly basis. This ensures compliance with the requirements of the trustees in respect of the Group's securitisations and the terms of other borrowings. Paragon Bank has its own Treasury Policy and ALCO which focuses on the risks within the Bank, including the retail deposit position. Notwithstanding this, the Group ALCO maintains oversight of market risk across the whole Group. Paragon Bank's retail deposits either bear variable interest rates or are fixed rate liabilities which are hedged in accordance with the Group's interest risk management strategy. The Group has no direct exposure to market interest rate risk.

Change	
	The Group's exposure to interest rate risk has remained consistent during the financial year and the associated risks remain broadly unchanged. Further information regarding the Group's management of interest rate risk is discussed in note 7 to the accounts.

Pension Obligation Risk

Pension Obligation Risk

Description	Mitigation
The Group operates both a defined benefit and defined contribution pension scheme in the UK. There is a risk that the Group's pension liabilities may be adversely affected by a range of factors including bond yields, inflation rates, interest rates, changes to pension regulations and demographic factors.	The defined benefit scheme was closed to new members with effect from February 2002. Since that time, new employees have been invited to join the Group's defined contribution pension scheme which carries no investment or mortality risk for the Group. The defined benefit scheme is formally revalued independently every three years, most recently as at 31 March 2013. At that point, the value of the Plan's liabilities on a buy-out basis in accordance with section 224 of the Pensions Act 2004 was £144.5 million, with a shortfall against the assets of £67.2 million. As a result, the Trustee put a recovery plan in place whereby the Group undertook to fund the deficit to meet the statutory funding objective by 31 August 2019 (note 52). The next formal review will be undertaken in 2016 at which point consideration will be given to any required changes to the existing deficit reduction plan.

Change	There have been no material events in the year within the defined contribution scheme which would affect its valuation. There have been no other changes which would materially affect the Group's pension liabilities.	« »

B7 DIRECTORS' REPORT

The directors of The Paragon Group of Companies PLC (registered number 2336032) submit their Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 7'), which also includes additional disclosures made in accordance with the Listing Rules of the UK Listing Authority.

Directors and their interests

The directors of the Company during the year were:

R G Dench	
N S Terrington	
R J Woodman	
J A Heron	
E A Tilly*	(Retired 1 July 2015)
A K Fletcher*	
P J N Hartill*	
F J Clutterbuck*	
H R Tudor*	(Appointed 24 November 2014)

**Non-executive directors.*

The directors' interests in the shares of the Company are disclosed in the Directors' Remuneration Report in section B5. There have been no changes in the directors' interests in the share capital of the Company since 30 September 2015.

Mr H R Tudor additionally has an interest in £1,000,000 of the Company's 6.00% sterling denominated notes due 2020.

Other than as stated above, the directors had no interests in securities issued by the Company. The directors have no interests in the shares or debentures of the Company's subsidiary companies.

The appointment and replacement of the Company's directors is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation and the individual service contracts and terms of appointment of the directors. The powers of the directors, and their service contracts and terms of appointment, are described in the Corporate Governance section, Section B3.1. The Articles of Association may only be amended by the Company's shareholders in general meeting.

Under Article 143 of the Company's Articles of Association, the Company has qualifying third party indemnity provisions for the benefit of its directors which were in place throughout the year and which remain in force at the date of this report, in the form of directors and officers liability insurance.

The UK Corporate Governance Code recommends that all directors should be subject to reappointment annually and therefore all of the directors, Mr R G Dench, Mr N S Terrington, Mr R J Woodman, Mr J A Heron, Mr A K Fletcher, Mr P J N Hartill, Ms F J Clutterbuck and Mr H R Tudor, have agreed to voluntarily retire from the Board at the end of the forthcoming Annual General Meeting, and, being eligible, offer themselves for re-election.

None of the directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

From 1 October 2008, a director has had a statutory duty to avoid a situation in which he or she has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. A director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other directors. The Articles of Association include the relevant authorisation for directors to approve such conflicts.

None of the directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

Capital structure

Details of the issued share capital of the Company, together with details of movements in its issued share capital in the year, are given in note 39 to the accounts. The Company has one class of ordinary shares which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The rights and obligations attaching to ordinary shares are set out in the Articles of Association of the Company.

There are no specific restrictions on the size of a member's holding or on the transfer of shares. Both of these matters are governed by the general provisions of the Company's Articles of Association and prevailing legislation. The Articles of Association may be amended by special resolution of the shareholders. The directors are not aware of any agreements between holders of the Company's shares in respect of voting rights or which might result in restrictions on the transfer of securities.

Details of employee share schemes are set out in note 16 to the accounts. Votes attaching to shares held by employee benefit trusts are not exercised at general meetings of the Company.

The Company presently has the authority to issue ordinary shares up to a value of £15,300,000 and to make market purchases of up to 30,600,000 £1 ordinary shares, granted at the Annual General Meeting on 12 February 2015. These authorities expire at the conclusion of the forthcoming Annual General Meeting on 11 February 2016 and resolutions will be put to that meeting proposing that they be renewed.

Purchase of own shares

At 30 September 2007 the Company had, as part of a £40.0 million repurchase programme, repurchased 6,689,000 10p ordinary shares having an aggregate nominal value of £668,900. The reasons for the repurchase programme were set out in an announcement made by the Company through RNS on 25 May 2005. On 29 January 2008 these shares were consolidated into 668,900 £1 ordinary shares.

On 25 November 2014 the Group announced a share buy-back programme of up to £50.0 million. During the year 11,732,500 £1 ordinary shares having an aggregate nominal value of £11,732,500 were purchased under this programme. The reasons for this purchase were set out in section A3.3 of the Annual Report for the year ending 30 September 2014.

All of the shares acquired under these programmes were held as treasury shares. The number of treasury shares held at 30 September 2015 was 12,401,400 (2014: 668,900), representing 4.18% of the issued share capital excluding treasury shares (2014: 0.22%). The holding at 30 September 2015 represents the maximum number of its own £1 ordinary shares held by the Company at any time during the past year.

On 24 November 2015 the Company announced that the buy-back programme would be extended by a further amount of up to £50.0 million. The reasons for this extension are set out in section A3.3 of this Annual Report.

Dividends

The directors recommend a final dividend of 7.4p per share (2014: 6.0p per share) which, taken with the interim dividend of 3.6p per share (2014: 3.0p per share) paid on 24 July 2015, would give a total dividend for the year of 11.0p per share (2014: 9.0p per share).

Major shareholdings

Notifications of the following major voting interests, comprising over 3%, in the Company's ordinary share capital, notifiable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules or section 793 of the Companies Act 2006, had been received by the Company as at 30 September 2015 and at 31 October 2015, being a date not more than one month before the date of the notice convening the forthcoming Annual General Meeting.

	31 October 2015		30 September 2015	
	Ordinary shares	% Held	Ordinary shares	% Held
Standard Life Investments	25,205,403	8.49%	23,417,789	7.83%
BlackRock	23,513,790	7.69%	23,513,790	7.69%
EJF Capital	20,604,236	6.94%	23,648,522	7.96%
M & G Investment Management	15,506,769	5.15%	15,506,789	5.15%
Royal London Asset Management	9,205,885	3.00%	9,205,885	3.00%

Significant agreements

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the company.

The Company does not have any agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover of the Company, except that provisions of the Company's share based remuneration arrangements may cause awards granted to employees under such plans to vest in such circumstances.

Political expenditure

Company law requires the disclosure of political donations and political expenditure by any Group company. During the year ended 30 September 2015 no such payments were made (2014: £nil).

Auditors

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

The directors, having considered the new requirements for rotation of auditors and the length of service of Deloitte LLP conducted an audit tender process during the financial year, which is described more fully in the Audit Committee section B4. KPMG LLP were selected as a result of this process, and have expressed their willingness to take office. Therefore a resolution for the appointment of KPMG LLP as the auditors of the Company in place of Deloitte LLP is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will take place on 11 February 2016 in London. A notice convening the Annual General Meeting is being circulated to shareholders with this Annual Report and Accounts.

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.

- Commentary on the likely future developments in the business of the Group is included in the Strategic Report (Section A)
- A description of the Group's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 7 to the accounts
- Particulars of events occurring after the balance sheet date are described in notes 50 and 63 to the accounts, and discussed in the Strategic Report (section A)
- Information concerning directors' contractual arrangements and entitlements under share based remuneration arrangements is given in section B5, the Directors' Remuneration Report
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in section A5.1 – 'Employees'
- Disclosures concerning greenhouse gas emissions are given in Section A5.2 – 'Environmental policy'

Rule DTR7.2.1 of the Disclosure and Transparency Rules requires the Group's disclosures on Corporate Governance to be included in the Directors' Report. This information is presented in sections B3, B4, B5 and B6 and the information in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

Rule DTR 4.1.5 of the Disclosure and Transparency Rules requires that the annual report of a listed company contains a management report containing certain prescribed information. This Directors' Report, including the other sections of the Annual Report incorporated by reference, comprises a management report for the Group for the year ended 30 September 2015, for the purposes of the Disclosure and Transparency Rules.

Section B7 of this Annual Report, together with the other sections of the Annual Report incorporated by reference, comprise a directors' report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

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

Pandora Sharp
Company Secretary
24 November 2015

B8 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. 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 2015, company law requires the directors to prepare such financial statements in accordance with IFRS, 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 IFRS. Directors are also required to:

- properly select and apply accounting policies
- make an assessment of the Group's and the Company's ability to continue as a going concern
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRS 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 UK 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 IFRS 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
- the Directors' Report, including those other sections of the Annual Report incorporated by reference, comprises a management report for the purposes of the Disclosure and Transparency Rules, which includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- 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.

Pandora Sharp
Company Secretary
24 November 2015

D INDEPENDENT AUDITOR'S REPORT

Report by the independent auditor of the Company, Deloitte LLP, on the financial statements

INDEPENDENT AUDITOR'S REPORT

C1 INDEPENDENT AUDITOR'S REPORT

To the members of The Paragon Group of Companies PLC

Opinion on financial statements of The Paragon Group of Companies PLC

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2015 and of the Group's profit for the year then ended**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union**
- **the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation**

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Movements in Equity and the related notes 1 to 64. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 3 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statements in section A4 that the Group is a going concern and in A4 on the Group's longer-term viability.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation in section A4 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in section B6.5 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in section A4 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in section A4 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below, which are the same risks identified as in the prior year, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Impairment provisioning for loans to customers	
The assessment of the Group's calculation of provisions for impairment losses against purchased and own originated loans and receivables is complex and requires management to make significant judgements. Key assumptions include determining when a loss event has occurred and expectations of future cash flows arising from customers, including receiver of rent cases and the realisation of any security held. Changes to these assumptions can have a material impact on the impairment provision. We therefore focus our work on assessing the appropriateness of these assumptions. The carrying value of the Group's loans to customers prior to impairment provisioning is £10,062.4m (2014: £9,255.9m). Against this, an impairment provision of £111.0m (2014: £114.8m) is provided, as disclosed within note 32 to the financial statements. The Group considers impairment provisioning for financial assets to be a critical accounting estimate. This is disclosed within note 5 with the associated Group accounting policy stated within note 3.	We used internal IT specialists to test the controls over the loan administration systems and the manner in which data is extracted from these systems into the models used to determine impairment. We have tested the controls that the Group has in place to manage the risk of inappropriate assumptions being used within impairment provisioning. We have also assessed the Group's controls in place to identify customers in financial distress. We challenged the appropriateness of management's key assumptions used in the impairment calculations for loans and receivables. This involved assessing the assumptions related to future cash flows, including receiver of rent cases and realisation of security for appropriateness in comparison to current and forecast external market and economic data as well as the Group's previous and recent experience. We considered the appropriateness of when a loss event has deemed to have occurred by comparing the Group's loss event definition to other organisations with similar asset classes, as well as previous and recent entity specific experience of asset performance. Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias.
Revenue recognition	
Revenue recognition and specifically the application of the requirement in IAS 39 'Financial Instruments' to recognise income on purchased Idem assets and originated loans over their estimated behavioural lives using an effective interest rate method is a complex area, requiring management to make significant judgements. The most critical and sensitive assumption is the estimated behavioural life applied to each loan, which is initially estimated at inception and directly impacts the anticipated timing of cash flows. Changes to this assumption could significantly impact the level of income recognised in any given period. We therefore focus our work on assessing the appropriateness of estimated behavioural lives. The effective interest rate movement on the Group's loans to customers during the year is £59.0m (2014: £50.9m), as disclosed within note 31 to the financial statements. This represents the movement in both the purchased Idem assets and originated loans. The Group considers effective interest rates to be a critical accounting estimate. This is considered within note 5 with the associated Group accounting policy stated within note 3.	We used internal IT specialists to test the controls over the loan administration systems and the manner in which data is extracted from these systems into the models used to determine the effective interest rate and performed walk-through testing of the models to confirm that they are working as intended. We have tested controls that the Group has in place to manage the risk of inappropriate behavioural life assumptions being used within effective interest rate models. We challenged management's assumptions in respect of cash flow estimates for both purchased Idem assets and originated loans, focusing on the timing and level of early redemptions and settlements, which directly impact estimated behavioural lives. In order to assess for appropriateness, we compared the forecast level of early redemptions and settlements to current and forecast external market and economic data as well as the Group's recent redemption and settlement level experience. Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias.

Risk	How the scope of our audit responded to the risk
Retirement benefit obligation valuation	
The key assumptions used to calculate the present value of the retirement benefit obligation are inflation rates, discount rates and mortality rates. Each of these assumptions requires significant management judgement. We therefore focus our work on assessing the appropriateness of these assumptions. The retirement benefit obligation is £21.5m (2014: £17.3m), as disclosed within note 52 to the financial statements. The Group considers the retirement benefit obligation valuation to be a critical accounting estimate. This is disclosed within note 5 with the associated Group accounting policy stated within note 3.	We assessed the competence and objectivity of the Group's external actuarial specialist. We evaluated the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation using market data from our in-house actuarial specialists detailing the range of assumptions used as at 30 September 2015. We also performed sensitivity analysis over the key assumptions in order to assess the potential for management bias.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed in section B4.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £10.0m (2014: £9.2m), which is 7.5% (2014: 7.5%) of pre-tax profit, and represents 1.0% (2014: 1.0%) of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £201,000 (2014: £184,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope on the principal trading subsidiaries within the Group's three reportable segments which account for 100% of the Group's profit before tax and net assets. All entities are managed, controlled and audited from the head office by the Group audit team.

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work over the principal trading subsidiaries comprised statutory audits which were executed at levels of materiality applicable to each individual entity, and much lower than that for the Group described above. Our component materiality for the principal trading subsidiaries ranged from £130,000 to £5.0m.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement (section B8), 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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 auditor's 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.

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 Group's and 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.

PETER BIRCH (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
24 November 2015

D THE ACCOUNTS

Showing the financial position, results and cash flows of the Group and the Company prepared in accordance with IFRS and UK law

D1 The accounts **PAGE 143**

D1.1 Consolidated income statement PAGE 144

D1.2 Consolidated statement of comprehensive income PAGE 145

D1.3 Consolidated balance sheet PAGE 146

D1.4 Company balance sheet PAGE 147

D1.5 Consolidated cash flow statement PAGE 148

D1.6 Company cash flow statement PAGE 148

D1.7 Statement of movements in equity PAGE 149

D2 Notes to the accounts **PAGE 150**

THE ACCOUNTS

D1.1 **CONSOLIDATED INCOME STATEMENT**

For the year ended 30 September 2015

	Note	2015 £m	2014 £m
Interest receivable	10	**341.0**	302.4
Interest payable and similar charges	11	**(143.6)**	(123.0)
Net interest income		**197.4**	179.4
Other operating income	12	**14.1**	18.5
Total operating income		**211.5**	197.9
Operating expenses	13	**(71.2)**	(63.4)
Provisions for losses	18	**(5.6)**	(12.3)
Operating profit before fair value items		**134.7**	122.2
Fair value net (losses) / gains	19	**(0.5)**	0.6
Operating profit being profit on ordinary activities before taxation		**134.2**	122.8
Tax charge on profit on ordinary activities	20	**(27.1)**	(25.6)
Profit on ordinary activities after taxation for the financial year		**107.1**	97.2

	Note	2015	2014
Earnings per share			
- basic	22	**35.5p**	31.9p
- diluted	22	**34.8p**	31.1p

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

THE ACCOUNTS

D1.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2015

	Note	2015		2014	
		£m	£m	£m	£m
Profit for the year			107.1		97.2
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Actuarial (loss) on pension scheme	52	(4.3)		(2.1)	
Tax thereon	23	0.9		0.4	
			(3.4)		(1.7)
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge (losses) taken to equity	43	(3.1)		(1.4)	
Tax thereon	23	0.6		0.3	
			(2.5)		(1.1)
Other comprehensive income for the year net of tax			(5.9)		(2.8)
Total comprehensive income for the year			101.2		94.4

THE ACCOUNTS

D1.3 CONSOLIDATED BALANCE SHEET

30 September 2015

	Note	2015 £m	2014 £m	2013 £m
Assets employed				
Non-current assets				
Intangible assets	24	**7.7**	7.9	8.5
Property, plant and equipment	26	**22.1**	22.9	9.6
Financial assets	28	**10,745.8**	9,969.6	9,715.3
		10,775.6	10,000.4	9,733.4
Current assets				
Other receivables	36	**6.2**	6.5	7.6
Short term investments	37	**41.1**	39.4	-
Cash and cash equivalents	38	**1,056.0**	848.8	587.3
		1,103.3	894.7	594.9
Total assets		**11,878.9**	10,895.1	10,328.3
Financed by				
Equity shareholders' funds				
Called-up share capital	39	**309.3**	307.3	306.2
Reserves	40	**760.2**	688.0	614.7
Share capital and reserves		**1,069.5**	995.3	920.9
Own shares	47	**(100.0)**	(48.2)	(47.6)
Total equity		**969.5**	947.1	873.3
Current liabilities				
Financial liabilities	48	**339.6**	54.4	3.0
Current tax liabilities	54	**12.5**	11.9	5.9
Other liabilities	55	**43.0**	40.1	36.2
		395.1	106.4	45.1
Non-current liabilities				
Financial liabilities	48	**10,481.4**	9,814.0	9,383.4
Retirement benefit obligations	52	**21.5**	17.3	15.7
Deferred tax	53	**11.3**	10.1	9.9
Other liabilities	55	**0.1**	0.2	0.9
		10,514.3	9,841.6	9,409.9
Total liabilities		**10,909.4**	9,948.0	9,455.0
		11,878.9	10,895.1	10,328.3

Approved by the Board of Directors on 24 November 2015.

Signed on behalf of the Board of Directors.

N S Terrington
Chief Executive

R J Woodman
Group Finance Director

D1.4 COMPANY BALANCE SHEET

30 September 2015

	Note	2015 £m	2014 £m	2013 £m
Assets employed				
Non-current assets				
Property, plant and equipment	26	**19.3**	19.6	5.6
Investment in subsidiary undertakings	27	**1,018.3**	928.0	678.2
		1,037.6	947.6	683.8
Current assets				
Other receivables	36	**141.3**	103.9	115.0
Cash and cash equivalents	38	**196.8**	166.5	153.9
		338.1	270.4	268.9
Total assets		**1,375.7**	1,218.0	952.7
Financed by				
Equity shareholders' funds				
Called-up share capital	39	**309.3**	307.3	306.2
Reserves	40	**497.5**	456.4	423.1
Share capital and reserves		**806.8**	763.7	729.3
Own shares	47	**(89.2)**	(39.5)	(39.5)
Total equity		**717.6**	724.2	689.8
Current liabilities				
Financial liabilities	48	**-**	-	1.6
Current tax liabilities	54	**2.6**	2.3	4.8
Other liabilities	55	**248.7**	196.5	76.4
		251.3	198.8	82.8
Non-current liabilities				
Financial liabilities	48	**404.9**	293.2	177.7
Deferred tax	53	**1.9**	1.8	1.8
Other liabilities	55	**-**	-	0.6
		406.8	295.0	180.1
Total liabilities		**658.1**	493.8	262.9
		1,375.7	1,218.0	952.7

Approved by the Board of Directors on 24 November 2015.

Signed on behalf of the Board of Directors.

N S Terrington
Chief Executive

R J Woodman
Group Finance Director

THE ACCOUNTS

D1.5 **CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 30 September 2015

	Note	2015 £m	2014 £m
Net cash (utilised) by operating activities	57	**(25.9)**	(269.5)
Net cash (utilised) by investing activities	58	**(3.6)**	(65.2)
Net cash generated by financing activities	59	**237.1**	596.5
Net increase in cash and cash equivalents		**207.6**	261.8
Opening cash and cash equivalents		**847.7**	585.9
Closing cash and cash equivalents		**1,055.3**	847.7
Represented by balances within:			
Cash and cash equivalents		**1,056.0**	848.8
Financial liabilities		**(0.7)**	(1.1)
		1,055.3	847.7

D1.6 **COMPANY CASH FLOW STATEMENT**

For the year ended 30 September 2015

	Note	2015 £m	2014 £m
Net cash generated by operating activities	57	**100.5**	189.5
Net cash (utilised) by investing activities	58	**(105.2)**	(278.2)
Net cash generated by financing activities	59	**35.0**	101.3
Net increase in cash and cash equivalents		**30.3**	12.6
Opening cash and cash equivalents		**166.5**	153.9
Closing cash and cash equivalents		**196.8**	166.5
Represented by balances within:			
Cash and cash equivalents		**196.8**	166.5
Financial liabilities		**-**	-
		196.8	166.5

D1.7 STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 September 2015

	Note	The Group		The Company	
		2015	2014	**2015**	2014
		£m	£m	**£m**	£m
Total comprehensive income for the year		**101.2**	94.4	**65.2**	53.8
Dividends paid	*45*	**(29.1)**	(23.7)	**(29.1)**	(23.7)
Net movement in own shares		**(51.8)**	(0.6)	**(49.7)**	-
(Deficit) / surplus on transactions in own shares	*46*	**(3.6)**	(0.8)	**2.5**	1.1
Charge for share based remuneration	*14*	**4.5**	3.2	**4.5**	3.2
Tax on share based remuneration	*23*	**1.2**	1.3	**-**	-
Net movement in equity in the year		**22.4**	73.8	**(6.6)**	34.4
Opening equity		**947.1**	873.3	**724.2**	689.8
Closing equity		**969.5**	947.1	**717.6**	724.2

THE ACCOUNTS

D2 NOTES TO THE ACCOUNTS

For the year ended 30 September 2015

1. GENERAL INFORMATION

The Paragon Group of Companies PLC is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 2336032. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Group's operations and its principal activities are set out in the Strategic Report in section A2.

These financial statements are presented in pounds sterling, which is the currency of the economic environment in which the Group operates.

2. ADOPTION OF NEW AND REVISED REPORTING STANDARDS

In the preparation of these financial statements no new reporting standards are being applied for the first time.

(a) Standards not yet adopted

At the date of authorisation of these financial statements the following International Financial Reporting Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 – 'Financial Instruments'
- IFRS 15 – 'Revenue from Contracts with Customers'

IFRS 9 largely replaces the requirements of the existing financial instruments standard, IAS 39: 'Financial Instruments: Recognition and Measurement'. It addresses the areas of recognition, bases of valuation, income recognition methods, impairment and hedging for financial instruments and will become the standard governing the accounting for Group's Loans to Customers, Borrowings and Derivative Financial Assets and Liabilities. Only the rules relating to the Group's portfolio hedging arrangements will remain subject to IAS 39, though the IASB are also working on this area.

This standard will come into force with effect from the Group's financial statements for the year ending 30 September 2019, if it is endorsed by the European Union ('EU'). The EU has indicated that endorsement may be expected in the first half of 2016.

Following the publication of the final version of the Standard by the IASB in July 2014, during the year ended 30 September 2015 the Group has begun to assess its potential impact. The Group's preliminary conclusions are that the effect of the replacement of IAS 39 with IFRS 9 in most areas of accounting will not be significant, as many of the current rules are repeated in broadly similar form in the new standard. In particular the amortised cost basis of valuation and the related effective interest rate method of income recognition remain largely unchanged, and the revisions to hedging are likely to produce a broadly similar result to the present methodology.

The area where the new standard is likely to have the most significant impact on the Group is in accounting for impaired loans. In general terms IFRS 9 will require earlier recognition of losses than IAS 39 does, including some element of loss provision from day one of a loan. It will also require that firms take account of a wider set of indicators to establish when an impairment provision is required.

During the year, the Group commissioned external consultants to conduct an exercise which provided a broad indication of the size of any potential adjustment, identified the most significant areas for the Group's consideration and advised on how the Group's internal IFRS 9 work might be structured. Following this the Group has begun a project to ensure it is able to comply with the new requirements, including finance, analysis and credit risk personnel. This project team is sponsored by the Group Finance Director and reports regularly to the Audit Committee. Work will continue on this project through the year ending 30 September 2016 and a further report on progress will be given in that year's Annual Report and Accounts.

IFRS 15 will replace the standards currently governing the recognition of that part of the Group's income which does not derive directly from financial assets. If endorsed by the EU, it will come in to force with effect from the Group's financial statements for the year ending 30 September 2019, but is not expected to have a material impact on its results or financial position.

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

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In the financial years reported upon this means that the financial statements accord also with International Financial Reporting Standards as approved by the International Accounting Standards Board.

The particular policies applied are described below.

(a) Accounting convention

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

(b) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2015. Subsidiaries comprise all those entities over which the Group has control. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

In accordance with IFRS 10 – 'Consolidated Financial Statements' companies owned by charitable trusts into which loans originated by group companies were sold as part of its warehouse and securitisation funding arrangements, where the Group enjoys the benefits of ownership, are treated as subsidiaries.

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

(c) Going concern

The consolidated financial statements have been prepared on the going concern basis. The directors' reasons for the adoption of this basis are given in the Strategic Report in section A4.

(d) Goodwill

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

Negative goodwill is written off as it arises.

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

(e) Intangible assets

Intangible assets comprise purchased computer software and other intangible assets acquired in business combinations.

Purchased computer software is capitalised where it has a sufficiently enduring nature and is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

Other intangible assets acquired in business combinations include brands and business networks and are capitalised in accordance with the requirements of IFRS 3 – 'Business Combinations'. Such assets are stated at attributed cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 6.67% per annum.

(f) Leases

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

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

(g) Property, plant and equipment

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

Depreciation is provided on cost in equal annual instalments over the lives of the assets. Land is not depreciated. The rates of depreciation are as follows:

Freehold premises	2% per annum
Short leasehold premises	over the term of the lease
Computer hardware	25% per annum
Furniture, fixtures and office equipment	15% per annum
Company motor vehicles	25% per annum

(h) Investments in subsidiaries

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

(i) Loans to customers

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

Loans advanced are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter all loans to customers are valued at this initial amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method. The loan balances are then reduced where necessary by a provision for balances which are considered to be impaired.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payments and receipts arising from the loan to the initial carrying amount.

(j) Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for impairment.

Income from finance lease contracts is accounted for on the actuarial basis.

(k) Impairment of loans and receivables

Loans and receivables are reviewed for indications of possible impairment throughout the year and at each balance sheet date, in accordance with IAS 39. Where loans exhibit objective evidence of impairment, the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security, discounted at the original EIR. Loans are assessed collectively, grouped by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date.

For financial accounting purposes provisions for impairments of loans to customers are held in an allowance account. These balances are offset against the gross value of the loan when it is written off on the administration system. After this point a salvage balance may be held in respect of any further recoveries expected on the loan.

(l) Investments in structured entities

Investments in structured entities are intended to be held to maturity and are therefore accounted for on the amortised cost basis. The return from such investments is calculated on the EIR basis.

(m) Amounts owed by or to group companies

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

(n) Short term investments

Short term investments are held as part of the liquidity requirement of Paragon Bank PLC. As such they are designated as 'Available for Sale', as defined by IAS 39 - 'Financial Instruments: Recognition and Measurement' and are consequently measured at their fair value which corresponds to their market value at the balance sheet date.

Remeasurement gains and losses are recognised in the income statement within interest receivable.

(o) Cash and cash equivalents

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

(p) Own shares

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

(q) Taxation

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

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

(r) Retail deposits

Retail deposits are carried in the balance sheet on the amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

Interest payable to the customer is expensed to the income statement as interest payable over the deposit term on an EIR basis.

(s) Borrowings

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

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

(t) Finance lease payables

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

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

(u) Derivative financial instruments

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

The Group does not enter into speculative derivative contracts.

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

(v) Hedging

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

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

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

(w) Deferred taxation

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

(x) Retirement benefit obligations

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

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date.

The expected financing cost of the deficit, as estimated at the beginning of the period is recognised in the result for the period within interest payable. Any variances against the estimated amount in the year form part of the actuarial gain or loss.

The charge to the income statement for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

(y) Revenue

The revenue of the Group comprises interest receivable and similar charges and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

(z) Fee and commission income

Other income includes administration fees charged to borrowers, which are credited when the related service is performed, fees charged to third parties for account administration services, which are credited as those services are performed, and commissions receivable on the sale of insurances, which are taken to profit at the point at which the Group becomes unconditionally entitled to the income.

(aa) Share based payments

In accordance with IFRS 2 – 'Share based payments', the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date.

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

Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

(bb) Dividends

In accordance with IAS 10 – 'Events after the balance sheet date', dividends payable on ordinary shares are recognised in equity once they are appropriately authorised and are no longer at the discretion of the Company. Dividends declared after the balance sheet date, but before the authorisation of the financial statements remain within shareholders' funds.

(cc) Foreign currency

Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 – 'The Effects of Changes in Foreign Exchange Rates'. The functional currency of the Group is the pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

Gains and losses on retranslation are included in interest payable or interest receivable depending on whether the underlying instrument is an asset or a liability, except where deferred in equity in accordance with the cash flow hedging provisions of IAS 39.

(dd) Segmental reporting

The accounting policies of the operating segments are the same as those described above for the Group as a whole. Costs attributed to each segment represent the direct costs incurred by the segment operations and an allocation of the costs of areas of the business which serve all segments. Such allocations are weighted by the value of loan assets in each segment, adjusted for the relative effort involved in the administration of each asset class.

4. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair values have been determined for all derivatives, listed securities and any other financial assets and liabilities for which an active and liquid market exists.

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a risk adjusted interest rate. The principal inputs to these valuation models are LIBOR benchmark interest rates for the currencies in which the instruments are denominated, sterling, euros and dollars. The cross currency basis swaps have a notional principal related to the outstanding currency borrowings and therefore the estimated rate of repayment of these notes also affects the valuation of the swaps. In order to determine the fair values the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counterparty. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors.

For assets and liabilities carried at fair value, IFRS 7 requires that the measurements should be classified using a fair value hierarchy reflecting the inputs used, and defines three levels. Level 1 measurements are unadjusted market prices, level 2 measurements are derived from observable data, such as market prices or rates, while level 3 measurements rely on significant inputs which are not derived from observable data. As described above the valuations of the Group's derivatives are based on market information and they are therefore classified as level 2 measurements. Details of these assets are given in note 35. The short term investments described in note 37 are freely traded securities for which a market price quotation is available and are classified as level 1 measurements. The Group had no financial assets or liabilities in the year ended 30 September 2015 or the year ended 30 September 2014 valued using level 3 measurements.

The fair values of cash and cash equivalents, bank loans and overdrafts and asset backed loan notes, which are carried at amortised cost are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises. While the Group's asset backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it and an adjustment is required. As these valuation exercises are not wholly market based they are considered to be level 2 measurements.

To assess the likely fair value of the Group's retail deposit liabilities, the directors have considered the estimated cash flows expected to arise based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. On this basis they have concluded that the carrying value of these liabilities, determined on the amortised cost basis, is not significantly different from their fair value derived on a discounted cash flow basis. Given the mixture of observable and non-observable inputs, these are considered to be level 2 measurements.

To assess the likely fair value of the Group's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. On this basis they have concluded that the carrying value of these assets, determined on the amortised cost basis, is not significantly different from the fair value of the assets derived on a discounted cash flow basis. Given the mixture of observable and non-observable inputs these are considered to be level 2 measurements.

5. CRITICAL ACCOUNTING ESTIMATES

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

(a) Impairment losses on loans to customers

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

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

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

(b) Effective interest rates

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. These estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual borrower behaviour and that predicted.

(c) Fair values

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

(d) Retirement benefits

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

6. CAPITAL MANAGEMENT

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk
- To ensure that sufficient regulatory capital is available to meet any externally imposed requirements

The Group sets the amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as retail or corporate bonds, or sell assets to reduce debt.

Following the authorisation of Paragon Bank by the Prudential Regulation Authority ('PRA'), the Group became subject to regulatory capital rules on a consolidated basis. This is discussed further below.

(a) Dividend cover

Following its rights issue in 2008 the Group pursued a progressive dividend policy with the dividend being increased from 3.0p in respect of that year to 4.0p in respect of the year ended 30 September 2011. In 2012 as a result of the progress of the business, the directors adopted a new policy under which the dividends will increase so that, by the year ending 30 September 2016, the level of dividend cover will be maintained in the range 3.0 to 3.5 times.

The most common measure of dividend cover used by financial analysts is based on earnings and dividend per share. The Group has confirmed that its dividend cover target will be based on this calculation. The expected level of dividend cover on this basis in respect of the year, subject to the approval of the final dividend at the Annual General Meeting, is shown below.

	Note	**2015**	2014
Earnings per share (p)	*22*	**35.5**	31.9
Proposed dividend per share in respect of the year (p)	*45*	**11.0**	9.0
Dividend cover (times)		**3.2**	3.5

In previous years an alternative measure of dividend cover has been used. This differs from the above measure due to the effect of share buy-backs and therefore it is additionally presented below, for completeness.

	Note	**2015**	2014
Profit after tax for the year (£m)		**107.1**	97.2
Proposed dividend in respect of the year (£m)	*45*	**32.6**	27.4
Dividend cover (times)		**3.3**	3.5

(b) Return on tangible equity

Return on tangible equity ('ROTE') is a measure of an entity's profitability used by investors. ROTE is defined by the Group by comparing the profit after tax for the year, adjusted for amortisation charged on intangible assets, to the average of the opening and closing equity positions, excluding intangible assets and goodwill.

The Group's consolidated ROTE for the year ended 30 September 2015 is derived as follows:

	Note	2015	2014
		£m	£m
Profit for the year		**107.1**	97.2
Amortisation of intangible assets	13	**1.4**	1.3
Adjusted profit		**108.5**	98.5
Divided by			
Opening equity		**947.1**	873.3
Opening intangible assets	24	**(7.9)**	(8.5)
Opening tangible equity		**939.2**	864.8
Closing equity		**969.5**	947.1
Closing intangible assets	24	**(7.7)**	(7.9)
Closing tangible equity		**961.8**	939.2
Average tangible equity		**950.5**	902.0
Return on Tangible Equity		**11.4%**	10.9%

In previous years the Group has disclosed return on equity ('ROE'), calculated by the Group by comparing the profit after tax for the year to the average of the opening and closing equity positions, but it is considered that ROTE is a more widely used measure.

There is no significant difference in the values of ROE and ROTE for either of the years shown.

THE ACCOUNTS

(c) Gearing

The Board of Directors regularly review the proportion of working capital represented by debt and equity. Net debt is calculated as total debt, other than securitised and warehouse debt, valued at principal value, less free cash up to a maximum of the total debt. Adjusted equity comprises all components of equity (share capital, share premium, minority interest, retained earnings, and revaluation surplus) other than amounts recognised in equity relating to cash flow hedges.

The debt and equity amounts at 30 September 2015 and at 30 September 2014 were as follows:

	Note	2015 £m	2014 £m
Debt			
Corporate bond	50	**110.0**	110.0
Retail bonds	50	**297.5**	185.0
Bank overdraft	48	**0.7**	1.1
Less: Applicable free cash	38	**(199.9)**	(177.3)
Net debt		**208.3**	118.8
Equity			
Total equity		**969.5**	947.1
Less: cash flow hedging reserve	43	**1.9**	(0.6)
Adjusted equity		**971.4**	946.5
Total working capital		**1,179.7**	1,065.3
Debt		**17.7%**	11.2%
Equity		**82.3%**	88.8%
Total working capital		**100.0%**	100.0%

The movements in the proportion of working capital represented by debt and equity during the year ended 30 September 2015 resulted primarily from the operation of the policy described above.

THE ACCOUNTS

(d) Regulatory capital

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. As part of this supervision the regulator will issue individual capital guidance setting an amount of regulatory capital, defined under the international Basel III rules, implemented through the Capital Requirements Regulation and Directive ('CRD IV'), which the Group is required to hold relative to its risk weighted assets in order to safeguard depositors against the risk of losses being incurred by the Group.

The Group's regulatory capital is monitored by the Board of Directors and the Asset and Liability Committee, who ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

At 30 September 2015 the Group's regulatory capital of £976.3m (2014: £981.1m) was comfortably in excess of that required by the regulator.

The Group's regulatory capital differs from its equity as certain adjustments are required by the regulator. A reconciliation of the Group's equity to its regulatory capital determined in accordance with CRD IV at 30 September 2015 is set out below.

	Note	**2015**	2014
		£m	£m
Total equity		**969.5**	947.1
Deductions			
Proposed final dividend	*45*	**(21.8)**	(18.3)
Intangible assets	*24*	**(7.7)**	(7.9)
Deferred tax adjustment	*	**(0.3)**	(0.5)
Common Equity Tier 1 ('CET1') capital		**939.7**	920.4
Other tier 1 capital		**-**	-
Total Tier 1 capital		**939.7**	920.4
Corporate bond	*50*	**110.0**	110.0
Less: amortisation adjustment	†	**(75.8)**	(53.8)
		34.2	56.2
Collectively assessed credit impairment allowances		**2.4**	4.5
Total Tier 2 capital		**36.6**	60.7
Total regulatory capital		**976.3**	981.1

* Deferred tax assets in subsidiary companies are required to be deducted from regulatory capital. This balance is offset against the deferred tax liability in the consolidated accounts.

† When tier 2 capital instruments have less than five years to maturity the amount eligible as regulatory capital reduces by 20% per annum. As the Group's £110.0m Corporate Bond matures in 2017, this adjustment is required.

The total exposure amount calculated under the CRD IV framework against which this capital is held, and the proportion of these assets it represents, are calculated as shown below.

	2015 £m	2014 £m
Credit risk		
Balance sheet assets	**4,426.8**	4,146.6
Off balance sheet	**88.7**	37.1
Total credit risk	**4,515.5**	4,183.7
Operational risk	**363.6**	337.1
Market risk	**-**	-
Other	**50.2**	108.7
Total risk exposure	**4,929.3**	4,629.5
Solvency ratios	**%**	%
CET1	**19.1**	19.9
Total regulatory capital	**19.8**	21.2

The CRD IV risk weightings for credit risk exposures are calculated using the Standardised Approach, while the Basic Indicator Approach for operational risk is used.

The table below shows the calculation of the leverage ratio, based on the consolidated balance sheet assets adjusted as shown below.

	Note	2015 £m	2014 £m
Total balance sheet assets		**11,878.9**	10,895.1
Less: Derivative assets	*28*	**(660.1)**	(693.9)
On-balance sheet items		**11,218.8**	10,201.2
Less: Intangible assets	*24*	**(7.7)**	(7.9)
Total on balance sheet exposures		**11,211.1**	10,193.3
Derivative assets	*28*	**660.1**	693.9
Potential future exposure on derivatives		**69.1**	70.7
Total derivative exposures		**729.2**	764.6
Post offer pipeline at gross notional amount		**482.3**	209.8
Adjustment to convert to credit equivalent amounts		**(241.1)**	(104.9)
Off balance sheet items		**241.2**	104.9
Tier 1 capital		**939.7**	920.4
Total leverage exposure		**12,181.5**	11,062.8
Basel III leverage ratio		**7.7%**	8.3%

The Group has revised its calculation of the leverage ratio above to take account of the CRD IV rules for leverage disclosures, which the Financial Policy Committee of the Bank of England has indicated will be used for regulatory purposes in the UK.

The Group has also revised its calculation of the credit conversion factors in respect of pipeline assets used in both leverage and capital ratios to more closely correspond with CRD IV guidance. Corresponding figures have been adjusted for consistency, although the recalculated ratios differ from those already reported by insignificant amounts.

The regulatory capital disclosures in these financial statements relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the year.

7. FINANCIAL RISK MANAGEMENT

The principal financial risks arising from the Group's normal business activities are credit risk, liquidity risk, interest rate risk and currency risk. The Board of Directors has a Risk and Compliance Committee, established in 2014, consisting of the Chairman and the non-executive directors which is responsible for risk management. The Credit Committee and the Asset and Liability Committee ('ALCO') are executive sub-committees of the Risk and Compliance Committee which review and agree policies for managing each of these risks, which are summarised below. The Corporate Governance Statement in Section B3 provides further detail on the operations of these committees. The financial risk management policies have remained unchanged throughout the year and since the year end. The position disclosed below is materially similar to that existing throughout the year. Paragon Bank has its own risk management structure which is overseen by the Group committees.

Use of derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. Such instruments are contracts with counterparties and are used only to reduce or eliminate the exposure of the Group to movements in market interest or exchange rates.

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

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

(a) hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis

(b) hedging the interest rate risk of groups of fixed rate retail deposits with interest rate derivatives on a portfolio basis

In both cases the Group believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Group to these assets and liabilities.

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

The Company has no derivative assets or liabilities.

Credit risk

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

Primary responsibility for credit risk management across the Group lies with the Credit Committee. The Credit Committee is made up of four senior employees, drawn from financial and risk functions independent of the underwriting process. It is chaired by the Group Finance Director. Its key responsibilities include setting and reviewing credit policy, controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

In order to control credit risk relating to counterparties to the Group's derivative financial instruments, short-term investments and cash deposits, ALCO determines which counterparties the Group will deal with, based on risk appetite parameters agreed by the Board. It then establishes limits for each counterparty and monitors compliance with those limits.

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

		The Group		**The Company**	
	Note	**2015**	2014	**2015**	2014
		£m	£m	**£m**	£m
Loans to customers	*31*	**10,062.4**	9,255.9	**-**	-
Investments in structured entities	*34*	**18.1**	19.3	**-**	-
Derivative financial assets	*35*	**660.1**	693.9	**-**	-
Amounts owed by Group companies	*36*	**-**	-	**141.2**	103.9
Accrued interest income	*36*	**0.4**	0.3	**0.1**	-
CSA assets	*36*	**0.9**	-	**-**	-
Short term investments	*37*	**41.1**	39.4	**-**	-
Cash	*38*	**1,056.0**	848.8	**196.8**	166.5
Maximum exposure to credit risk		**11,839.0**	10,857.6	**338.1**	270.4

While this maximum exposure represents the potential loss which might have to be accounted for by the Group, the terms on which the Group's loan assets are funded, described under Liquidity Risk below, limit the amount of principal repayments on the Group's securitised and warehouse borrowings in cases of capital losses on assets, significantly reducing the effective shareholder value at risk.

Loans to customers and other investments in loan assets

The Group's credit risk is primarily attributable to its loans to customers. There are no significant concentrations of credit risk to individual counterparties due to the large number of customers included in the portfolios.

The Group's loan assets at 30 September 2015 are analysed as follows:

	2015 £m	2015 %	2014 £m	2014 %
Buy-to-let mortgages	**9,363.2**	**93.0%**	8,592.1	92.8%
Owner occupied mortgages	**47.6**	**0.5%**	59.6	0.7%
Total first mortgages	**9,410.8**	**93.5%**	8,651.7	93.5%
Secured loans	**387.1**	**3.9%**	436.2	4.7%
Loans secured on property	**9,797.9**	**97.4%**	9,087.9	98.2%
Car loans	**43.4**	**0.4%**	5.7	0.1%
Retail finance loans	**0.2**	**-**	0.4	-
Other loans	**220.9**	**2.2%**	161.9	1.7%
Total loans to customers	**10,062.4**	**100.0%**	9,255.9	100.0%

Other loans include unsecured loans either advanced by Group companies or acquired from their originators at a discount.

The Group's underwriting philosophy is based on a combination of sophisticated individual credit assessment and the automated efficiencies of a scored decision making process. Information on each applicant is combined with data taken from a credit reference bureau to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provides evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement.

First mortgages and secured loans are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities. Car loans are effectively secured by the financed vehicle.

Despite this security, in assessing credit risk, an applicant's ability and propensity to repay the loan remain the principal factors in the decision to lend.

In considering whether to acquire pools of loan assets or invest in loan portfolios, the Group will undertake a due diligence exercise on the underlying loan accounts. Such assets are generally not fully performing and are offered at a discount to their current balance. The Group's procedures may include inspection of original loan documents, verification of security and the examination of the credit status of borrowers. Current and historic cash flow data will also be examined. The objective of the exercise is to establish, to a level of confidence similar to that provided by the underwriting process, that the assets will generate sufficient cash flows to recover the Group's investment and generate an appropriate return without exposing the Group to material operational or conduct risks.

An analysis of the indexed loan to value ratio ('LTV') for those loan accounts secured on property by value at 30 September 2015 is set out below. For acquired accounts the effect of any discount on purchase is allowed for.

	2015 First mortgages %	**2015 Secured loans %**	2014 First mortgages %	2014 Secured loans %
Loan to value ratio				
Less than 70%	**51.9**	**33.7**	48.5	28.7
70% to 80%	**27.6**	**16.3**	25.9	14.5
80% to 90%	**12.8**	**16.7**	16.4	18.1
90% to 100%	**4.9**	**13.5**	5.7	15.8
Over 100%	**2.8**	**19.8**	3.5	22.9
	100.0	**100.0**	100.0	100.0
Average loan to value ratio	**69.5**	**80.9**	71.4	84.1
Buy-to-let	**69.7**		71.7	
Owner-occupied	**28.8**		32.4	

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an annual increase of 3.8% in the year ended 30 September 2015 (2014: 9.4%).

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2015 and 30 September 2014, compared to the industry averages at those dates published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was:

	2015 %	2014 %
First mortgages		
Accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	**0.19**	0.25
Buy-to-Let accounts excluding receiver of rent cases	**0.04**	0.04
Owner Occupied accounts	**3.55**	3.94
CML data for mortgage accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	**0.67**	0.85
Buy-to-Let accounts excluding receiver of rent cases	**0.61**	0.74
Owner Occupied accounts	**1.27**	1.50
All mortgages	**1.17**	1.39
Secured loans		
Accounts more than 2 months in arrears	**19.56**	19.84
FLA data for secured loans	**15.80**	17.20
Car loans		
Accounts more than 2 months in arrears	**0.67**	7.85
FLA data for all personal loans	**3.00**	4.60
Other loans		
Accounts more than 2 months in arrears	**94.66**	87.50

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2014 has been published by the FLA or CML, the comparative industry figures above have been amended.

The Group calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, including purchased Idem Capital assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by the CML in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will be higher for closed books such as the owner occupied mortgage book and the retail finance and unsecured loan books than for comparable active ones, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The improvement in the arrears position for car loans shown above is due to the recommencement of lending in this market, through Paragon Bank, with the new performing cases reducing the overall average.

The figures shown above for secured loans and other loans include purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price.

The payment status of the carrying balances of the Group's live loan assets, before provision for impairment, at 30 September 2015 and at 30 September 2014 split between those accounts considered as performing and those included in the population for impairment testing, is shown below.

First Mortgages

	2015	2014
	£m	£m
Not past due	**9,274.0**	8,477.6
Arrears less than 3 months	**100.8**	125.0
Performing accounts	**9,374.8**	8,602.6
Arrears 3 to 6 months	**4.6**	5.9
Arrears 6 to 12 months	**4.1**	3.9
Arrears over 12 months	**15.8**	20.2
Possessions and similar cases	**28.8**	39.4
Impairment population	**53.3**	69.4
	9,428.1	8,672.0

Consumer Finance

	Secured loans £m	Car loans £m	Retail finance loans £m	Total £m
30 September 2015				
Not past due	**265.2**	**43.3**	**0.1**	**308.6**
Arrears less than 2 months	**25.7**	**0.2**	**-**	**25.9**
Performing accounts	**290.9**	**43.5**	**0.1**	**334.5**
Arrears 2 to 6 months	**20.2**	**-**	**-**	**20.2**
Arrears 6 to 9 months	**8.9**	**-**	**-**	**8.9**
Arrears 9 to 12 months	**7.4**	**-**	**0.1**	**7.5**
Arrears over 12 months	**63.5**	**0.4**	**1.8**	**65.7**
Impairment population	**100.0**	**0.4**	**1.9**	**102.3**
	390.9	**43.9**	**2.0**	**436.8**
30 September 2014				
Not past due	291.2	3.8	0.1	295.1
Arrears less than 2 months	33.8	2.0	-	35.8
Performing accounts	325.0	5.8	0.1	330.9
Arrears 2 to 6 months	24.5	0.1	-	24.6
Arrears 6 to 9 months	12.4	-	-	12.4
Arrears 9 to 12 months	11.9	-	0.1	12.0
Arrears over 12 months	67.2	0.6	2.0	69.8
Impairment population	116.0	0.7	2.1	118.8
	441.0	6.5	2.2	449.7

Other loans

	2015 £m	2014 £m
Not past due	**6.7**	14.5
Arrears less than 1 months	**0.5**	1.0
Performing accounts	**7.2**	15.5
Arrears 1 to 3 months	**0.5**	1.1
Arrears 3 to 6 months	**0.9**	1.5
Arrears 6 to 12 months	**2.7**	4.0
Arrears over 12 months	**226.5**	157.9
Impairment population	**230.6**	164.5
	237.8	180.0

Arrears in the tables above are based on the contractual payment status of the customers concerned. Where assets have been purchased by the Idem Capital loan investment business, customers may already have been in arrears at the time of acquisition and an appropriate adjustment made to the consideration paid.

Investments in structured entities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by third parties to purchase pools of loan assets. All such investments are denominated in sterling and the underlying loans are made to UK borrowers. Cash generated by the assets is distributed to investors in accordance with a specified priority of payments. The Group has no obligation to make further contributions to the SPV companies concerned.

The management has considered the position of the underlying assets and concluded that they will generate sufficient cash flows to repay the amount of the investment.

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 included in the Idem Capital division, 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.

	2015 Carrying value	**2015 84 month ERC**	**2015 120 month ERC**	2014 Carrying value	2014 84 month ERC	2014 120 month ERC
	£m	**£m**	**£m**	£m	£m	£m
Loans to customers	**432.9**	**555.1**	**647.3**	407.2	554.8	649.9
Investment in structured entities	**18.1**	**25.7**	**30.4**	19.3	26.6	32.3
	451.0	**580.8**	**677.7**	426.5	581.4	682.2

Amounts shown as loans to customers above include loans disclosed as first mortgages and other loans (note 28).

Derivative financial assets

In order to control credit risk relating to counterparties to the Group's derivative financial instruments and cash deposits, ALCO determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits. Such counterparties are typically highly rated banks and, for all cash deposits and derivative positions held within the Group's securitisation structures, must comply with criteria set out in the financing arrangements, which are monitored externally. Where a derivative counterparty fails to meet the required criteria they are obliged under the terms of the instruments to set aside a cash collateral deposit. The amounts of these cash collateral deposits, which do not form part of the Group's cash position, are given in note 35.

The Group's exposure to credit risk in respect of the counterparties to its derivative financial assets, analysed by their long term credit rating as determined by Fitch is set out below.

	2015	2014
	£m	£m
Carrying value of derivative financial assets		
Counterparties rated		
AA-	**91.9**	193.5
A+	**6.2**	4.2
A	**515.1**	496.2
BBB+	**46.9**	-
Gross exposure	**660.1**	693.9
Collateral amounts posted	**(753.5)**	(87.3)
Net exposure	**(93.4)**	606.6

Short term investments

The Group's short term investments are held within Paragon Bank and form part of the liquidity buffer it is required to hold by the PRA. These investments may only be placed in treasury bills and gilts issued by the UK government, or such similar instruments as are permitted by the regulator, and as such the credit risk is judged to be minimal.

Cash and cash equivalents

The Group's cash balances are held in sterling at the Bank of England and at highly rated banks in current accounts and as short fixed term deposits and money market placements. The Group has a large exposures policy to mitigate any concentration risk in respect of its cash deposits. Credit risk on these balances, and the interest accrued thereon, is considered to be minimal.

Liquidity risk

Liquidity risk is the risk that the Group might be unable to satisfy any payment which is required to be made out of cash available to it at the time. The Group manages the liquidity requirements of its lending operations in two ways.

- Within the Paragon Mortgages and Idem Capital divisions, securitisation is used to mitigate its exposure to liquidity risk on its borrowings, ensuring, as far as possible, that the maturities of assets and liabilities are matched
- Within Paragon Bank, which is funded by the acceptance of retail deposits, liquidity is subject to regulation by the PRA. This regulation aims to ensure that sufficient liquid assets are held to mitigate the liquidity risk inherent in deposit taking. The Bank also seeks to manage the maturities of the deposits it accepts and the likely terms of the loans it offers to reduce liquidity risk

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

During the year ended 30 September 2014 the Group extended securitisation funding to certain of the purchased assets generated through its Idem Capital business. Although privately funded, these SPVs have similar liquidity risk characteristics to the public issues described above.

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

Cash received from time to time in each SPV is held until the next interest payment date when, following payment of principal, interest and the associated costs of the SPV, the remaining balances become available to the Group. Cash balances are also held within each SPV to provide credit enhancement for the particular securitisation, allowing interest and principal payments to be made even if some of the loans default. In order to provide further credit enhancement in certain of the SPVs, specific economic trigger events exist which cause additional cash to be retained in the SPV rather than being transferred to the Group. While the Group can, if it chooses, contribute additional cash to cover these requirements, it is under no obligation to do so. No such events occurred in the year ended 30 September 2015 or the year ended 30 September 2014. Whether any such events in any of the Group's other SPVs arise in the future will depend on the performance of the general economy and its impact on mortgage and loan arrears in each SPV. However if all of the remaining trigger events occurred, a total of £90.8m of additional cash would be retained in the SPV companies (2014: £77.7m). The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 38 as 'securitisation cash'.

Newly originated mortgage loans are initially funded by a revolving loan facility or 'warehouse' from the point of their origination until their inclusion in a securitisation transaction. A warehouse company functions in a similar way to an SPV, except that funds are drawn down as advances are made, repaid when loans are securitised and may subsequently be redrawn.

On 29 February 2008 the warehouse facility provided to Paragon Second Funding Limited ceased to be available for new drawings and new mortgage lending ceased, although the secured assets held within it at that time continued to be funded. Repayment of the principal on this warehouse facility is not required unless amounts are realised from the underlying secured assets. The final repayment date of the facility is later than the final due date of the secured assets it funds.

Mortgage loans advanced since the recommencement of lending in 2010 have been funded through one of four warehouse facilities, which are detailed in note 50. Each warehouse facility is agreed with an individual bank and is available for drawing and redrawing for a set commitment period, although each has the option to be renewed before the period ends. After the end of the commitment period the funding will remain in place for a further period until the underlying assets can be sold or refinanced. Repayment of the principal amount of the facilities is not required unless amounts are realised from the secured assets either through repayment, securitisation or asset sales, even after the end of the period. There is no further recourse to other assets of the Group in respect of either interest or principal on the borrowings. The warehouse facilities due for expiry in the period were all renewed on the same or improved terms.

As with the SPVs, the Group provides subordinated funding to the warehouse companies and restricted cash balances are held within them. Contributions to the subordinated funding are made each time a drawing on the facility concerned is made. These amounts provide credit enhancement to the warehouse and cover certain fees. This funding is repaid when assets are securitised. The amount of subordinated funding outstanding in the four active warehouse companies at 30 September 2015 was £54.9m (2014: £41.4m).

Further details of the warehouse facilities are given in note 50 and details of the loan assets within the warehouses are given in note 29.

The securitisation process and the terms of the warehouse facilities effectively limit liquidity risk from the funding of the Group's loan assets. The remaining liquidity risk relates to ensuring that sufficient funding is available to fund the Group's participation in the SPVs, provide capital support for new loans and working capital for the Group. This responsibility rests with ALCO which makes recommendations for the Group's liquidity policy for Board approval and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

The final repayment date for all of the securitisation borrowings and the old warehouse borrowing is more than five years from the balance sheet date, the earliest falling due in 2033 and the latest in 2050.

The equivalent sterling principal amount outstanding at 30 September 2015 under the SPV and warehouse arrangements, allowing for the effect of the cross currency basis swaps, described under currency risk below, which are net settled with the loan payments, was £9,052.1m (2014: £8,829.6m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date would be £15,157.8m (2014: £16,694.4m). As the principal will, as discussed above, reduce as customers repay or redeem their accounts, the cash flow will in practice be far less than this amount.

In February 2013, the Company initiated a Euro Medium Term Note issuance programme, with a maximum issuance of £1,000.0m. The Company had the ability to issue further notes under the programme within twelve months of its inauguration and it was subsequently renewed for a further twelve months in October 2014 and may be further renewed. Since that time the Company has issued three fixed rate bonds for a total of £297.5m, with interest rates ranging from 6.000% to 6.125% and maturities ranging from December 2021 to August 2023, the most recent issue of £112.5m being made in August 2015.

The Group's investments in purchased loan portfolios and structured entities are funded from its free cash balances and securitisation borrowings and these investments carry no obligation to make further payments. They therefore pose no liquidity risk to the Group.

The total undiscounted amounts, inclusive of estimated interest, which would be payable in respect of the Group's, and the Company's, non-securitisation borrowings and retail deposits, should those balances remain outstanding until the contracted repayment date, or the earliest date on which repayment can be required, are set out below.

	Retail deposits	**Corporate bond**	**Retail bonds**	**Total**
	£m	£m	£m	£m
a) The Group				
30 September 2015				
Payable in less than one year	**341.3**	**4.1**	**18.0**	**363.4**
Payable in one to two years	**187.8**	**114.1**	**18.0**	**319.9**
Payable in two to five years	**206.3**	**-**	**54.0**	**260.3**
Payable in over five years	**-**	**-**	**336.9**	**336.9**
	735.4	**118.2**	**426.9**	**1,280.5**
30 September 2014				
Payable in less than one year	54.2	4.1	11.3	69.6
Payable in one to two years	7.0	4.1	11.3	22.4
Payable in two to five years	-	114.1	33.8	147.9
Payable in over five years	-	-	208.6	208.6
	61.2	122.3	265.0	448.5

	Corporate bond	Retail bonds	Total
	£m	£m	£m
b) The Company			
30 September 2015			
Payable in less than one year	**4.1**	**18.0**	**22.1**
Payable in one to two years	**114.1**	**18.0**	**132.1**
Payable in two to five years	**-**	**54.0**	**54.0**
Payable in over five years	**-**	**336.9**	**336.9**
	118.2	**426.9**	**545.1**
30 September 2014			
Payable in less than one year	4.1	11.3	15.4
Payable in one to two years	4.1	11.3	15.4
Payable in two to five years	114.1	33.8	147.9
Payable in over five years	-	208.6	208.6
	122.3	265.0	387.3

Amounts payable in respect of the 'other accruals' shown in note 55 fall due within one year. The cash flows described above will include those for interest on borrowings accrued at 30 September 2015 disclosed in note 55.

In order to reduce the liquidity risk inherent in the retail deposit balances shown above, which are held by Paragon Bank PLC, its regulator, the PRA requires that it, like other regulated banks, maintains a buffer in the form of liquid assets to ensure it has sufficient available funds at all times to protect against unforeseen circumstances.

The amount of this buffer is calculated using Individual Liquidity Guidance ('ILG') set by the PRA based on the Individual Liquidity Adequacy Assessment Process ('ILAAP') submitted by Paragon Bank. The ILAAP determines the liquid resources that must be maintained in the Bank based upon stress tests linked to its key liquidity risks and for other purposes specified by the regulator. At 30 September 2015 the liquidity buffer of High Quality Liquid Assets ('HQLA') comprised the following assets, all held within Paragon Bank.

	Note	**2015**	2014
		£m	£m
Short term investments	*37*	**41.1**	39.4
Balances with central banks	*38*	**286.0**	-
Total HQLA		**327.1**	39.4

THE ACCOUNTS

The cash flows which are expected to arise from derivative contracts in place at the year end, estimating future floating rate payments and receipts on the basis of the yield curve at the balance sheet date are as follows:

	2015 Total cash outflow / (inflow)	2014 Total cash outflow / (inflow)
	£m	£m
On derivative liabilities		
Payable in less than one year	**-**	0.2
Payable in one to two years	**0.1**	0.4
Payable in two to five years	**0.3**	0.2
Payable in over five years	**0.4**	0.9
	0.8	1.7
On derivative assets		
Payable in less than one year	**(5.2)**	(0.8)
Payable in one to two years	**(1.0)**	(0.1)
Payable in two to five years	**0.1**	-
Payable in over five years	**(0.4)**	(0.9)
	(6.5)	(1.8)
	(5.7)	(0.1)

Interest rate risk

The Group is exposed to interest rate risk, the risk that margins will be adversely affected by movements in market interest rates, through its lending, deposit taking and borrowing activities. As certain of the Group's financial assets and liabilities bear interest at rates which float with market rates and other are fixed, either for a term or for their whole lives a movement in market rates can change the net interest margin on the Group's activities unless the exposure is managed.

The Group manages this position outside Paragon Bank by maintaining floating rate liabilities and matching these with floating rate assets, by hedging fixed rate assets and liabilities using interest rate swap or cap agreements and by maintaining a proportion of fixed rate liabilities.

Separately, within Paragon Bank, where there are fixed and floating rate loan assets, together with fixed and floating rate savings deposit liabilities mismatches are managed using interest rate swap agreements to ensure any exposure remains appropriate to the Banks's risk appetite.

The Group's ALCO monitors the interest rate risk exposure on the Group's loan assets and asset backed loan notes and ensures compliance with the requirements of the trustees in respect of the Group's securitisations and the terms of other borrowings. Paragon Bank has its own ALCO which focuses on the risks within the Bank, including the retail deposit position, although the Group's committee maintains oversight.

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

The Group's retail deposits either bear variable interest rates or are fixed rate liabilities which are hedged in accordance with the Group's risk management strategy. The interest rates paid on the Group's variable rate deposits are determined by reference to, inter alia, returns achievable in the Group's lending markets and the rates being charged on similar products in the market.

The Group's loan assets predominantly bear LIBOR linked interest rates or are hedged fixed rate assets. The interest rates charged on the Group's variable rate loan assets are determined by reference to, inter alia, the Group's funding costs and the rates being charged on similar products in the market.

Generally these factors ensure the matching of changes in interest rates on the Group's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term. Forward rate agreements may be used to hedge against any perceived risk of temporary increases in LIBOR rates at month ends.

The return to the Group from its investments in structured entities is primarily attributable to the cash generation of the underlying portfolio. There is no direct exposure to market interest rate risk.

The Group's working capital borrowings comprise corporate bonds and retail bonds issued under a Euro Medium Term Note Programme. All bonds issued to date have fixed interest rates and therefore are not exposed to fluctuations in interest rates, although the retail bond programme includes the facility to issue floating rate instruments in the future.

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

To assess the Group's exposure to interest rate movements, the notional impact of a 1% change in UK interest rates on the equity of the Group at 30 September 2015, and the notional annualised impact of such a change on the operating profit of the Group, based on the year-end balance sheet have been calculated.

On this basis, a 1% increase in UK interest rates would reduce the Group's equity at 30 September 2015 by £3.1m (2014: £4.0m) and increase profit before tax by £9.4m (2014: £11.3m).

This calculation allows only for the direct effects of any change in UK interest rates. In practice such a change might have wider economic consequences which would themselves potentially affect the Group's business and results.

Although certain of the Group's borrowings have interest rates dependant on US Dollar and Euro LIBOR rates, the effect of the cross currency basis swaps is such that the Group's results have no material exposure to movements in these rates. The effects of independent 1% increases in US or Euro interest rates would be to increase the Group's equity by £1.1m (2014: £1.3m) and £1.9m (2014: £2.0m) respectively.

All the borrowings of the Company have fixed interest rates. Assets and liabilities with other group companies bear interest at floating rates based on LIBOR which reset within three months of the balance sheet date; all other balances are non-interest bearing.

THE ACCOUNTS

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of the asset backed loan notes denominated in US dollars and euros, which are described in note 50. Although IAS 39 requires that they be accounted for as currency liabilities and valued at their spot rates, a condition of the issue of these notes was that interest rate and currency swaps ('cross-currency basis swaps') were put in place for the duration of the borrowing, having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing. As a result the Group has no material exposure to foreign currency risk, and no sensitivity analysis is presented for currency risk.

The equivalent sterling principal amounts of notes in issue under these arrangements, and their carrying values at 30 September 2015 and 30 September 2014 are:

	2015 Equivalent sterling principal	**2015 Carrying value**	2014 Equivalent sterling principal	2014 Carrying value
	£m	**£m**	£m	£m
US dollar notes	**2,048.3**	**2,555.1**	2,646.7	3,077.2
Euro notes	**2,011.3**	**2,171.4**	1,884.0	2,151.9
	4,059.6	**4,726.5**	4,530.7	5,229.1

None of the assets or liabilities of the Company are denominated in foreign currencies.

8. SEGMENTAL INFORMATION

The Group continues to adopt the segmental reporting format introduced in 2014. This analysis is based on the entities within the Group generating its assets and reflects current internal management structures and the differing regulatory environments in which the Group operates. It is also used for reporting internally.

The business is analysed between the three divisions described below.

- Paragon Mortgages includes revenue, in the form of interest and ancillary income, from the Group's first mortgage operations, other than the buy-to-let lending of Paragon Bank, and from other assets remaining in legacy portfolios
- Idem Capital includes revenue generated from assets purchased by the Group's debt investment business, Idem Capital Holdings Limited and third party loan administration activity
- Paragon Bank includes revenue, in the form of interest and ancillary income, generated from the Group's regulated banking business, Paragon Bank PLC

Each of these businesses invests in consumer finance assets, and an analysis of the Group's financial assets by type and segment is shown in note 28.

Dedicated financing and administration costs of each of these businesses are allocated to the segment. Shared costs, and the financing costs of the Group's working capital invested, are allocated based on the segment's use of those resources.

All of the Group's operations are conducted in the UK, 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.

Financial information about these business segments, prepared on the same basis as used in the consolidated accounts of the Group, is shown below.

Year ended 30 September 2015

	Paragon Mortgages	Idem Capital	Paragon Bank	Total
	£m	£m	£m	£m
Interest receivable	263.2	71.6	6.2	341.0
Interest payable	(128.1)	(9.9)	(5.6)	(143.6)
Net interest income	135.1	61.7	0.6	197.4
Other operating income	8.5	5.3	0.3	14.1
Total operating income	143.6	67.0	0.9	211.5
Operating expenses	(44.0)	(17.7)	(9.5)	(71.2)
Provisions for losses	(5.6)	-	-	(5.6)
	94.0	49.3	(8.6)	134.7
Fair value net gains / (losses)	(0.4)	-	(0.1)	(0.5)
Operating profit / (loss)	93.6	49.3	(8.7)	134.2
Tax charge				(27.1)
Profit after tax				107.1

Year ended 30 September 2014

	Paragon Mortgages	Idem Capital	Paragon Bank	Total
	£m	£m	£m	£m
Interest receivable	241.9	60.4	0.1	302.4
Interest payable	(115.3)	(7.5)	(0.2)	(123.0)
Net interest income	126.6	52.9	(0.1)	179.4
Other operating income	7.5	11.0	-	18.5
Total operating income	134.1	63.9	(0.1)	197.9
Operating expenses	(41.3)	(15.8)	(6.3)	(63.4)
Provisions for losses	(12.3)	-	-	(12.3)
	80.5	48.1	(6.4)	122.2
Fair value net gains / (losses)	0.6	-	-	0.6
Operating profit / (loss)	81.1	48.1	(6.4)	122.8
Tax charge				(25.6)
Profit after tax				97.2

The assets and liabilities attributable to each of the segments at 30 September 2015, 30 September 2014 and 30 September 2013 were:

	Paragon Mortgages	Idem Capital	Paragon Bank	Total
	£m	£m	£m	£m
30 September 2015				
Segment assets	**10,622.9**	**481.2**	**774.8**	**11,878.9**
Segment liabilities	**(9,927.7)**	**(276.5)**	**(705.2)**	**(10,909.4)**
	695.2	**204.7**	**69.6**	**969.5**
30 September 2014				
Segment assets	10,343.3	445.8	106.0	10,895.1
Segment liabilities	(9,658.8)	(226.6)	(62.6)	(9,948.0)
	684.5	219.2	43.4	947.1
30 September 2013				
Segment assets	10,127.4	200.9	-	10,328.3
Segment liabilities	(9,338.6)	(115.1)	(1.3)	(9,455.0)
	788.8	85.8	(1.3)	873.3

All of the assets shown above were located in the UK.

The total additions to non-current assets, excluding financial instruments, attributable to each segment during the years ended 30 September 2015 and 30 September 2014 were:

	2015	2014
	£m	£m
Paragon Mortgages	1.3	16.0
Idem Capital	0.5	4.9
Paragon Bank	0.1	0.2
	1.9	21.1

Being:

	Note	2015	2014
		£m	£m
Intangible Assets	24	1.2	0.7
Property, Plant and Equipment	26	0.7	20.4
		1.9	21.1

9. REVENUE

	Note	2015	2014
		£m	£m
Interest receivable	10	341.0	302.4
Other operating income	12	14.1	18.5
Total revenue		355.1	320.9
Arising from			
Paragon Mortgages		271.7	249.4
Idem Capital		76.9	71.4
Paragon Bank		6.5	0.1
Total revenue		355.1	320.9

10. INTEREST RECEIVABLE

	2015 £m	2014 £m
Interest on loans to customers	**332.4**	295.0
Other interest receivable	**5.4**	2.6
Income from structured entities	**3.2**	4.8
Total interest on financial assets	**341.0**	302.4

Interest on loans to customers includes £5.5m (2014: £6.0m) charged on accounts where an impairment provision has been made.

11. INTEREST PAYABLE AND SIMILAR CHARGES

	Note	2015 £m	2014 £m
On retail deposits		**5.5**	0.1
On asset backed loan notes		**94.7**	83.5
On corporate bond		**4.1**	4.1
On retail bonds		**12.3**	9.0
On bank loans and overdrafts		**25.1**	24.4
Total interest on financial liabilities		**141.7**	121.1
On pension scheme deficit	*52*	**0.7**	0.6
On finance leases		**-**	0.1
Other finance costs		**1.2**	1.2
		143.6	123.0

12. OTHER OPERATING INCOME

	2015 £m	2014 £m
Loan account fee income	**6.7**	4.9
Insurance income	**1.2**	2.0
Third party servicing	**4.9**	10.8
Other income	**1.3**	0.8
	14.1	18.5

13. OPERATING EXPENSES

	Note	2015 £m	2014 £m
Employment costs	14	**46.9**	41.2
Auditor remuneration	17	**1.1**	1.8
Amortisation of intangible assets	24	**1.4**	1.3
Depreciation	26	**1.5**	1.6
Operating lease rentals	61	**2.2**	1.9
Other administrative costs		**18.1**	15.6
		71.2	63.4

14. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 1,020 (2014: 933). The number of employees at the end of the year was 1,040 (2014: 991).

Costs incurred during the year in respect of these employees were:

	2015 £m	2015 £m	2014 £m	2014 £m
Share based remuneration	**4.5**		3.2	
Other wages and salaries	**35.9**		31.8	
Total wages and salaries		**40.4**		35.0
National Insurance on share based remuneration	**1.1**		1.3	
Other social security costs	**3.1**		2.8	
Total social security costs		**4.2**		4.1
Defined benefit pension cost	**1.7**		1.6	
Other pension costs	**0.6**		0.5	
Total pension costs		**2.3**		2.1
Total staff costs		**46.9**		41.2

Details of the pension schemes operated by the Group are given in note 52.

The Company has no employees. Details of the directors' remuneration are given in note 15.

15. KEY MANAGEMENT REMUNERATION

The remuneration of the directors, who are the key management personnel of the Group and the Company, is set out below in aggregate in accordance with IAS 24 – 'Related Party Transactions'. Further information about the remuneration of individual directors is provided in the Report of the Board to the Shareholders on Directors' Remuneration in section B5.2.2.

	2015	**2015**	2014	2014
	£m	**£m**	£m	£m
Salaries and fees	**1.5**		1.6	
Cash amount of bonus	**1.4**		1.7	
Social security costs	**0.6**		0.5	
Short-term employee benefits		**3.5**		3.8
Post-employment benefits		**0.4**		0.5
IFRS 2 cost in respect of directors	**1.8**		1.7	
National Insurance thereon	**0.7**		1.0	
Share based payment		**2.5**		2.7
		6.4		7.0

Post-employment benefits shown above are shown as 'Pension allowance' in section B5.2.2. Costs in respect of share awards shown in the Annual Report on Remuneration are determined on a different basis to the IFRS 2 charge shown above.

Social security costs paid in respect of directors are required to be included in this note by IAS 24, but do not fall within the scope of the disclosures in the Directors' Remuneration Report.

16. SHARE BASED REMUNERATION

During the year the Group had various share based payment arrangements with employees. They are accounted for by the Group and the Company as shown below.

The effect of the share based payment arrangements on the Group's profit is shown in note 14.

Further details of share based payment arrangements are given in the Report of the Board to the Shareholders on Directors' Remuneration in section B5.2.2.

(a) Share option schemes

Options under the Executive Share Option ('Executive') schemes have been granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee. These options vest so long as the grantee is still employed by the Group at the end of the vesting period and, where applicable, performance criteria have been satisfied. The Executive schemes no longer operate.

The Group also operates an All Employee Share Option ('Sharesave') scheme. Grants under this scheme vest, in the normal course, after the completion of the appropriate service period and subject to a savings requirement.

A reconciliation of movements in the number and weighted average exercise price of options over £1 ordinary shares during the year ended 30 September 2015 and the year ended 30 September 2014 is shown below.

	2015 Number	**2015 Weighted average exercise price**	2014 Number	2014 Weighted average exercise price
		p		p
Options outstanding				
At 1 October 2014	**2,282,662**	**230.33**	1,758,161	233.27
Granted in the year	**1,375,691**	**345.68**	941,989	276.32
Exercised or surrendered in the year	**(991,033)**	**137.09**	(86,734)	80.05
Lapsed during the year	**(323,821)**	**351.06**	(330,754)	416.36
At 30 September 2015	**2,343,499**	**305.19**	2,282,662	230.33
Options exercisable	**48,972**	**100.32**	223,887	555.34

The weighted average remaining contractual life of options outstanding at 30 September 2015 was 30.8 months (2014: 17.9 months). The weighted average market price at exercise for share options exercised in the year was 423.34p (2014: 370.25p).

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

Grant date	Period exercisable	Exercise price	**Number 2015**	Number 2014
Executive Schemes				
01/12/2004	01/12/2007 to 01/12/2014	555.34p	**-**	223,887
			-	223,887
Sharesave Schemes				
20/07/2010	01/09/2015 to 01/03/2016	100.32p	**48,972**	168,476
20/12/2011	01/02/2015 to 01/08/2015	142.56p	**-**	872,495
20/12/2011	01/02/2017 to 01/08/2017	142.56p	**138,747**	157,684
23/12/2013	01/02/2017 to 01/08/2017	276.32p	**568,489**	633,678
23/12/2013	01/02/2019 to 01/08/2019	276.32p	**219,929**	226,442
11/06/2015	01/08/2018 to 01/02/2019	345.68p	**1,152,591**	-
11/06/2015	01/08/2020 to 01/02/2021	345.68p	**214,771**	-
			2,343,499	2,058,775
			2,343,499	2,282,662

The numbers of share options outstanding and the exercise prices under each of the arrangements shown above which was outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

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

The fair value of options granted is determined using a binomial model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2015 and the year ended 30 September 2014, which were all made under the Sharesave scheme, are shown below.

Grant date	**11/06/15**	**11/06/15**	**23/12/13**	**23/12/13**
Number of awards granted	1,160,920	214,771	691,122	250,867
Market price at date of grant	439.00p	439.00p	367.50p	367.50p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	1.12	1.10	1.31	1.31
Inputs to valuation model				
Expected volatility	31.99%	31.99%	49.18%	49.18%
Expected life at grant date (years)	3.43	5.44	3.39	5.40
Risk-free interest rate	1.25%	1.25%	1.40%	1.40%
Expected dividend yield	2.19%	2.19%	1.96%	1.96%
Expected annual departures	5.00%	5.00%	5.00%	5.00%

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the six years preceding the grant date.

(b) Paragon Performance Share Plan

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting, to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2015 and 30 September 2014 were:

Grant date	Period exercisable	**Number 2015**	Number 2014
09/01/2007	09/01/2010 to 08/01/2017†	**2,709**	2,709
28/03/2007	28/03/2010 to 27/03/2017†	**3,164**	3,164
14/06/2007	14/06/2010 to 13/06/2017†	**4,410**	6,320
26/09/2007	26/09/2010 to 25/09/2017†	**7,896**	10,032
26/11/2007	26/11/2010 to 25/11/2017†	**17,312**	24,097
18/03/2008	18/03/2011 to 17/03/2018†	**88,261**	88,261
21/05/2009	21/05/2012 to 20/05/2019†	**400,714**	535,714
04/01/2010	04/01/2013 to 03/01/2020†	**84,817**	255,804
17/12/2010	17/12/2013 to 16/12/2020†	**298,793**	782,161
21/12/2011	21/12/2014 to 20/12/2021†	**678,260**	2,150,054
28/02/2013	28/02/2016 to 27/02/2023‡	**1,307,804**	1,315,938
10/12/2013	10/12/2016 to 09/12/2023‡	**1,212,546**	1,219,595
18/12/2014	18/12/2017 to 17/12/2024‡	**1,030,435**	-
		5,137,121	6,393,849

† These awards, which were conditional on the achievement of performance based criteria, have now vested.

‡ 50% of these awards are subject to a TSR test and 50% are subject to an EPS test. The TSR test compares the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250. 25% of the TSR tested awards vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance. The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus 3%, increasing on a straight line basis to full vesting for EPS growth equal to the increase in the retail price index plus 7% or more. In each case the testing period is the three financial years commencing with the year of grant.

The number of share options outstanding and the exercise price under each of the arrangements shown above which were outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2015 and the year ended 30 September 2014 are shown below:

Grant date	**18/12/14**	**10/12/13**
Number of awards granted	1,038,634	1,222,021
Market price at date of grant	409.60p	345.30p
Fair value per share at date of grant	317.76p	192.31p

Inputs to valuation model		
Expected volatility	26.62%	30.46%
Risk-free interest rate	1.18%	1.16%
Expected dividend yield	2.20%	2.09%

For all of the above grants the contractual life and expected life at grant date is three years and no departures are expected.

For awards granted before 18 July 2008 the expected volatility of the share price used in determining the fair value was based on the annualised standard deviation of daily changes in price over the previous year from the grant date. The expected volatility for awards granted between this date and 30 September 2008 is calculated using the same method but using daily changes in price over the six years preceding the grant date. The expected volatility for awards granted after this date is calculated using the same method but using daily changes in price over the three years preceding the grant date.

(c) Deferred Bonus awards

Awards under these plans comprise a right to acquire ordinary shares in the Company for nil or nominal payment. The conditional entitlements outstanding under these plans at 30 September 2015 and 30 September 2014 were:

Grant date	Period exercisable	**Number 2015**	Number 2014
20/01/2011	01/10/2013 to 19/01/2015	**-**	95,694
21/12/2011	01/10/2014 to 20/12/2015	**-**	301,025
23/11/2012	01/10/2015 to 22/11/2016	**259,537**	259,537
10/12/2013	10/12/2016 to 09/12/2023	**174,519**	174,519
18/12/2014	18/12/2017 to 17/12/2024	**113,202**	-
		547,258	830,775

The Deferred Bonus shares awarded before 2013 can be exercised from the third anniversary of the start of the financial year in which the award was made until the day before the fourth anniversary of the award date. The Deferred Bonus shares awarded during 2013 and thereafter can be exercised from the third anniversary of the award date until the day before the tenth anniversary of the date of grant.

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2015 and the year ended 30 September 2014 are shown below.

Grant date	**18/12/14**	**10/12/13**
Number of awards granted	113,202	174,519
Market price at date of grant	409.6p	345.3p
Fair value per share at date of grant	409.6p	324.3p
Inputs to valuation model		
Risk-free interest rate	1.18%	1.16%
Expected dividend yield	-	2.09%

(d) Matching Share Plan

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2015 and at 30 September 2014 were:

Grant date	Period exercisable	**Number 2015**	Number 2014
09/01/2007	09/01/2010 to 09/01/2017	**3,723**	3,723
02/01/2008	02/01/2011 to 02/01/2018	**22,329**	22,329
05/01/2010	05/01/2013 to 05/01/2020	**-**	87,057
		26,052	113,109

The numbers of share options outstanding and the exercise prices under each of the arrangements shown above which was outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

The fair value of awards granted under the Matching Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. No awards were made in the year ended 30 September 2015 or the year ended 30 September 2014.

17. AUDITOR REMUNERATION

The analysis of fees payable to the Company's auditors and their associates, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 is set out below. This analysis includes amounts charged to the profit and loss account or included within the issue costs of debt and equity in respect of fees paid to the Group auditors and their associates.

	2015	2015	2014	2014
	£000	£000	£000	£000
Audit fee of the company		**127**		129
Other services				
Audit of subsidiary undertakings pursuant to legislation		**436**		390
Total audit fees		**563**		519
Audit related assurance services				
Interim review		**45**		41
Tax compliance services	**125**		111	
Tax advisory services	**79**		349	
		204		460
Other assurance services				
Securitisation reporting		**188**		170
Corporate finance services		**26**		500
Other services		**68**		28
Total fees		**1,094**		1,718
Irrecoverable VAT		**219**		252
Total cost to the Group		**1,313**		1,970
Of which:				
Charged to profit and loss account (note 13)		**1,056**		1,800
Included in issue costs of debt		**257**		170
Total cost to the Group		**1,313**		1,970

THE ACCOUNTS

In addition to the amounts above, the auditors received fees of £7,000 (2014: £7,000), excluding VAT, in respect of the audit of the Group pension scheme.

Fees paid to the auditors and their associates for non-audit services to the Company are not disclosed because the consolidated accounts of the Group are required to disclose such fees on a consolidated basis.

18. PROVISIONS FOR LOSSES

	2015	2014
	£m	£m
Impairment of financial assets (note 32)		
First mortgage loans	**3.6**	8.0
Other secured loans	**0.3**	1.4
Finance lease receivables	**(0.4)**	0.1
Retail finance loans	**-**	-
Other loans	**2.1**	2.8
	5.6	12.3

19. FAIR VALUE NET (LOSSES) / GAINS

	2015	2014
	£m	£m
Net (loss) / gain on derivatives designated as fair value hedges	**(3.8)**	(0.1)
Fair value adjustments from hedge accounting	**4.0**	0.4
Ineffectiveness of fair value hedges	**0.2**	0.3
Ineffectiveness of cash flow hedges	**(1.0)**	0.1
Net gains on other derivatives	**0.3**	0.2
	(0.5)	0.6

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.

20. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2015 £m	2014 £m
Current tax		
UK Corporation Tax on profits of the period	**25.4**	25.0
Adjustment in respect of prior periods	**(0.1)**	(0.5)
Total current tax	**25.3**	24.5
Deferred tax	**1.8**	1.1
Tax charge on profit on ordinary activities	**27.1**	25.6

(b) Deferred tax charge for the year

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

	2015 £m	2014 £m
Accelerated tax depreciation	**0.1**	-
Retirement benefit obligations	**-**	0.1
Impairment and other provisions	**0.8**	1.3
Utilisation of tax losses	**-**	-
Other timing differences	**0.6**	(0.5)
Deferred tax charge for the year	**1.5**	0.9
Recognition of liability not previously recognised	**0.3**	0.2
Change in tax rate	**-**	-
Deferred tax charge (note 53)	**1.8**	1.1

During the year ended 30 September 2013 the UK Government enacted provisions reducing the rate of corporation tax from 23.0% to 21.0% with effect from 1 April 2014 and to 20.0% from 1 April 2015.

During the year ended 30 September 2015 the Government announced provisions further reducing the rate of corporation tax to 19.0% with effect from 1 April 2017 and to 18.0% from 1 April 2020 which were enacted shortly after the year end.

Therefore the standard rate of corporation tax applicable to the Group for the year ended 30 September 2014 was 22.0%, the rate for the year ended 30 September 2015 was 20.5%, the rate in the year ending 30 September 2016 is expected to be 20.0%, the rate in the year ending 30 September 2017 is expected to be 19.5%, the rate in the years ending 30 September 2018 and 30 September 2019 are expected to be 19.0%, the rate in the year ending 30 September 2020 is expected to be 18.5% and the rate in subsequent years is expected to be 18.0%. The expected impact on deferred tax balances of the changes to 21.0% and 20.0% was accounted for in the year ended 30 September 2013 and the expected impact of the changes to 19.0% and 18.0% will be accounted for in the year ending 30 September 2016.

The UK Government has also introduced a tax surcharge of 8% on the profits of banks, effective from 1 January 2016. Paragon Bank PLC, the Group's banking subsidiary, is subject to this legislation, but in the near term it is not anticipated that its profits will exceed the £25.0m threshold above which the surcharge applies.

(c) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 20.5% (2014: 22.0%). The differences are explained below:

	2015	2014
	£m	£m
Profit on ordinary activities before taxation	**134.2**	122.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22% (2013: 23.5%)	**27.5**	27.0
Effects of:		
Permanent differences	**(0.7)**	(0.9)
Mismatch in timing differences	**0.1**	-
Change in rate of taxation on deferred tax assets and liabilities	**-**	-
Prior year (credit)	**0.2**	(0.5)
Tax charge for the year	**27.1**	25.6

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

The Company's profit after tax for the financial year amounted to £65.2m (2014: £53.8m). A separate income statement has not been prepared for the Company under the provisions of Section 408 of the Companies Act 2006.

The Company has no other items of comprehensive income for the years ended 30 September 2015 or 30 September 2014.

22. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2015	2014
Profit for the period (£m)	**107.1**	97.2
Basic weighted average number of ordinary shares ranking for dividend during the period (million)	**301.9**	304.6
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (million)	**5.9**	7.6
Diluted weighted average number of ordinary shares ranking for dividend during the period (million)	**307.8**	312.2
Earnings per ordinary share		
- basic	**35.5p**	31.9p
- diluted	**34.8p**	31.1p

23. TAX CREDITED / (CHARGED) TO EQUITY

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
On actuarial (loss) on pension scheme (note 52)	**0.9**	0.4	**-**	-
On gains on cash flow hedges (note 43)	**0.6**	0.3	**-**	-
Tax on items recognised in comprehensive income	**1.5**	0.7	**-**	-
On share based payment (note 44)	**1.2**	1.3	**-**	-
Total tax credited to equity	**2.7**	2.0	**-**	-

Of which				
Current tax	**2.1**	1.1	**-**	-
Deferred tax (note 53)	**0.6**	0.9	**-**	-
	2.7	2.0	**-**	-

24. INTANGIBLE ASSETS

	Goodwill (note 25)	Computer software	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 October 2013	7.6	4.3	8.1	20.0
Additions	-	0.7	-	0.7
Disposals	-	(0.6)	-	(0.6)
At 30 September 2014	7.6	4.4	8.1	20.1
Additions	-	1.2	-	1.2
Disposals	-	-	-	-
At 30 September 2015	**7.6**	**5.6**	**8.1**	**21.3**
Accumulated amortisation and impairment				
At 1 October 2013	6.0	2.9	2.6	11.5
Amortisation charge for the year	-	0.8	0.5	1.3
On disposals	-	(0.6)	-	(0.6)
At 30 September 2014	6.0	3.1	3.1	12.2
Amortisation charge for the year	-	0.9	0.5	1.4
On disposals	-	-	-	-
At 30 September 2015	**6.0**	**4.0**	**3.6**	**13.6**
Net book value				
At 30 September 2015	**1.6**	**1.6**	**4.5**	**7.7**
At 30 September 2014	1.6	1.3	5.0	7.9
At 30 September 2013	1.6	1.4	5.5	8.5

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

25. GOODWILL

The goodwill carried in the accounts was recognised on the acquisition of The Business Mortgage Company and its subsidiaries ('TBMC') in December 2008. The cash generating unit to which this goodwill was attributed for impairment testing purposes was TBMC, which is the lowest level within the Group at which this goodwill is currently monitored, though the operations of the acquired entity will, in time, be integrated with those of the First Mortgage division.

An impairment review undertaken at 30 September 2009 indicated a write down of £6.0m which was charged to the profit and loss account. Further reviews were undertaken at each year-end up to 30 September 2015 each of which indicated no further impairment.

The recoverable amount of TBMC used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board covering a four year period. The pre-tax discount rate applied to the cash flow projection is 6.1% and cash flows beyond the four year budget are extrapolated using a 2.0% growth rate, being the average long term growth rate in the UK economy over a twenty year period.

The key assumptions underlying the value in use calculation for the TBMC business are:

- Level of business activity, based on management expectations. Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment.
- Discount rate, which is based on the Group's cost of capital.

The directors believe that no reasonably possible change in any of the key assumptions above would cause the carrying value of the unit to exceed its recoverable amount.

26. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and buildings	Plant and machinery	Total
	£m	£m	£m
Cost			
At 1 October 2013	23.8	6.9	30.7
Additions	19.9	0.5	20.4
Disposals	(20.8)	(0.4)	(21.2)
At 30 September 2014	22.9	7.0	29.9
Additions	-	0.7	0.7
Disposals	-	-	-
At 30 September 2015	**22.9**	**7.7**	**30.6**
Accumulated depreciation			
At 1 October 2013	16.2	4.9	21.1
Charge for the year	0.7	0.9	1.6
On disposals	(15.3)	(0.4)	(15.7)
At 30 September 2014	1.6	5.4	7.0
Charge for the year	0.6	0.9	1.5
On disposals	-	-	-
At 30 September 2015	**2.2**	**6.3**	**8.5**
Net book value			
At 30 September 2015	**20.7**	**1.4**	**22.1**
At 30 September 2014	21.3	1.6	22.9
At 30 September 2013	7.6	2.0	9.6

The net book value of land and buildings includes £nil in respect of land and buildings held under finance leases (2014: £nil, 2013: £5.6m).

On 4 November 2013, the Group acquired the freehold in its head office building, which it had previously occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7m and costs and stamp duty were £1.0m. On the completion of the transaction the leasehold fixed asset included in Land and Buildings at a value of £5.4m and the related lease creditor, included in financial liabilities at £10.2m (note 51) were both extinguished.

(b) The Company

	Land and buildings £m
Cost	
At 1 October 2013	20.8
Additions	19.9
Disposals	(20.8)
At 30 September 2014	19.9
Additions	-
Disposals	-
At 30 September 2015	**19.9**
Accumulated depreciation	
At 1 October 2013	15.2
Charge for the year	0.5
On disposals	(15.4)
At 30 September 2014	0.3
Charge for the year	0.3
On disposals	-
At 30 September 2015	**0.6**
Net book value	
At 30 September 2015	**19.3**
At 30 September 2014	19.6
At 30 September 2013	5.6

The net book value of land and buildings at 30 September 2013 represented buildings held under finance leases.

On 4 November 2013, the Company acquired the freehold in its head office building, which it had previously occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7m and costs and stamp duty were £1.0m. On the completion of the transaction the leasehold fixed asset included in Land and Buildings at a value of £5.4m and the related lease creditor, included in financial liabilities at £10.2m (note 51) were both extinguished.

27. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group companies	Loans to Group companies	Loans to ESOP Trusts	Total
	£m	£m	£m	£m
At 1 October 2013	193.9	476.5	7.8	678.2
Investments in subsidiaries	123.8	-	-	123.8
Disposal of subsidiaries	-	-	-	-
Loans advanced	-	403.9	1.8	405.7
Loans repaid	-	(276.0)	-	(276.0)
Provision movements	2.7	-	(6.4)	(3.7)
At 30 September 2014	320.4	604.4	3.2	928.0
Investments in subsidiaries	33.0	-	-	33.0
Disposal of subsidiaries	-	-	-	-
Loans advanced	-	188.5	8.3	196.8
Loans repaid	-	(124.6)	-	(124.6)
Provision movements	(6.9)	-	(8.0)	(14.9)
At 30 September 2015	**346.5**	**668.3**	**3.5**	**1,018.3**

Investments in and disposals of subsidiaries represent transactions between the Company and various of its subsidiaries.

During the year ended 30 September 2015 the Company received £70.5m in dividend income from its subsidiaries (2014: £48.8m) and £37.6m of interest on loans to Group companies (2014: £33.0m).

The Group's subsidiaries, and the nature of its interest in them, are shown in note 64.

28. FINANCIAL ASSETS

	Note	**2015**	2014	2013
		£m	£m	£m
Loans and receivables	*29*	**10,019.0**	9,250.2	8,800.2
Finance lease receivables	*30*	**43.4**	5.7	1.3
Loans to customers	*31*	**10,062.4**	9,255.9	8,801.5
Fair value adjustments from portfolio hedging	*33*	**5.2**	0.5	-
Investments in structured entities	*34*	**18.1**	19.3	23.8
Derivative financial assets	*35*	**660.1**	693.9	890.0
		10,745.8	9,969.6	9,715.3

The Group's loan assets and investments in structured entities at 30 September 2015, analysed between the segments described in note 8 are as follows:

	Paragon Mortgages	Idem Capital	Paragon Bank	Total
	£m	£m	£m	£m
At 30 September 2015				
First mortgages	**9,046.7**	**14.5**	**349.6**	**9,410.8**
Consumer loans	**175.0**	**418.4**	**58.2**	**651.6**
Loans to customers	**9,221.7**	**432.9**	**407.8**	**10,062.4**
Investments in structured entities	**-**	**18.1**	**-**	**18.1**
Total investments in loans	**9,221.7**	**451.0**	**407.8**	**10,080.5**
At 30 September 2014				
First mortgages	8,635.2	16.0	0.5	8,651.7
Consumer loans	207.7	391.2	5.3	604.2
Loans to customers	8,842.9	407.2	5.8	9,255.9
Investments in structured entities	-	19.3	-	19.3
Total investments in loans	8,842.9	426.5	5.8	9,275.2

29. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2015, 30 September 2014 and 30 September 2013, which are all denominated and payable in sterling, were:

	2015	2014	2013
	£m	£m	£m
First mortgage loans	**9,410.8**	8,651.7	8,401.8
Secured loans	**387.1**	436.2	248.4
Retail finance loans	**0.2**	0.4	1.5
Other unsecured loans	**220.9**	161.9	148.5
	10,019.0	9,250.2	8,800.2

First mortgages are secured on residential property within the UK; secured loans enjoy second charges on residential property. Retail finance loans are unsecured. The estimated value of the security held against those loans above which are considered to be impaired or past due, representing the lesser of the outstanding balance and the estimated valuation of the property for each such account was:

	2015	2014
	£m	£m
First mortgage loans	**37.7**	49.8
Secured loans	**92.3**	105.1
	130.0	154.9

Mortgage loans have a contractual term of up to thirty years, secured loans up to twenty five years, retail finance loans up to ten years and other unsecured loans up to ten years. In all cases the borrower is entitled to settle the loan at any point and in most cases early settlement does take place. All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms.

The loans shown above pledged as collateral for the liabilities described in note 50, or held within Paragon Bank, at 30 September 2015 and 30 September 2014 were:

	First Mortgages	Consumer Finance	Total
	£m	£m	£m
30 September 2015			
In respect of:			
Asset backed loan notes	**7,464.7**	**448.4**	**7,913.1**
Warehouse facilities	**1,566.5**	**-**	**1,566.5**
Total pledged as collateral	**9,031.2**	**448.4**	**9,479.6**
Bank assets	**349.6**	**15.0**	**364.6**
Other assets not pledged as collateral	**30.0**	**144.8**	**174.8**
	9,410.8	**608.2**	**10,019.0**
30 September 2014			
In respect of:			
Asset backed loan notes	7,094.7	528.1	7,622.8
Warehouse facilities	1,526.4	-	1,526.4
Total pledged as collateral	8,621.1	528.1	9,149.2
Bank assets	0.5	-	0.5
Other assets not pledged as collateral	30.1	70.4	100.5
	8,651.7	598.5	9,250.2

30. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans.The average contractual life of such loans is 50 months (2014: 65 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

The minimum lease payments due under these loan agreements are:

	2015	2014	2013
	£m	£m	£m
Amounts receivable			
Within one year	**12.8**	2.3	0.9
Within two to five years	**36.1**	4.9	1.2
After five years	**-**	-	0.1
	48.9	7.2	2.2
Less: future finance income	**(4.9)**	(0.7)	(0.2)
Present value	**44.0**	6.5	2.0

The present values of those payments, net of provisions for impairment, carried in the accounts are described in note 8 are as follows:

	2015 £m	2014 £m	2013 £m
Amounts receivable			
Within one year	**11.5**	2.1	0.8
Within two to five years	**32.5**	4.4	1.1
After five years	**-**	-	0.1
Present value	**44.0**	6.5	2.0
Allowance for uncollectable amounts	**(0.6)**	(0.8)	(1.0)
Provision for recoveries	**-**	-	0.3
Carrying value	**43.4**	5.7	1.3

The Group considers that the fair value of its finance lease receivables is not significantly different to their carrying values. Whilst the Group has the benefit of the underlying vehicle as security on these loans, no account of this is taken in the allowance for uncollectible amounts shown above. The Group has insufficient information on the current condition of finance leased vehicles to derive a reliable estimate of the value which could be realised from vehicles to offset against arrears accounts. Accordingly, no such disclosure is provided.

The loans shown above pledged as collateral for liabilities or held within Paragon Bank at 30 September 2015 and 30 September 2014 were:

	2015 £m	2014 £m
In respect of		
Asset backed loan notes	**0.2**	0.4
Warehouse facilities	**-**	-
Total pledged as collateral	**0.2**	0.4
Bank assets	**43.2**	5.3
Other assets not pledged as collateral	**-**	-
	43.4	5.7

31. LOANS TO CUSTOMERS

The movements in the Group's investment in loans to customers in the year ended 30 September 2015 and the year ended 30 September 2014 were:

	2015	2014
	£m	£m
Cost		
At 1 October 2014	**9,255.9**	8,801.5
Additions	**1,495.6**	980.9
Effective Interest Rate ('EIR') adjustments	**59.0**	50.9
Other debits	**279.1**	236.3
Provision charge (note 32)	**(5.6)**	(12.3)
Repayments and redemptions	**(1,021.6)**	(801.4)
At 30 September 2015	**10,062.4**	9,255.9

'Other debits' includes primarily interest and fees charged to customers on loans outstanding.

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

32. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

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

	First Mortgages	**Other loans and receivables**	**Finance leases**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 October 2013	81.7	29.0	0.7	111.4
Charge for the year (note 18)	8.0	4.2	0.1	12.3
Amounts written off	(2.6)	(5.0)	-	(7.6)
Amounts recovered	(0.1)	(1.2)	-	(1.3)
At 30 September 2014	87.0	27.0	0.8	114.8
Charge for the year (note 18)	3.6	2.4	(0.4)	5.6
Amounts written off	(4.5)	(3.5)	0.2	(7.8)
Amounts recovered	(0.1)	(1.5)	-	(1.6)
At 30 September 2015	**86.0**	**24.4**	**0.6**	**111.0**

33. FAIR VALUE ADJUSTMENTS FROM PORTFOLIO HEDGING

The Group applies fair value hedge accounting in respect of portfolios of loan assets where the appropriate criteria are met. In these circumstances the change in the fair value of the hedged items attributable to the hedged risk is shown under this heading.

34. INVESTMENT IN STRUCTURED ENTITIES

Investments in structured entities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by unrelated third parties to purchase pools of loan assets. All such investments are denominated in sterling, unlisted and are considered to be debt investments as defined by IFRS. The underlying loans are secured and unsecured consumer loans made to UK borrowers. The Group is under no obligation to make any further contribution to these entities.

The movements in the Group's investment in structured entities in the year ended 30 September 2015 and the year ended 30 September 2014 were:

	2015	2014
	£m	£m
Cost		
At 1 October 2014	**19.3**	23.8
Additions	**-**	-
Effective Interest Rate ('EIR') adjustments (note 10)	**3.2**	4.8
Payments received	**(4.4)**	(9.3)
At 30 September 2015	**18.1**	19.3

The fair values of investments in structured entities are considered to be not materially different to the amortised cost value at which they are disclosed.

The Group administers the assets of the SPV companies on behalf of the owners. Fee income derived from this activity of £2.1m (2014: £6.6m) is included within third party servicing fees (note 12) and £0.1m (2014: £0.2m) is included in other debtors (note 36) in respect of unpaid fees at the year end.

35. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

All of the Group's financial derivatives are held for economic hedging purposes, although not all may be designated for hedge accounting in accordance with the provisions of IAS 39. The analysis below therefore splits derivatives between those accounted for as hedges and those which, while representing an economic hedge, do not qualify for this treatment.

All of the financial derivatives shown are valued using methodologies where the principal inputs are directly or indirectly derived from market data and are therefore classified within level two of the fair value hierarchy laid down by IFRS 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.

Derivative financial assets and liabilities are included within Financial Assets (note 28) and Financial Liabilities (note 48) respectively.

	2015 Notional amount	**2015 Assets**	**2015 Liabilities**	2014 Notional amount	2014 Assets	2014 Liabilities
	£m	**£m**	**£m**	£m	£m	£m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	**1,189.6**	**0.3**	**(5.4)**	357.3	0.1	(0.6)
Cash flow hedges						
Cross currency basic swaps	**4,059.5**	**659.8**	**-**	4,530.7	693.5	-
	5,249.1	**660.1**	**(5.4)**	4,888.0	693.6	(0.6)
Other derivatives						
Interest rate swaps	**448.8**	**-**	**(1.3)**	262.3	0.3	(0.5)
Total recognised derivative assets / (liabilities)	**5,697.9**	**660.1**	**(6.7)**	5,150.3	693.9	(1.1)

At 30 September 2015 cash deposits of £753.5m had been pledged as collateral in respect of swaps shown above by the respective swap counterparties (2014: £87.3m) as described in note 7.

All fair value hedging items at 30 September 2014 and at 30 September 2015 relate to the hedging of the Group's loan assets on a portfolio basis.

36. OTHER RECEIVABLES

(a) The Group

	Note	2015 £m	2014 £m	2013 £m
Current assets				
Accrued interest income		**0.4**	0.3	0.2
Prepayments		**1.9**	1.7	2.1
Bank borrowings	*50*	**1.0**	0.9	1.7
CSA Assets		**0.9**	-	-
Other debtors		**2.0**	3.6	3.6
		6.2	6.5	7.6

The Group uses the International Swaps and Derivatives Association ('ISDA') Master Agreement for documenting certain derivative activity within Paragon Bank. For certain counterparties a Credit Support Annex ('CSA') has been executed in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between counterparties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral pledged to such counterparties by the Group is shown in the table above.

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

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

(b) The Company

	2015 £m	2014 £m	2013 £m
Current assets			
Amounts owed by Group companies	**141.2**	103.9	115.0
Accrued interest income	**0.1**	-	-
	141.3	103.9	115.0

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

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

37. SHORT TERM INVESTMENTS

This amount represents fixed rate securities issued by the UK Government for which a liquid market exists and are held as part of the liquidity requirement of Paragon Bank PLC. As such they are designated as 'Available for Sale', as defined by IAS 39 - 'Financial Instruments: Recognition and Measurement' and are consequently shown at fair value which corresponds to their market value.

The total nominal value of the securities at 30 September 2015 was £40.0m (2014: £37.5m), the weighted average coupon was 4.41% (2014: 3.88%) and their carrying value was £41.1m (2014: £39.4m).

38. CASH AND CASH EQUIVALENTS

	2015	2014	2013
	£m	£m	£m
Balances with central banks	**286.0**	-	-
Balances with other banks	**770.0**	848.8	587.3
	1,056.0	848.8	587.3

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 held in the Group's banking subsidiary is subject to regulatory rules covering liquidity and capital adequacy and is shown as 'Bank Cash' below.

'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:

	2015	2014	2013
	£m	£m	£m
Free cash	**199.9**	177.3	170.8
Securitisation cash	**530.9**	609.0	414.1
Bank cash	**323.3**	60.6	-
ESOP cash	**1.9**	1.9	2.4
	1,056.0	848.8	587.3

The 'Cash and Cash Equivalents' amount of £196.8m (2014: £166.5m) shown in the Company balance sheet is included in 'Free Cash'.

'Cash and Cash Equivalents' includes current bank balances, money market placements and fixed rate sterling term deposits with London banks, and balances with the Bank of England.

39. 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:

	2015 Number	2014 Number
Ordinary shares		
At 1 October 2014	**307,308,283**	306,213,215
Shares issued	**2,041,033**	1,095,068
At 30 September 2015	**309,349,316**	307,308,283

During the year the Company issued 1,050,000 shares at par (2014: 1,060,000) 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 991,033 shares (2014: 35,068) to satisfy options granted under sharesave schemes for a consideration of £1,365,944 (2014: £36,884).

40. RESERVES

(a) The Group

	Note	**2015 £m**	2014 £m	2013 £m
Share premium account	*41*	**64.6**	64.1	64.1
Merger reserve	*42*	**(70.2)**	(70.2)	(70.2)
Cash flow hedging reserve	*43*	**(1.9)**	0.6	1.7
Profit and loss account	*44*	**767.7**	693.5	619.1
		760.2	688.0	614.7

(b) The Company

	Note	**2015 £m**	2014 £m	2013 £m
Share premium account	*41*	**64.6**	64.1	64.1
Merger reserve	*42*	**(23.7)**	(23.7)	(23.7)
Profit and loss account	*44*	**456.6**	416.0	382.7
		497.5	456.4	423.1

41. SHARE PREMIUM ACCOUNT

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Balance at 1 October 2014	**64.1**	64.1	**64.1**	64.1
Arising on issue of shares	**0.5**	-	**0.5**	-
Balance at 30 September 2015	**64.6**	64.1	**64.6**	64.1

42. MERGER RESERVE

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Balance at 1 October 2014	**(70.2)**	(70.2)	**(23.7)**	(23.7)
Balance at 30 September 2015	**(70.2)**	(70.2)	**(23.7)**	(23.7)

The merger reserve arose, due to the provisions of UK company law at the time, on a group restructuring on 12 May 1989 when the Company became the parent entity of the Group.

43. CASH FLOW HEDGING RESERVE

	Note	The Group		The Company	
		2015	2014	**2015**	2014
		£m	£m	**£m**	£m
At 1 October 2014		**0.6**	1.7	**-**	-
Movement in fair value of hedging derivatives		**(3.1)**	(1.4)	**-**	-
Deferred tax thereon	*23*	**0.6**	0.3	**-**	-
Balance at 30 September 2015		**(1.9)**	0.6	**-**	-

The cash flows to which these amounts relate result from the cross currency basis swaps described in note 7. The contractual life of these swaps, over which cash flows might take place and affect profit, extend over the next 29 years (2014: 30 years). However the cash flows in respect of these swaps will only continue for as long as the related notes remain outstanding, which is expected to be a much shorter period.

Foreign exchange gains of £30.8m on asset backed loan notes denominated in US dollars and euros (2014: gains of £194.5m) have been taken to the cash flow hedging reserve together with equal and opposite movements on the cross currency basis swaps used to hedge these liabilities.

44. PROFIT AND LOSS ACCOUNT

	Note	The Group		The Company	
		2015	2014	**2015**	2014
		£m	£m	**£m**	£m
At 1 October 2014		**693.5**	619.1	**416.0**	382.7
Dividends paid	45	**(29.1)**	(23.7)	**(29.1)**	(23.7)
Share options exercised	46	**(6.1)**	(1.9)	**-**	-
Charge for share based remuneration	14	**4.5**	3.2	**4.5**	3.2
Tax on share based remuneration	23	**1.2**	1.3	**-**	-
Actuarial (loss) on retirement benefit obligation	52	**(3.4)**	(1.7)	**-**	-
Profit for the year		**107.1**	97.2	**65.2**	53.8
At 30 September 2015		**767.7**	693.5	**456.6**	416.0

45. EQUITY DIVIDEND

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

	2015	2014	**2015**	2014
	Per share	Per share	**£m**	£m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2014	**6.0p**	4.8p	**18.3**	14.6
Interim dividend for the year ended 30 September 2015	**3.6p**	3.0p	**10.8**	9.1
	9.6p	7.8p	**29.1**	23.7

Amounts paid and proposed in respect of the year:

	2015	2014	**2015**	2014
	Per share	Per share	**£m**	£m
Interim dividend for the year ended 30 September 2015	**3.6p**	3.0p	**10.8**	9.1
Proposed final dividend for the year ended 30 September 2015	**7.4p**	6.0p	**21.8**	18.3
	11.0p	9.0p	**32.6**	27.4

Dividends of £0.0m (2014: £0.0m) were paid by the Company in respect of shares held by ESOP trusts on which dividends had not been waived.

The proposed final dividend for the year ended 30 September 2015 will be paid on 15 February 2016, subject to approval at the Annual General Meeting, with a record date of 8 January 2016. The dividend will be recognised in the accounts when it is paid.

46. TRANSACTIONS IN SHARES

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Awards from ESOP schemes				
Proceeds	**-**	-	**-**	-
Cost of shares transferred (note 47)	**(6.1)**	(1.9)	**-**	-
(Deficit) on exercise (note 44)	**(6.1)**	(1.9)	**-**	-
Shares issued				
Nominal value (note 39)	**2.0**	1.1	**2.0**	1.1
Premium on issue (note 41)	**0.5**	-	**0.5**	-
Proceeds of issue	**2.5**	1.1	**2.5**	1.1
(Deficit) / surplus on transactions in own shares	**(3.6)**	(0.8)	**2.5**	1.1

47. OWN SHARES

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Treasury shares				
At 1 October 2014	**39.5**	39.5	**39.5**	39.5
Shares purchased	**49.7**	-	**49.7**	-
At 30 September 2015	**89.2**	39.5	**89.2**	39.5
ESOP shares				
At 1 October 2014	**8.7**	8.1	**-**	-
Shares purchased	**7.2**	1.4	**-**	-
Shares subscribed for (note [39])	**1.0**	1.1	**-**	-
Options exercised (note [46])	**(6.1)**	(1.9)	**-**	-
At 30 September 2015	**10.8**	8.7	**-**	-
Balance at 30 September 2015	**100.0**	48.2	**89.2**	39.5
Balance at 1 October 2014	**48.2**	47.6	**39.5**	39.5

At 30 September 2015 the number of the Company's own shares held in treasury was 12,401,400 (2014: 668,900). These shares had a nominal value of £12,401,400 (2014: £668,900). The dividends on these shares have been waived.

The ESOP shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon Performance Share Plan, Matching Share Plan and Deferred Bonus Plan. The trustees' costs are included in the operating expenses of the Group.

At 30 September 2015, the trusts held 1,562,571 ordinary shares (2014: 1,487,013) with a nominal value of £1,562,571 (2014: £1,487,013) and a market value of £6,172,155 (2014: £5,085,584). Options, or other share-based awards, were outstanding against 1,562,571 of these shares at 30 September 2015 (2014: 1,487,013). The dividends on 1,160,866 of these shares have been waived (2014: 1,085,308).

48. FINANCIAL LIABILITIES

(a) The Group

	Note	2015 £m	2014 £m	2013 £m
Current liabilities				
Finance lease liability	51	**-**	-	1.6
Retail deposits	49	**338.9**	53.3	-
Bank loans and overdrafts		**0.7**	1.1	1.4
		339.6	54.4	3.0
Non-current liabilities				
Asset backed loan notes		**8,274.6**	8,115.0	7,893.2
Corporate bond		**110.0**	110.0	110.0
Retail bonds		**294.9**	183.2	59.1
Finance lease liability	51	**-**	-	8.6
Retail deposits	49	**369.8**	6.8	-
Bank loans and overdrafts		**1,425.4**	1,397.9	1,311.2
Derivative financial instruments	35	**6.7**	1.1	1.3
		10,481.4	9,814.0	9,383.4

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

(b) The Company

	Note	2015 £m	2014 £m	2013 £m
Current liabilities				
Finance lease liability	51	**-**	-	1.6
Non-current liabilities				
Corporate bond		**110.0**	110.0	110.0
Retail bonds		**294.9**	183.2	59.1
Finance lease liability	51	**-**	-	8.6
		404.9	293.2	177.7

A maturity analysis of the above borrowings and further details of corporate and retail bonds are given in note 50.

49. RETAIL DEPOSITS

The Group's retail deposits, held by Paragon Bank PLC, were received from customers in the UK and are denominated in sterling. The deposits comprise principally term deposits and 120 day notice accounts. The method of interest calculation on these deposits is analysed as follows:

	2015	2014	2013
	£m	£m	£m
Fixed rate	**508.3**	39.8	-
Variable rates	**200.4**	20.3	-
	708.7	60.1	-

The weighted average interest rate on retail deposits at 30 September 2015, analysed by charging method, was:

	2015	2014	2013
	%	%	%
Fixed rate	**2.33**	1.90	-
Variable rates	**1.62**	1.85	-

The contractual maturity of these deposits is analysed below.

	2015	2014	2013
	£m	£m	£m
Amounts repayable			
In less than three months	**9.1**	-	-
In more than three months but not more than one year	**242.6**	52.8	-
In more than one year but not more than two years	**181.7**	6.8	-
In more than two years but not more than five years	**188.1**	-	-
Total term deposits	**621.5**	59.6	-
Repayable on demand	**87.2**	0.5	-
	708.7	60.1	-
Total falling due in less than one year	**338.9**	53.3	-
Total falling due in more than one year	**369.8**	6.8	-
	708.7	60.1	-

The fair value of the deposits is not considered to be significantly different from their carrying value.

50. BORROWINGS

Set out below is the contractual maturity profile of the Group's and the Company's borrowings at 30 September 2015 and 30 September 2014:

	Financial liabilities falling due:				
	In one year or less, or on demand	In more than one year, but not more than two years	On more than two years, but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
The Group					
30 September 2015					
Bank overdrafts	**0.7**	**-**	**-**	**-**	**0.7**
Bank loans	**-**	**112.9**	**139.0**	**1,173.5**	**1,425.4**
Corporate bond	**-**	**110.0**	**-**	**-**	**110.0**
Retail bonds	**-**	**-**	**-**	**294.9**	**294.9**
Asset backed loan notes	**-**	**63.7**	**-**	**8,210.9**	**8,274.6**
	0.7	**286.6**	**139.0**	**9,679.3**	**10,105.6**
30 September 2014					
Bank overdrafts	1.1	-	-	-	1.1
Bank loans	-	-	152.2	1,245.7	1,397.9
Corporate bond	-	-	110.0	-	110.0
Retail bonds	-	-	-	183.2	183.2
Asset backed loan notes	-	-	95.7	8,019.3	8,115.0
	1.1	-	357.9	9,448.2	9,807.2
The Company					
30 September 2015					
Corporate bond	**-**	**110.0**	**-**	**-**	**110.0**
Retail bonds	**-**	**-**	**-**	**294.9**	**294.9**
	-	**110.0**	**-**	**294.9**	**404.9**
30 September 2014					
Corporate bond	-	-	110.0	-	110.0
Retail bonds	-	-	-	183.2	183.2
	-	-	110.0	183.2	293.2

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

(a) Asset backed loan notes

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

For its public issues, the Group has an additional option to repay all of the notes at an earlier date (the 'call date'), at their outstanding principal amount.

Interest is payable at a fixed margin above;

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

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

On 13 November 2014, a Group company, Paragon Mortgages (No. 21) PLC, issued £243.7m of sterling mortgage backed floating rate notes to external investors at par. £217.9m of the notes were class A notes, rated AAA by Standard and Poor's and Aaa by Moody's, £17.7m were class B notes, rated AA by Standard and Poor's and Aa2 by Moody's and £8.1m were class C notes rated A by Standard and Poor's and A1 by Moody's. The interest margins above LIBOR on the notes were 0.80% on the A notes, 1.40% on the B notes and 1.75% on the C notes, an average of 0.88% and the proceeds were used to pay down existing warehouse debt. The Group retained £6.3m of D notes and also invested £6.2m in the first loss fund, bringing its total investment to £12.5m, or 5.0% of the issued notes.

On 25 March 2015, a Group company, Paragon Mortgages (No. 22) PLC, issued €164.0m of euro mortgage backed floating rate notes and £175.7m of sterling mortgage backed floating rate notes to external investors at par. The euro notes were class A1 notes, rated AAA by Fitch and Aaa by Moody's and bearing interest at 0.5% above EURIBOR. £151.7m of the sterling notes were class A2 notes, rated AAA by Fitch and Aaa by Moody's, £12.0m were class B notes, rated AA by Fitch and Aa2 by Moody's and £12.0m were class C notes rated A+ by Fitch and A1 by Moody's. The interest margins above LIBOR on the sterling notes were 0.80% on the A2 notes, 1.35% on the B notes and 1.65% on the C notes. Cross-currency basis swaps were entered into at the time of the transaction, effectively translating the euro notes into a LIBOR linked sterling liability. The average interest margin on the transaction, taking swap costs into account was 0.95% and the proceeds were used to pay down existing warehouse debt. The Group retained £7.5m of class E notes and also invested £7.5m in the first loss fund, bringing its total investment to £15.0m, or 5.0% of the issued notes.

On 23 July 2015, a Group company, Paragon Mortgages (No. 23) PLC, issued €105.0m of euro mortgage backed floating rate notes and £219.2m of sterling mortgage backed floating rate notes to external investors at par. The euro notes were class A1 notes, rated AAA by Fitch and Aaa by Moody's and bearing interest at 0.7% above EURIBOR. £188.6m of the sterling notes were class A2 notes, rated AAA by Fitch and Aaa by Moody's, £14.8m were class B notes, rated AA by Fitch and Aa2 by Moody's and £15.8m were class C notes rated A+ by Fitch and A1 by Moody's. The interest margins above LIBOR on the sterling notes were 1.10% on the A2 notes, 1.65% on the B notes and 2.20% on the C notes. Cross-currency basis swaps were entered into at the time of the transaction, effectively translating the euro notes into a LIBOR linked sterling liability. The average interest margin on the transaction, taking swap costs into account was 1.23% and the proceeds were used to pay down existing warehouse debt. The Group retained £7.5m of class E notes and also invested £7.5m in the first loss fund, bringing its total investment to £15.0m, or 5.0% of the issued notes.

After the year end, on 20 October 2015, a Group company, Idem Luxembourg (No. 8), entered into an agreement to issue £117.3m of sterling floating rate notes to Citibank NA on a limited recourse basis. These notes bear interest at a rate of one month LIBOR plus 3.50%. The Group investment in this company to support these notes was £84.9m. The facility was used to refinance existing Idem Capital borrowings and to refinance further existing Idem Capital unsecured loan assets and is secured on those assets.

After the year end, on 19 November 2015, a Group company, Paragon Mortgages (No. 24) PLC, issued €125.0m of euro mortgage backed floating rate notes and £253.0m of sterling mortgage backed floating rate notes to external investors at par. The euro notes were class A1 notes, rated AAA by Fitch and Aaa by Moody's and bearing interest at 1.10% above EURIBOR. £208.3m of the sterling notes were class A2 notes, rated AAA by Fitch and Aaa by Moody's, £19.3m were class B notes, rated AA by Fitch and Aa2 by Moody's and £25.4m were class C notes rated A by Fitch and A1 by Moody's. The interest margins above LIBOR on the sterling notes were 1.50% on the A2 notes, 2.45% on the B notes and 3.20% on the C notes. Cross-currency basis swaps were entered into at the time of the transaction, effectively translating the euro notes into a LIBOR linked sterling liability. The average interest margin on the transaction, taking swap costs into account was 1.75% and the proceeds were used to pay down existing warehouse debt. The Group retained £8.8m of class Z notes and also invested £8.7m in the first loss fund, bringing its total investment to £17.5m, or 5.0% of the issued notes.

Notes in issue at 30 September 2015 and 30 September 2014, net of any held by the Group, were:

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
Sterling notes			2015 £m	2014 £m	2015 %	2014 %
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	75.2	78.6	0.42	0.42
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	204.4	213.8	0.59	0.59
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	126.1	132.2	0.38	0.38
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	173.5	176.8	0.55	0.55
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	78.8	83.7	0.29	0.29
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	117.9	122.5	0.39	0.38
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	576.1	141.6	0.27	0.35
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	122.3	126.1	0.30	0.30
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	161.3	169.3	0.29	0.29
Paragon Mortgages (No. 16) PLC	15/04/39	15/10/14	-	79.7	-	2.75
Paragon Mortgages (No. 17) PLC	18/04/40	08/01/16	140.4	176.3	1.50	1.47
Paragon Mortgages (No. 18) PLC	15/03/41	15/12/16	163.8	262.6	1.31	1.25
Paragon Mortgages (No. 19) PLC	15/08/41	15/05/17	318.7	334.8	0.90	0.90
Paragon Mortgages (No. 20) PLC	15/11/41	15/08/18	305.6	343.0	0.71	0.70
Paragon Mortgages (No. 21) PLC	15/12/42	15/12/18	233.0	-	0.88	-
Paragon Mortgages (No. 22) PLC	15/09/42	15/06/19	173.2	-	0.90	-
Paragon Mortgages (No. 23) PLC	15/01/43	15/10/19	219.2	-	1.22	-
First Flexible No.5 PLC	01/06/34	01/07/09	67.3	74.2	0.99	0.99
First Flexible No.6 PLC	01/12/35	01/03/08	65.1	68.5	1.27	1.27
First Flexible No.7 PLC	15/09/33	15/03/11	30.5	41.2	0.26	0.26
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	43.4	52.0	0.95	0.95
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	64.4	78.0	1.01	1.13
Idem Capital Securities (No. 1)*	21/02/17	N/A	65.1	98.1	3.00	3.00
Idem First Finance Limited	05/04/21	N/A	39.8	50.3	3.75	3.75

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
US dollar notes			2015 $m	2014 $m	2015 %	2014 %
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	217.9	227.2	0.74	0.74
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	20.5	21.5	0.36	0.36
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	112.8	140.0	0.09	0.09
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	414.0	446.1	0.10	0.10
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	948.4	1,005.9	0.24	0.24
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	192.3	1,075.2	0.18	0.23
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	1,156.5	1,225.0	0.20	0.20
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	792.1	836.1	0.19	0.19
First Flexible No.6 PLC	01/12/35	01/03/08	10.1	10.6	0.56	0.56

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
Euro notes			**2015 €m**	2014 €m	**2015 %**	2014 %
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**220.9**	231.0	**0.66**	0.66
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**274.3**	286.9	**0.48**	0.48
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**195.6**	205.1	**0.56**	0.56
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**261.1**	263.0	**0.40**	0.41
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**262.2**	269.4	**0.54**	0.53
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**360.3**	368.1	**0.52**	0.52
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**338.1**	348.1	**0.40**	0.40
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**374.0**	382.9	**0.44**	0.44
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**271.8**	276.0	**0.68**	0.68
Paragon Mortgages (No. 22) PLC	15/09/42	15/06/19	**161.3**	-	**0.50**	-
Paragon Mortgages (No. 23) PLC	15/01/43	15/10/19	**105.0**	-	**0.70**	-
First Flexible No.6 PLC	01/12/35	01/03/08	**36.8**	38.8	**1.05**	1.05
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**74.6**	89.7	**0.84**	0.84

* *Although the maturity date of these notes may be less than the potential final redemption date of the underlying loans, repayment cannot be enforced except to the extent that cash can be realised from those assets at that time.*

All of the notes listed above are rated and publicly listed, except for those issued by Idem Capital Securities (No. 1) and Idem First Finance Limited, which were issued privately.

The notes outstanding at 30 September 2015 can be analysed as follows:

		2015			2014	
	Listed	**Not listed**	**Total**	Listed	Not listed	Total
	£m	**£m**	**£m**	£m	£m	£m
Secured on mortgage assets	**8,008.8**	**-**	**8,008.8**	7,770.3	-	7,770.3
Secured on other assets	**162.9**	**102.9**	**265.8**	199.6	145.1	344.7
	8,171.7	**102.9**	**8,274.6**	7,969.9	145.1	8,115.0

The details of the assets backing these securities are given in notes 29 and 30.

The Group publishes detailed information on the performance of all of its listed note issues on the Bond Investor Reporting section of its website at www.paragon-group.co.uk. A more detailed description of the securitisation structure under which these notes are issued is given in note 7.

(b) Bank borrowings

First mortgage assets are typically securitised within twelve months of origination. Prior to securitisation new first mortgage loans are financed by a bank loan, referred to as a 'warehouse facility', which is drawn down on completion of the loans and repaid when the assets are securitised. More information on this process is given in note 7 and details of assets held within the warehouse facilities are given in note 29. Details of the Group's bank borrowings are given below.

			2015			2014	
		Principal value	**Maximum available facility**	**Carrying value**	Principal value	Maximum available facility	Carrying value
		£m	**£m**	**£m**	£m	£m	£m
i)	Paragon Second Funding	**1,173.5**	**1,173.5**	**1,173.5**	1,245.7	1,245.7	1,245.7
ii)	Paragon Fourth Funding	**140.0**	**300.0**	**139.0**	62.0	250.0	62.0
iii)	Paragon Fifth Funding	**114.0**	**350.0**	**112.9**	92.0	200.0	90.2
iv)	Paragon Sixth Funding	**-**	**100.0**	**(0.3)**	-	100.0	(0.9)
v)	Paragon Seventh Funding	**-**	**200.0**	**(0.7)**	-	-	-
		1,427.5	**2,123.5**	**1,424.4**	1,399.7	1,795.7	1,397.0

i) The Paragon Second Funding warehouse was available for further drawings until 29 February 2008 at which point it converted automatically to a term loan and no further drawings were allowed. This loan is a sterling facility provided to Paragon Second Funding Limited by a consortium of banks and is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance (No. 1) Limited and Paragon Personal Finance (No. 1) Limited. Its final repayment date is 28 February 2050 but it is likely that substantial repayments will be made within the next five years. Interest on this loan is payable monthly in sterling at 0.675% above LIBOR (2014: 0.675% above LIBOR). Repayments of this facility before the final repayment date are restricted to the amount of principal cash realised from the funded assets.

ii) On 27 September 2010 the Group entered into a £200.0m committed sterling facility provided to Paragon Fourth Funding Limited by Macquarie Bank PLC to provide funding for new lending, which was increased to £250.0m in 2012 and to £300.0m on 8 May 2015. This facility is secured on all the assets of Paragon Fourth Funding Limited and is available for drawing for a period of two years and has a term of four years. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. Interest on this loan was payable monthly in sterling at 2.875% above LIBOR until the facility was renewed, on substantially the same terms, with a reduced margin of 1.750% above three month LIBOR, with effect from 12 December 2014 for a further two year period. The facility has a renewal process that allows the Group to agree a new two year commitment period prior to the expiry of the existing commitment period. Repayments on this facility are limited to principal cash received from the funded assets.

iii) On 26 September 2012, the Group entered into a £200.0m committed sterling facility provided to Paragon Fifth Funding Limited by the wholesale division of Lloyds Bank, which was renewed in January 2014. On 15 May 2015 the facility was increased to £350.0m, and certain other changes were made to its terms. This facility is secured on all the assets of Paragon Fifth Funding Limited and is structured with a three year term to permit drawings and re-drawings until June 2016. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. Interest on this loan was payable monthly in sterling at 2.75% above three month LIBOR until January 2014, when the margin was reduced to 1.75%. As part of the May 2015 amendment to the facility this margin will increase to 2.15% if the advance amount is greater than £300.0m. The facility has a renewal process that allows the Group to agree a new commitment period prior to the expiry of the existing commitment period. As with the other warehouses, repayments on this facility are limited to principal cash received from the funded assets. At 30 September 2013 no amounts were drawn on this facility, although it had been used in the year then ended, therefore unamortised debit EIR adjustments are included in other receivables at that date (note 36).

iv) On 30 April 2014, a Group company, Paragon Sixth Funding Limited, entered into an additional £100.0m committed sterling facility with Natixis. This facility is secured on all the assets of Paragon Sixth Funding Limited and was available for a twelve month period, which was extended to 24 months when a refinancing target was met. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. This facility bears interest at a rate of three month LIBOR plus 1.40%. The facility has a renewal process that allows the Group to agree a new commitment period prior to the expiry of the existing commitment period. As with the other warehouses, repayments on this facility are limited to principal cash received from the funded assets. At both 30 September 2014 and 30 September 2015 no amounts were drawn on this facility, therefore unamortised debit EIR adjustments are included in other receivables (note 36).

v) On 26 September 2015, a Group company, Paragon Seventh Funding Limited, entered into an additional £200.0m committed sterling facility with Bank of America Merrill Lynch International Limited. This facility is secured on all the assets of Paragon Seventh Funding Limited and is available for drawings and redrawings until 8 October 2017. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. This facility bears interest at a rate of three month LIBOR plus 1.30%. The facility has a renewal process that allows the Group to agree a new commitment period prior to the expiry of the existing commitment period. As with the other warehouses, repayments on this facility are limited to principal cash received from the funded assets. At 30 September 2015 no amounts had been drawn on this facility, therefore the unamortised debit EIR adjustment is included in other receivables (note 36).

The weighted average margin above LIBOR on bank borrowings at 30 September 2015 was 0.866% (2014: 0. 843%).

(c) Corporate bond

On 20 April 2005 the Company issued £120.0m of 7% Callable Subordinated Notes at an issue price of 99.347% to provide long term capital for the Group. These bonds bore interest at a fixed rate of 7% per annum until 20 April 2012, after which interest was payable at a fixed rate of 3.729% per annum. The bonds are repayable on 20 April 2017. They are unsecured and subordinated to any other creditors of the Company. At 30 September 2015 £110.0m (2014: £110.0m, 2013: £110.0m) was included within the financial liabilities of the Company and the Group in respect of these bonds.

(d) Retail bonds

On 11 February 2013 the Company inaugurated a £1,000.0m Euro Medium Term Note Programme under which it may issue retail bonds, or other notes, within a twelve month period. The prospectus was updated, renewing the programme for a further twelve month period on 23 October 2014.

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. A summary of the retail bonds outstanding under this programme is given below.

Maturity date	Interest terms	Issue price	Currency	**2015**	2014
				£m	£m
5 December 2020	6.000% p.a. fixed	par	GBP	**60.0**	60.0
30 January 2022	6.125% p.a. fixed	par	GBP	**125.0**	125.0
28 August 2024	6.000% p.a. fixed	par	GBP	**112.5**	-
				297.5	185.0

The notes are unsubordinated unsecured liabilities of the Company and the amount included in Financial Liabilities in the accounts of the Group and the Company in respect of these bonds is £294.9m (2014: £183.2m).

51. OBLIGATIONS UNDER FINANCE LEASES

The finance lease obligations recorded in the accounts arise from a sale and leaseback transaction of one of the Group's office buildings in 1997 which falls to be treated as a finance lease under IAS 17 - 'Leases'. The lease was due to expire in 2019 and was subject to five yearly rent reviews, with guaranteed minimum rent increases.

During the year ended 30 September 2014 the freehold of the property was reacquired by the Company and the liability was extinguished (note 26).

The minimum lease payments payable under this lease were:

	2015	2014	2013
	£m	£m	£m
Amounts payable			
Within one year	**-**	-	2.4
Within two to five years	**-**	-	9.6
After five years	**-**	-	0.6
	-	-	12.6
Less: future finance charges	**-**	-	(2.4)
Present value of lease obligations	**-**	-	10.2

The present value of these payments recognised in the financial statements was:

	2015	2014	2013
	£m	£m	£m
Amounts payable			
Within one year	**-**	-	1.6
Within two to five years	**-**	-	8.0
After five years	**-**	-	0.6
	-	-	10.2

The fair value of the lease obligation was not considered to be materially different to the present value of the future obligations shown above. The interest rate implicit in the lease at 30 September 2013 was 7.99%.

52. RETIREMENT BENEFIT OBLIGATIONS

(a) Defined benefit plan - Description

The Group operates a funded defined benefit pension scheme in the UK (the 'Plan'). The Plan assets are held in a separate fund, administered by a corporate trustee, to meet long-term pension liabilities to past and present employees. The Trustee of the Plan is required by law to act in the best interests of the Plan's beneficiaries and is responsible for the investment policy adopted in respect of the Plan's assets. The appointment of directors to the Trustee is determined by the Plan's trust documentation. The Group has a policy that one third of all directors of the Trustee should be nominated by active and pensioner members of the Plan.

Employees who are members of the Plan are entitled to receive a pension of 1/60 of their final basic annual salary for every year of eligible service (to a maximum of 2/3). Dependants of members of the Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service.

The principal actuarial risks to which the Plan is exposed are:

- **Investment risk** – The risk that income is generated on the Plan's investments at a rate lower than the rate at which the defined benefit liability is calculated, which would cause an increased deficit in the Plan. The Trustee keeps the allocation of the Plan's investments under review to manage this risk on a long term basis
- **Interest risk** – A decrease in bond yields will reduce the discount rate used in valuing the deficit and hence increase the Plan liability
- **Inflation risk** – A rise in inflation will increase the benefits payable to Plan members, which would increase the Plan liability
- **Longevity risk** – The value of the Plan deficit is calculated by reference to the best estimate of the mortality rate among Plan members both during and after employment. An increase in the life expectancy of the members would increase the deficit in the Plan
- **Salary risk** – The valuation of the Plan assumes a level of future salary increases based on a premium over the expected rate of inflation. Should the salaries of Plan members increase at a higher rate then the deficit will be higher

The risks relating to death in service payments are insured with an external insurance company.

As a result of the Plan having been closed to new entrants since February 2002, the service cost as a percentage of pensionable salaries is expected to increase as the average age of active members rises over time. However the membership is expected to reduce so that the service cost in monetary terms will gradually reduce.

The most recent full actuarial valuation of the Plan's liabilities, obtained by the Trustee, was carried out at 31 March 2013, by Mercer, an independent actuary. This showed that the value of the Plan's liabilities on a buy-out basis in accordance with section 224 of the Pensions Act 2004 was £144.5m, with a shortfall against the assets of £67.2m.

Following the 2013 actuarial valuation, the Trustee put in place a recovery plan. The Trustee's recovery plan aims to meet the statutory funding objective within six years and five months from the date of valuation, that is by 31 August 2019.

(b) Defined benefit plan – Financial impact

For accounting purposes the valuation at 31 March 2013 was updated to 30 September 2015 in accordance with the requirements of IAS 19 (revised) by Mercer.

The major categories of assets in the Plan at 30 September 2015, 30 September 2014 and 30 September 2013 and their fair values were:

	2015	2014	2013
	£m	£m	£m
Cash	**0.4**	0.9	0.4
Equity instruments	**56.3**	56.4	50.4
Debt instruments	**25.7**	24.0	22.1
Real estate	**8.7**	7.4	6.5
Total fair value of Plan assets	**91.1**	88.7	79.4
Present value of Plan liabilities	**(112.6)**	(106.0)	(95.1)
(Deficit) in the Plan	**(21.5)**	(17.3)	(15.7)

At 30 September 2015 the Plan assets were invested in a diversified portfolio that consisted primarily of equity and debt investments. The majority of the equities held by the Plan are in developed markets. All investments of the Plan have quoted market prices in an active market, and are thus considered to be Level 1 financial instruments as defined by IFRS 13.

The movement in the fair value of the Plan assets during the year was as follows:

	2015	2014
	£m	£m
At 1 October 2014	**88.7**	79.4
Interest on Plan assets	**3.6**	3.7
Cash flows		
Contributions by Group	**3.2**	3.3
Contributions by Plan members	**0.3**	0.3
Benefits paid	**(2.2)**	(1.4)
Administration expenses paid	**(0.7)**	(0.6)
Remeasurement gain		
Return on Plan assets (excluding amounts included in interest)	**(1.8)**	4.0
At 30 September 2015	**91.1**	88.7

The actual return on Plan assets in the year ended 30 September 2015 was £1.8m (2014: £7.7m).

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

	2015	2014
	£m	£m
At 1 October 2014	**106.0**	95.1
Current service cost	**1.7**	1.6
Interest expense	**4.3**	4.3
Cash flows		
Contributions by scheme members	**0.3**	0.3
Benefits paid	**(2.2)**	(1.4)
Remeasurement loss / (gain)		
Arising from demographic assumptions	**-**	-
Arising from financial assumptions	**2.5**	6.1
Arising from experience adjustments	**-**	-
At 30 September 2015	**112.6**	106.0

The liabilities of the Plan are measured by discounting the best estimate of future cash flows to be paid out by the Plan using the Projected Unit method. This amount is reflected in the liability in the balance sheet. The Projected Unit method is an accrued benefits valuation method in which the Plan liabilities are calculated based on service up until the valuation date allowing for future salary growth until the date of retirement, withdrawal or death, as appropriate. The future service rate is then calculated as the contribution rate required to fund the service accruing over the next year again allowing for future salary growth. The major weighted average assumptions used by the actuary were (in nominal terms):

	30 September 2015	30 September 2014	30 September 2013
In determining net pension cost for the year			
Discount rate	**4.10%**	4.50%	4.60%
Rate of compensation increase	**3.65%**	3.80%	3.65%
Rate of price inflation	**3.15%**	3.30%	2.65%
Rate of increase of pensions	**3.05%**	3.20%	2.55%
In determining benefit obligations			
Discount rate	**3.90%**	4.10%	4.50%
Rate of compensation increase	**3.55%**	3.65%	3.80%
Rate of price inflation	**3.05%**	3.15%	3.30%
Rate of increase of pensions	**3.00%**	3.05%	3.20%
Further life expectancy at age 60			
Male member aged 60	**29**	29	29
Female member aged 60	**31**	31	31
Male member aged 40	**32**	32	31
Female member aged 40	**34**	34	33

The amounts charged in the consolidated income statement in respect of the Plan are:

	Note	**2015**	2014
		£m	£m
Current service cost	*14*	**1.7**	1.6
Administration expenses		**0.7**	0.6
Included within operating expenses		**2.4**	2.2
Funding cost of defined benefit obligation		**4.3**	4.3
Interest on plan assets		**(3.6)**	(3.7)
Net interest expense	*11*	**0.7**	0.6
Components of defined benefit costs recognised in profit or loss		**3.1**	2.8

The amounts recognised in the consolidated statement of comprehensive income in respect of the Plan are:

	Note	2015 £m	2014 £m
Return on Plan assets (excluding amounts included in interest)		**(1.8)**	4.0
Actuarial (losses) / gains			
Arising from demographic assumptions		**-**	-
Arising from financial assumptions		**(2.5)**	(6.1)
Arising from experience adjustments		**-**	-
Total actuarial (loss)		**(4.3)**	(2.1)
Tax thereon	*23*	**0.9**	0.4
Net actuarial (loss)	*44*	**(3.4)**	(1.7)

(c) Defined benefit plan – Future cash flows

The sensitivity of the valuation of the defined benefit obligation to the principal assumptions disclosed above at 30 September 2015, calculating the obligation on the same basis as used in determining the IAS 19 value, is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities
Discount rate	0.1% p.a.	2.3% decrease
Rate of inflation*	0.1% p.a.	0.5% increase
Rate of salary growth	0.1% p.a.	1.9% increase
Rates of mortality	1 year of life expectancy	2.0% increase

* *maintaining a 1% real increase in salary growth*

The sensitivity analysis presented above may not be representative of an actual future change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation as some of the assumptions will be correlated. There has been no change in the method of preparing the analysis from that adopted in previous years.

In conjunction with the Trustee, the Group has continued to conduct asset-liability reviews of the Plan. These studies are used to assist the Trustee and the Group to determine the optimal long-term asset allocation with regard to the structure of liabilities within the Plan. The results of the studies are used to assist the Trustee in managing the volatility in the underlying investment performance and risk of a significant increase in the scheme deficit by providing information used to determine the investment strategy of the Plan. There have been no changes in the processes by which the Plan manages its risks from previous periods.

The target asset allocations for the year ending 30 September 2016 are 62% growth assets (primarily equities), 30% bonds and 8% real estate.

The rate of employee contributions to the Plan is 5.0% of pensionable salaries. Before 8 October 2013 the agreed rate of employer contributions was 26.6% of gross salaries for participating employees with an additional contribution of £1.5m per annum paid by monthly instalments. After 8 October 2013, following the finalisation of the March 2013 valuation, employer contributions rose to 27.0% of gross salaries for participating employees, the £1.5m per annum contribution remained in place and a further additional contribution of £0.4m per annum to cover administration and life cover was agreed.

The present best estimate of the contributions to be made to the Plan by the Group in the year ending 30 September 2016 is £3.2m.

The average duration of the benefit obligations in the Plan at the year end are shown in the table below:

	2015	2014
	Years	Years
Category of member		
Active members	**24**	24
Deferred pensioners	**25**	25
Current pensioners	**15**	15
All members	**23**	23

(d) Defined contribution arrangements

The Group sponsors a defined contribution (Stakeholder) pension scheme, open to all employees who are not members of the Plan. The Group successfully completed the auto-enrolment process mandated by the UK Government in November 2013, using this scheme.

The assets of the scheme are not Group assets and are held separately from those of the Group, under the control of independent trustees. Contributions made by the Group to this scheme in the year ended 30 September 2015, which represent the total cost charged against income, were £0.6m (2014: £0.5m) (note 14).

53. DEFERRED TAX

(a) The Group

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

	Note	**2015**	2014	2013
		£m	£m	£m
Net liability at 1 October 2014		**10.1**	9.9	7.6
Income statement charge	*20*	**1.8**	1.1	1.8
(Credit) / charge to equity	*23*	**(0.6)**	(0.9)	0.5
Net liability at 30 September 2015		**11.3**	10.1	9.9

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

	2015	2014	2013
	£m	£m	£m
Accelerated tax depreciation	**(0.4)**	(0.5)	(0.7)
Retirement benefit obligations	**(4.3)**	(3.5)	(3.2)
Impairment and other provisions	**16.6**	15.8	14.6
Tax losses	**(0.3)**	(0.5)	(0.6)
Other timing differences	**(0.3)**	(1.2)	(0.2)
Net deferred tax liability	**11.3**	10.1	9.9

(b) The Company

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

	2015 £m	2014 £m	2013 £m
Net liability at 1 October 2014	**1.8**	1.8	-
Income statement charge	**0.1**	-	1.8
Net liability at 30 September 2015	**1.9**	1.8	1.8

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

	2015 £m	2014 £m	2013 £m
Other timing differences	**1.9**	1.8	1.8
Net deferred tax liability	**1.9**	1.8	1.8

54. CURRENT TAX LIABILITIES

(a) The Group

	2015 £m	2014 £m	2013 £m
UK Corporation Tax	**12.5**	11.9	5.9
	12.5	11.9	5.9

(b) The Company

	2015 £m	2014 £m	2013 £m
UK Corporation Tax	**2.6**	2.3	4.8
	2.6	2.3	4.8

55. OTHER LIABILITIES

(a) The Group

	2015 £m	2014 £m	2013 £m
Current liabilities			
Accrued interest	**23.9**	23.1	20.0
Deferred income	**0.1**	0.1	0.2
Other accruals	**17.7**	16.0	13.2
Other taxation and social security	**1.3**	0.9	2.8
	43.0	40.1	36.2
Non-current liabilities			
Deferred income	**0.1**	0.2	0.9
Other accruals	**-**	-	-
	0.1	0.2	0.9

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

(b) The Company

	2015 £m	2014 £m	2013 £m
Current liabilities			
Amounts owed to Group companies	**244.7**	193.1	74.2
Accrued interest	**4.0**	3.4	2.1
Deferred income	**-**	-	0.1
	248.7	196.5	76.4
Non-current liabilities			
Deferred income	**-**	-	0.6
	-	-	0.6

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

56. CONTINGENT LIABILITIES

Over recent years, in common with other financial services firms, the Group has followed guidance issued by the FCA in respect of redress to customers in respect of the misselling of payment protection insurance ('PPI'), though the sums involved have not been material.

In November 2014 the UK Supreme Court handed down its decision in Plevin v Paragon Personal Finance Limited ('Plevin'), which addressed potential liability in respect of PPI claims under section 140 of the Consumer Credit Act 1974, where commission charged to the customer was particularly high. On 2 October 2015 the FCA published a statement outlining proposed rules addressing the handling of PPI cases in the light of the Plevin decision and including a deadline beyond which no further new PPI claims would be required to be considered.

The Group has reviewed its current exposure to PPI claims in the light of the Court's judgement in Plevin and the FCA proposals and its current expectation is that it will suffer no material additional costs from PPI claims. However, this assessment is based on our current interpretation of both the Plevin judgement and the draft rules, which may be revised before finalisation, while interpretations may develop as both the judgement and the rules are implemented. Therefore it is possible that the maximum possible liability may be greater, but it is impracticable to evaluate the potential impact at this stage.

57. NET CASH FLOW FROM OPERATING ACTIVITIES

(a) The Group

	2015 £m	2014 £m
Profit before tax	**134.2**	122.8
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	**1.5**	1.6
Amortisation of intangible assets	**1.4**	1.3
Foreign exchange movement on borrowings	**(30.8)**	(194.5)
Other non-cash movements on borrowings	**4.8**	4.9
Impairment losses on loans to customers	**5.6**	12.3
Charge for share based remuneration	**4.5**	3.2
Net (increase) / decrease in operating assets:		
Loans to customers	**(810.9)**	(462.2)
Derivative financial instruments	**33.8**	196.1
Fair value of portfolio hedges	**(4.7)**	(0.5)
Other receivables	**0.4**	0.3
Net increase / (decrease) in operating liabilities:		
Retail deposits	**648.6**	60.1
Derivative financial instruments	**5.6**	(0.2)
Other liabilities	**2.7**	2.7
Cash (utilised) by operations	**(3.3)**	(252.1)
Income taxes (paid)	**(22.6)**	(17.4)
	(25.9)	(269.5)

THE ACCOUNTS

(b) The Company

	2015 £m	2014 £m
Profit before tax	**67.7**	55.9
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	**0.3**	0.5
Non-cash movements on borrowings	**0.4**	0.2
Impairment losses on investments in subsidiaries	**14.9**	3.7
Charge for share based remuneration	**4.5**	3.2
Net (increase) / decrease in operating assets:		
Other receivables	**(37.4)**	11.1
Net increase in operating liabilities:		
Other liabilities	**52.2**	119.5
Cash generated by operations	**102.6**	194.1
Income taxes (paid)	**(2.1)**	(4.6)
	100.5	189.5

58. NET CASH FLOW FROM INVESTING ACTIVITIES

	The Group		The Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Purchases of property, plant and equipment	**(0.7)**	(25.1)	**-**	(24.7)
Purchases of intangible assets	**(1.2)**	(0.7)	**-**	-
(Increase) in short term investments	**(1.7)**	(39.4)	**-**	-
Movement in loans to subsidiary undertakings	**-**	-	**(72.2)**	(129.7)
Investment in subsidiary undertakings	**-**	-	**(33.0)**	(123.8)
Net cash (utilised) by investing activities	**(3.6)**	(65.2)	**(105.2)**	(278.2)

59. NET CASH FLOW FROM FINANCING ACTIVITIES

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Shares issued (note 39)	**1.5**	-	**2.5**	1.1
Dividends paid (note 45)	**(29.1)**	(23.7)	**(29.1)**	(23.7)
Issue of asset backed floating rate notes	**823.8**	862.8	**-**	-
Repayment of asset backed floating rate notes	**(638.3)**	(450.2)	**-**	-
Issue of retail bonds	**111.3**	123.9	**111.3**	123.9
Movement on bank facilities	**24.8**	85.1	**-**	-
Purchase of shares (note 47)	**(56.9)**	(1.4)	**(49.7)**	-
Net cash generated by financing activities	**237.1**	596.5	**35.0**	101.3

60. RECONCILIATION OF NET DEBT

This disclosure is provided in response to the work of the Financial Reporting Council's Financial Reporting Lab. The disclosure is provided for the Group only, as it is not considered that a separate disclosure for the Company would be useful to users.

	Opening debt	Debt issued	Other cash flows	Foreign exchange	Other non-cash changes	Closing debt
	£m	£m	£m	£m	£m	£m
30 September 2015						
Asset backed loan notes	**8,115.0**	**823.8**	**(638.3)**	**(30.8)**	**4.9**	**8,274.6**
Bank borrowings	**1,397.9**	**-**	**24.8**	**-**	**2.7**	**1,425.4**
Bank borrowing debits	**(0.9)**	**-**	**-**	**-**	**(0.1)**	**(1.0)**
Corporate bond	**110.0**	**-**	**-**	**-**	**-**	**110.0**
Retail bonds	**183.2**	**111.3**	**-**	**-**	**0.4**	**294.9**
Bank overdrafts	**1.1**	**-**	**(0.4)**	**-**	**-**	**0.7**
Finance leases	**-**	**-**	**-**	**-**	**-**	**-**
Gross debt	**9,806.3**	**935.1**	**(613.9)**	**(30.8)**	**7.9**	**10,104.6**
Cash	**(848.8)**	**(935.1)**	**727.9**	**-**	**-**	**(1,056.0)**
Net debt	**8,957.5**	**-**	**114.0**	**(30.8)**	**7.9**	**9,048.6**
30 September 2014						
Asset backed loan notes	7,893.2	862.8	(450.2)	(194.5)	3.7	8,115.0
Bank borrowings	1,311.2	-	85.1	-	1.6	1,397.9
Bank borrowing debits	(1.7)	-	-	-	0.8	(0.9)
Corporate bond	110.0	-	-	-	-	110.0
Retail bonds	59.1	123.9	-	-	0.2	183.2
Bank overdrafts	1.4	-	(0.3)	-	-	1.1
Finance leases	10.2	-	-	-	(10.2)	-
Gross debt	9,383.4	986.7	(365.4)	(194.5)	(3.9)	9,806.3
Cash	(587.3)	(986.7)	725.2	-	-	(848.8)
Net debt	8,796.1	-	359.8	(194.5)	(3.9)	8,957.5

Other non-cash changes shown above represent effective interest rate adjustments relating to the spreading of initial costs of the facilities concerned, and in the case of the 'Finance leases' balance, the extinguishment of the liability as described in note 26.

61. OPERATING LEASE ARRANGEMENTS

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Minimum lease payments under operating leases recognised in income for the year				
Office buildings	**1.7**	1.6	**-**	-
Motor vehicles	**0.3**	0.3	**-**	-
Office equipment	**0.2**	-	**-**	-
	2.2	1.9	**-**	-

At 30 September 2015 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Amounts falling due:				
Within one year	**2.0**	1.9	**-**	-
Between two and five years	**3.4**	3.7	**-**	-
After more than five years	**0.2**	0.2	**-**	-
	5.6	5.8	**-**	-

Operating lease payments represent rents payable by the Group in respect of certain of its office premises and lease payments on company vehicles and equipment. The average term of the current building leases is 11 years (2014: 11 years) with rents subject to review every five years, while the average term of the vehicle leases and office equipment is 3 years (2014: 3 years).

62. RELATED PARTY TRANSACTIONS

(a) The Group

Mr A K Fletcher, an independent non-executive director of the Company, is a director of Paragon Pension Plan Trustees Limited, which acts as the corporate trustee of the Paragon Pension Plan ('the Plan'). Mr Fletcher was appointed a trustee of the Plan on 27 May 2010, and a director of Paragon Pension Trustees Limited on 7 November 2011. The Plan moved to corporate trusteeship in the first quarter of 2013 at which point all individuals ceased to be trustees of the Plan on their own account. In respect of this appointment he was paid £10,000 in the year ended 30 September 2015 by Paragon Finance PLC, the sponsoring company of the plan (2014: £10,000).

The Plan is a related party of the Group. Transactions with the Plan are described in note 52.

The Group had no other transactions with related parties other than the key management compensation disclosed in note 15.

(b) The Company

During the year the parent company entered into transactions with its subsidiaries, which are related parties. Management services were provided to the Company by one of its subsidiaries and the Company granted awards under the share based payment arrangements described in note 16 to employees of subsidiary undertakings. The Company also issued shares to the trustees of its ESOP trusts, as described in note 39.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 27 and 64.

Outstanding current account balances with subsidiaries are shown in notes 36 and 55.

During the year the Company incurred interest costs of £9.4m in respect of borrowings from its subsidiaries (2014: £7.6m).

63. ACQUISITION

After the year end, on 3 November 2015 the Group acquired the entire share capital of Five Arrows Leasing Group Limited from Rothschild & Co. Five Arrows Leasing Group Limited is the parent company of a group of companies ('Five Arrows Leasing Group') providing a range of asset finance products to UK SMEs, including equipment, vehicle and construction equipment finance and is also a provider of lease servicing. The acquisition allows the Group to diversify its range of both products and the markets it serves within the financial services sector.

The Group has acquired 100% of the voting equity interests in Five Arrows Leasing Group Limited and the consideration was satisfied entirely in cash. Cash transferred on completion was £308.2m, £117.0m in respect of equity and £191.2m to settle existing debt owed by Five Arrows Leasing Group to the vendor. There are no contingent consideration arrangements. Costs of the acquisition will be included in operating expenses for the year ending 30 September 2016.

The principal operating companies of the Five Arrows Leasing Group are listed below.

Company	Principal Activity
Five Arrows Leasing Group Limited	Holding company
Dash Commercial Finance Limited	Asset finance
Five Arrows Business Finance PLC	Asset finance
Five Arrows Media Finance Limited	Asset finance
Five Arrows Outsourcing Solutions Limited	Portfolio administration
Specialist Fleet Services Limited	Asset finance and contract hire

The acquisition of Five Arrows Leasing Group Limited took place very shortly before the date of signing the accounts and the Group has so far not completed its assessment, for IFRS 3 purposes, of the following amounts:

- for acquired receivables
  - fair values
  - gross contractual balances receivable
  - estimated contractual cash flows expected not to be collected
- amounts to be recognised at the acquisition date in respect of assets and liabilities acquired
- goodwill and intangible assets arising on acquisition
- contingent liabilities

The Group is presently conducting an exercise to determine these balances and provisional amounts will be presented with the Group's half-yearly results for the period ending 31 March 2016.

For illustrative purposes the consolidated assets and liabilities of Five Arrows Leasing Group Limited and its subsidiaries at 31 March 2015, as presented in its audited accounts and on which the purchase consideration was based, are summarised below. These will not be the amounts recognised at the point of acquisition.

	£m	£m
Non-current assets		
Property, plant and equipment	11.0	
Intangible assets	5.2	
Loans to customers	215.6	
Deferred tax	4.0	
		235.8
Current assets		
Other receivables	2.9	
Cash	6.2	
		9.1
		244.9
Current liabilities		
Current tax liabilities	2.2	
Other liabilities	21.8	
		24.0
Non-current liabilities		
Parent company funding	178.0	
		178.0
Total liabilities		202.0
Net assets		42.9

Its consolidated revenue for the year ended 31 March 2015 was £38.1m and its profit before tax was £10.2m.

As this acquisition took place after the balance sheet date, no amounts are reported in either the Group's balance sheet at 30 September 2015 or its income statement for the twelve months then ended in respect of Five Arrows Leasing Group Limited and its subsidiaries.

64. DETAILS OF SUBSIDIARY UNDERTAKINGS

Subsidiary undertakings of the Group at 30 September 2015, where the share capital is held within the Group are shown below. The holdings shown are those held within the Group. The shareholdings of the Company in the direct subsidiaries listed below are the same as those held by the Group, except that:

- for the shareholdings marked * the Company holds only 74% of the share capital
- for the shareholdings marked † the Company holds only 66.7% of the share capital

In all these cases the remainder is held by other group companies.

The issued share capital of all subsidiaries consists of ordinary share capital, except that those companies marked § have additional preference share capital held within the Group.

Company	Holding	Principal Activity
Direct subsidiaries of The Paragon Group of Companies PLC		
Paragon Finance PLC	100%	Residential mortgages and asset administration
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Paragon Mortgages (2010) Limited	100%	Residential mortgages
Paragon Car Finance Limited	100%	Vehicle finance
Idem Capital Holdings Limited	100%	Intermediate holding company
Moorgate Servicing Limited	100%	Intermediate holding company
Paragon Bank PLC	100%	Deposit taking, residential mortgages and loan and vehicle finance
SPV Securities Limited	100%	Asset investment
The Business Mortgage Company Limited	100%	Mortgage broker
Paragon Fourth Funding Limited	100%	Residential mortgages
Paragon Mortgages (No. 7) PLC	100%	Residential mortgages
Paragon Mortgages (No. 8) PLC	100%	Residential mortgages
Paragon Mortgages (No. 9) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 10) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 11) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 12) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 13) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 14) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 15) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 16) PLC	100%	Residential mortgages
Paragon Mortgages (No. 17) PLC	100%	Residential mortgages
Paragon Personal and Auto Finance (No. 3) PLC	100%	Loan and vehicle finance
Paragon Secured Finance (No. 1) PLC	100%	Loan finance
First Flexible (No. 7) PLC	100% *	Residential mortgages
Collateralised Mortgage Securities (No. 12) PLC	100%	Non-trading
Colonial Finance (UK) Limited	100%	Non-trading
Earlswood Finance Limited	100% *	Non-trading
Earlswood Finance (No. 2) PLC	100%	Non-trading
Epsom Trustees Limited	100% †	Non-trading
Finance for People (No. 3) Limited	100%	Non-trading
Finance for People (No. 4) PLC	100% §	Non-trading
Herbert (1) PLC	100%	Non-trading
Herbert (2) PLC	100%	Non-trading
Herbert (4) PLC	100%	Non-trading
Herbert (5) PLC	100%	Non-trading

Company	Holding	Principal Activity
Direct subsidiaries of The Paragon Group of Companies PLC		
Herbert (6) PLC	100%	Non-trading
Herbert (7) PLC	100%	Non-trading
Herbert (8) PLC	100%	Non-trading
Herbert (9) PLC	100%	Non-trading
Herbert (10) PLC	100%	Non-trading
Highlands Loan Servicing Limited	100%	Non-trading
Homeloans (No. 4) PLC	100% §	Non-trading
Homeloans (No. 5) PLC	100%	Non-trading
Homeloans (No. 6) PLC	100%	Non-trading
Homer Funding Limited	100%	Non-trading
Idem Luxembourg (No. 4) ‡	100%	Non-trading
Idem Luxembourg (No. 5) ‡	100%	Non-trading
Idem Luxembourg (No. 8) ‡	100%	Non-trading
Idem Luxembourg (No. 9) ‡	100%	Non-trading
Moorgate Mortgage Servicing Limited	100%	Non-trading
Mortgage Funding Corporation PLC	100%	Non-trading
NHL Second Funding Corporation PLC	100%	Non-trading
NHL Third Funding Corporation PLC	100%	Non-trading
Paragon Car Finance (1) Limited	100%	Non-trading
Paragon Credit Management Limited	100%	Non-trading
Paragon Dealer Finance Limited	100%	Non-trading
Paragon Finance Holdings Limited	100%	Non-trading
Paragon Holdings Group Limited	100%	Non-trading
Paragon Loan Finance (No. 1) Limited	100% §	Non-trading
Paragon Loan Finance (No. 2) Limited	100% §	Non-trading
Paragon Mortgages (No. 1) PLC	100% §	Non-trading
Paragon Mortgages (No. 2) PLC	100% §	Non-trading
Paragon Mortgages (No. 4) PLC	100%	Non-trading
Paragon Mortgages (No. 5) PLC	100%	Non-trading
Paragon Mortgages (No. 25) PLC	100%	Non-trading
Paragon Mortgages (No. 26) PLC	100% *	Non-trading
Paragon Mortgages (No. 27) Limited	100%	Non-trading
Paragon Mortgages (No. 31) Limited	100%	Non-trading
Paragon Mortgages (No. 32) Limited	100%	Non-trading
Paragon Mortgages (No. 33) Limited	100%	Non-trading
Paragon Mortgages (No. 34) Limited	100%	Non-trading
Paragon Mortgages (No. 35) Limited	100%	Non-trading
Paragon Mortgages (No. 36) Limited	100%	Non-trading
Paragon Mortgages (No. 37) PLC	100%	Non-trading
Paragon Pension Plan Trustees Limited	100%	Non-trading
Paragon Personal and Auto Finance (No. 2) Limited	100%	Non-trading
Paragon Personal Finance (1) Limited	100%	Non-trading
Paragon Third Funding Limited	100%	Non-trading
Paragon Vehicle Contracts Limited	100%	Non-trading
PGC Capital Limited	100%	Non-trading
Plymouth Funding Limited	100%	Non-trading
Plymouth Limited	100%	Non-trading
Redbrick Real Estate Services Limited	100%	Non-trading
Sancopia Capital Limited	100%	Non-trading
Sancopia Limited	100%	Non-trading

Company	Holding	Principal Activity
Direct subsidiaries of The Paragon Group of Companies PLC (continued)		
TBMC (2) Limited	100% §	Non-trading
Tegic Capital Limited	100%	Non-trading
Tegic Limited	100%	Non-trading
Universal Credit Limited	100%	Non-trading
Yorkshire Freeholds Limited	100%	Non-trading
Yorkshire Leaseholds Limited	100%	Non-trading
Direct and indirect subsidiaries of Idem Capital Holdings Limited		
Moorgate Loan Servicing Limited	100%	Asset administration
Idem (No. 3) Limited	100%	Asset investment
Idem Capital Securities Limited	100%	Asset investment
Idem First Finance Limited	100%	Asset investment
Paragon Personal Finance Limited	100%	Consumer loan finance
Arden Credit Management Limited	100%	Non-trading
Idem (No. 2) Limited	100%	Non-trading
Idem (No. 5) Limited	100%	Non-trading
Idem (No. 6) Limited	100%	Non-trading
Idem Asset Management Limited	100%	Non-trading
Idem Capital Acquisitions Limited	100%	Non-trading
Idem Capital Limited	100%	Non-trading
Idem Consumer Loans Limited	100%	Non-trading
Paragon Personal Finance (2) Limited	100%	Non-trading
Sancopia Portfolios Limited	100%	Non-trading
Other indirect subsidiary undertakings		
First Flexible No. 6 PLC	100% §	Residential mortgages
Mortgage Trust Services PLC	100%	Residential mortgages and asset administration
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Customer Solutions Limited	100%	Non-trading
Landlordcentre.co.uk Limited	100%	Non-trading
LOM Recoveries Limited	100%	Non-trading
First Resolution Limited	100%	Non-trading
Moorgate Asset Administration	100%	Non-trading
Paragon Finance Group Limited	100%	Non-trading
Paragon Options PLC	100%	Non-trading
TBMC Group Limited	100%	Non-trading
The Business Mortgage Company Services Limited	100%	Non-trading

The financial year end of all of the Group's subsidiary companies is 30 September. They are all registered in England and Wales and they all operate in the UK except those entities marked ‡ which are registered in the Grand Duchy of Luxembourg.

As part of the Group's financing arrangements certain mortgage and consumer loans originated by Paragon Mortgages (2010) Limited and Mortgage Trust Limited or acquired by Idem Capital Securities Limited have been sold to special purpose entity companies, which had raised non-recourse finance to fund these purchases. The shares of these companies are ultimately beneficially owned through independent trusts and are considered to be controlled by the Group, as defined by IFRS 10 and hence they are considered to be subsidiaries of the Group.

The principal companies party to these arrangements at 30 September 2015 comprise:

Company	Principal Activity
First Flexible No. 4 PLC	Residential mortgages
First Flexible No. 5 PLC	Residential mortgages
Idem Capital Securities (No. 1)	Asset investment
Paragon Fifth Funding Limited	Residential mortgages
Paragon Sixth Funding Limited	Residential mortgages
Paragon Seventh Funding Limited	Residential mortgages
Paragon Mortgages (No. 18) Holdings Limited	Holding Company
Paragon Mortgages (No. 18) PLC	Residential mortgages
Paragon Mortgages (No. 19) Holdings Limited	Holding Company
Paragon Mortgages (No. 19) PLC	Residential mortgages
Paragon Mortgages (No. 20) Holdings Limited	Holding Company
Paragon Mortgages (No. 20) PLC	Residential mortgages
Paragon Mortgages (No. 21) Holdings Limited	Holding Company
Paragon Mortgages (No. 21) PLC	Residential mortgages
Paragon Mortgages (No. 22) Holdings Limited	Holding Company
Paragon Mortgages (No. 22) PLC	Residential mortgages
Paragon Mortgages (No. 23) Holdings Limited	Holding Company
Paragon Mortgages (No. 23) PLC	Residential mortgages
Arianty Holdings Limited	Holding Company
Arianty No. 1 Limited	Non-trading
Arianty Services Limited	Non-trading
First Flexible No. 1 Limited	Non-trading
First Flexible No. 2 Limited	Non-trading
First Flexible No. 3 Limited	Non-trading

All of these companies are registered and operate in the UK except Idem Capital Securities (No. 1) which is registered in the Grand Duchy of Luxembourg.

Homeloans (No. 7) LLP and Homeloans (No. 8) LLP are limited liability partnerships, established under English law, in which all of the members are Group companies. They are therefore considered to be subsidiary entities. Both are registered in England and Wales and operate in the UK.

Earlswood Finance (No. 3) Limited, a company limited by guarantee, is registered in England and Wales and operates in the UK. It is included in the consolidation as it is ultimately controlled by the parent company.

The Group accounts include the results of two Jersey companies, which are ultimately beneficially owned by a charitable trust, but are considered to be controlled by the Group, using the definition contained in IFRS 10 'Consolidated Financial Statements'. These companies, Idem Jersey (No. 1) Limited and Idem Jersey (No. 2) Limited are registered in the Bailiwick of Jersey and operate in the UK.

The share capital of Idem Jersey (No. 1) Limited is divided into A shares and B shares. All of the 600 B shares are held by Group companies 100 by the parent company and 500 by other Group companies.

In previous periods the Company had taken advantage of the exemption under Section 410(2) of the Companies Act 2006 and presented only information relating to those entities whose results or financial position principally affect that of the Group. This exemption has now been withdrawn and hence details of all Group entities are presented above.

All of the entities listed in this note are included in the consolidated accounts of the Group.

THE ACCOUNTS

E APPENDICES TO THE ANNUAL REPORT

Additional financial information supporting amounts shown in the Strategic Review (Section A), but not forming part of the statutory accounts

APPENDICES TO THE ANNUAL REPORT

E APPENDICES TO THE ANNUAL REPORT

A. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	2015 £m	2014 £m
Cost - operating expenses	**71.2**	63.4
Total operating income	**211.5**	197.9
Cost / Income	**33.7%**	32.0%

Cost:income ratio excluding Paragon Bank is derived as follows:

	Note	2015 £m	2014 £m
Cost - operating expenses		**71.2**	63.4
Paragon Bank operating expenses	*8*	**(9.5)**	(6.3)
		61.7	57.1
Total operating income		**211.5**	197.9
Paragon Bank operating income	*8*	**(0.9)**	0.1
		210.6	198.0
Cost / Income		**29.3%**	28.8%

B. AVERAGE NET MARGIN

The average net interest margin is calculated as follows:

	Note	2015 £m	2014 £m
Opening loans to customers	*31*	**9,255.9**	8,801.5
Closing loans to customers	*31*	**10,062.4**	9,255.9
Average loans to customers		**9,659.2**	9,028.7
Net interest		**197.4**	179.4
Net interest margin		**2.04%**	1.99%
Impairment provision	*18*	**5.6**	12.3
Impairment as a percentage of average loan balance		**0.06%**	0.14%

C. UNDERLYING PROFIT

Underlying profit is determined by excluding from the operating result any identified 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.

	Note	2015 £m	2014 £m
Paragon Mortgages			
Profit before tax for the period	8	93.6	81.1
Less: Fair value losses / (gains)		0.4	(0.6)
		94.0	80.5
Idem Capital			
Profit before tax for the period	8	49.3	48.1
Less: Fair value losses / (gains)		-	-
		49.3	48.1
Paragon Bank			
(Loss) before tax for the period	8	(8.7)	(6.4)
Less: Fair value losses / (gains)		0.1	-
		(8.6)	(6.4)
Total			
Profit before tax for the period	8	134.2	122.8
Less: Fair value losses / (gains)		0.5	(0.6)
		134.7	122.2

D. RETURN ON TANGIBLE EQUITY EXCLUDING PARAGON BANK

The ROTE excluding Paragon Bank is calculated as follows:

	Note	2015 £m	2014 £m
Profit for the year		107.1	97.2
Amortisation of intangible assets	13	1.4	1.3
		108.5	98.5
Loss of Paragon Bank	8	8.7	6.4
Tax thereon at effective rate for the year		(1.8)	(1.3)
Adjusted profit after tax		115.4	103.6
Average tangible equity	6	950.5	902.0
Return on Tangible Equity excluding Paragon Bank		12.1%	11.5%

F USEFUL INFORMATION

Information which may be helpful to shareholders and other users of the Annual Report and Accounts

F1 Glossary PAGE 243
A summary of abbreviations used in the Annual Report and Accounts

F2 Shareholder Information PAGE 245
Information about dividends, meetings and managing shareholdings

F3 Contacts PAGE 247
Names and addresses of the Group's advisors

USEFUL INFORMATION

F1 GLOSSARY

AGM	Annual General Meeting
ALCO	Asset and Liability Committee
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CML	Council of Mortgage Lenders
CO2	Carbon dioxide
Code	UK Corporate Governance Code
CRD IV	Capital Requirements Regulation and Directive
CSA	Credit Support Annex
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
Deloitte	Deloitte LLP, the Group's auditor
EIR	Effective interest rate
EPS	Earnings per share
ERC	Estimated remaining collections
ESOP	Employee Share Ownership Plan
ESOS	Energy Savings and Opportunities Scheme
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FCA	Financial Conduct Authority
FLA	Finance and Leasing Association
FPC	Financial Policy Committee (of the Bank of England)
FRC	Financial Reporting Council
FSC	Forrest Stewardship Council
GHG	Greenhouse gases
HMRC	Her Majesty's Revenue and Customs
HQLA	High Quality Liquid Assets
IAS	International Accounting Standard (s)
IASB	International Accounting Standard Board
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standard (s)
ILAAP	Individual Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
IMLA	Intermediary Mortgage Lenders Association
ISDA	International Swaps and Derivatives Association
LIBOR	London Interbank Offered Rate
Ltd	Limited (company)
LTI	Long term incentive
LTV	Loan to Value
KPMG	KPMG LLP
MMR	Mortgage Market Review
MSP	Matching Share Plan
NBS	New Bridge Street
NI	National Insurance
OFT	Office of Fair Trading
PAYE	Pay As You Earn
PLC	Public Limited Company
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority (of the Bank of England)
PRS	Private Rented Sector
PSP	Performance Share Plan
RNS	The Regulatory News Service of the London Stock Exchange
ROE	Return on Equity
ROTE	Return on Tangible Equity
SME	Small or Medium-sized Enterprise(s)
SPV	Special purpose vehicle company
TBMC	The Business Mortgage Company
The Bank	Paragon Bank PLC
The Company	The Paragon Group of Companies PLC
The Group	The Company and all of its subsidiary undertakings
The Order	The Statutory Audit Services for Large Companies Market Investigation (Mandatory use of competitive tender process and audit committee responsibilties) Order 2014
The Plan	The Paragon Pension Plan
TSR	Total Shareholder Return
UK	United Kingdom
US	United States of America
VAT	Value Added Tax
WEEE	Waste Electrical and Electronic Equipment

F2 SHAREHOLDER INFORMATION

WANT MORE INFORMATION OR HELP?

The Company's share register is maintained by our Registrar, Computershare, who you should contact directly if you have questions about your shareholding or wish to update your address details:

Computershare Investor Services PLC
The Pavillions
Bridgewater Road
Bristol BS99 6ZZ

Telephone: 0370 707 1244*
and outside the UK +44 (0)370 707 1244

Online: www.investorcentre.co.uk

*Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8:30am to 5:30pm, Monday to Friday, excluding UK public holidays.

FINANCIAL CALENDAR

January 2016
Trading update

24 May 2016
Half year results

July / August 2016
Trading update

November 2016
Full year results

DIVIDEND CALENDAR

7 January 2016
Ex-dividend date for 2015 final dividend

8 January 2016
Record date for 2015 final dividend

15 February 2016
Payment date for 2015 final dividend

30 June 2016
Ex-dividend date for 2016 interim dividend

1 July 2016
Record date for 2016 interim dividend

22 July 2016
Payment date for 2016 interim dividend

ANNUAL GENERAL MEETING

11 February 2016
To be held at 9:00am at the offices of Jefferies International Limited at Vintners Place, 68 Upper Thames Street, London EC4V 3BJ

ELECTRONIC COMMUNICATIONS

You can view and manage your shareholding online by registering with Computershare's Investor Centre Service.

To register:

- **Visit www.computershare.com**
- **Go to Shares, Login**
- **Register using your shareholder reference number and your postcode**

We actively encourage our shareholders to receive communications via email and view documents electronically on our website, including our Annual Report and Accounts, as this has significant environmental and cost benefits. Should you wish to receive electronic documents please contact Computershare by telephone or online.

WEBSITE

You can find further useful information on our website, www.paragon-group.co.uk, including:

- **Regular updates about our business**
- **Comprehensive share price information**
- **Financial results and reports**
- **Historic dividend dates and amounts**

SHAREHOLDER FRAUD WARNING

Shareholders are advised to be wary of any suspicious or unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. You can check at www.fca.org.uk/consumers/protect-yourself and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

DUPLICATE DOCUMENTS AND COMMUNICATIONS

If you receive more than one copy of shareholder documents, it is likely that you have multiple accounts on the share register, perhaps with a slightly different name or address. To combine your shareholdings, please contact Computershare and provide your shareholder reference numbers.

F3 CONTACTS

Registered and Head Office	51 Homer Road Solihull West Midlands B91 3QJ Telephone: 0121 712 2323	
Investor Relations	investor.relations@paragon-group.co.uk	
Internet	www.paragon-group.co.uk	
London office	Tower 42 Level 12 25 Old Broad Street London EC2N 1HQ Telephone: 020 7786 8474	
Auditor	*For the year ended 30 September 2015* Deloitte LLP Four Brindleyplace Birmingham B1 2HZ	*For the year ended 30 September 2016* KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH
Solicitors	Slaughter and May One Bunhill Row London EC1Y 8YY	
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ Telephone: 0370 707 1244	
Brokers	Jefferies Hoare Govett Vintners Place 68 Upper Thames Street London EC4V 3BJ	UBS Limited 1 Finsbury Avenue London EC2M 2PP
Remuneration Consultants	*Until February 2016* New Bridge Street 10 Devonshire Square London EC2M 4YP	*From February 2016* Deloitte LLP Four Brindleyplace Birmingham B1 2HZ
Consulting Actuaries	Mercer Limited Four Brindleyplace Birmingham B1 2JQ	

paragon

This brochure is printed on Amadeus Revive 100 Silk 150gsm text and Amadeus Revive 50 Silk 350gsm cover supplied exclusively by Denmaur Independent Papers via Lion FPG.

Amadeus Revive benefits from the highest levels of environmental certification, including FSC, EUTR and ISO14001 + FREE Carbon Neutrality via The CarbonNeutral Company.

Printed on 100% and 50% recycled paper, manufactured at a mill with ISO14001 Environmental Management Standard.

CERTIFIED CARBON NEUTRAL® paper
CarbonNeutral.com
DIP-SOR-447028/29

The Paragon Group of Companies PLC
51 Homer Road, Solihull, West Midlands B91 3QJ
Telephone: 0121 712 2323
www.paragon-group.co.uk
Registered No. 2336032

GRP10896 (12/2015)