Company Registration No: 01917566

PARAGON FINANCE PLC

Report and Financial Statements

Year ended 30 September 2015

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Finance PLC ('the Company') is the most material operating subsidiary of a group of companies controlled by The Paragon Group of Companies PLC (together 'the Group'). It is a wholly owned subsidiary of the parent company of the Group and during the year the Company operated in the United Kingdom. The principal activity of the Company continues to be the administration of loan assets owned by group companies and the provision of administration and other management services to group companies.

The Company undertakes loan servicing and customer management on behalf of all of the Group's operating companies and certain third parties. To undertake these tasks it holds the Group's fixed assets, other than property, owns the rights to all of its infrastructure and intellectual property and employs the vast majority of the Group's people. There have been no significant changes in the Company's principal activities in the year under review and the directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

During the year the Company submitted an application, within the prescribed timescales to the Financial Conduct Authority ('FCA'), for regulatory permissions relating to its consumer credit regime. Subsequent to the Company's year end, applications have also been submitted to the FCA for regulatory permissions relating to the administration of second charge mortgage loans and registration in relation to the administration of consumer buy-to-let loans.

As shown in the Company's profit and loss account on page 15, the Company's net interest income increased from £2,566,000 to £3,156,000. This was primarily due to an increase in the return on the pension scheme asset and a greater increase on interest receivable on loans to other group companies, compared with the increase in the interest payable on loans from other group companies. The subordinated loans increased by 10% (2014: 15% increase) principally due to new loans made to additional securitisations in the year, interest charged on the subordinated loans provided to other group companies and related parties increased. The provision on loans to other group companies was £2,268,000 (2014: £2,735,000) due to the effects of trading between group companies and a decrease in reserves of those companies. The provision on loans to related parties was £2,070,000 (2014: £27,000) due to the effects of trading between these entities and a decrease in reserves of those companies. The provision on investment in group companies was £2,569,000 (2014: £1,264,000) due to the effects of trading between group companies and a decrease in reserves of those companies. Therefore the provision charge for the year was higher compared to the preceding year. Other operating income has increased from £22,530,000 to £25,522,000 due to an increase in the deferred consideration received. The Company also increased the amount of its operating costs which it recharged to other Group entities. As a result of the above operating profit before taxation has improved from £19,905,000 to £22,954,000, and the retained profit has increased from £15,864,000 to £18,756,000.

The balance sheet on page 16 of the Financial Statements shows the Company's financial position at the year end. Net assets have increased by 9.7% (2014: 10.0% increase) due to the net effect of the retained profit for the year and actuarial loss on the pension fund. Details of amounts owed from and to other group companies are shown in notes 19 and 23.

No interim dividend was paid during the year (2014: £nil). No final dividend is proposed (2014: £nil).

The Company has entered into derivative contracts in order to provide an economic hedge against its exposure to fixed rate loans to customers. Although these instruments provide an economic hedge the prescriptive nature of the requirements of FRS 26 means that hedge accounting cannot always be achieved. This has led to the Company recognising a fair value net loss of £2,000 in the year (2014: £103,000) due to the ineffectiveness of the hedge relationship. This represents a timing difference and cumulative gains and losses recognised will tend to be zero over time.

The Group manages its operations on a centralised basis and compiles its management information, including key performance indicators, on a consolidated basis. This consolidated information is used in controlling the operations of the Company, which provides services to all Group entities. Given the pervasive involvement of the Company in the Group's activities, the Company's directors believe that further key performance indicators for the Company, compiled on a stand-alone basis, are not necessary or appropriate to provide an understanding of the development, performance or position of the Company's business. Details of the Group's financial performance, including key performance indicators, are given in the Annual Report of its parent company, which does not form part of this Report.

STRATEGIC REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out on pages 3 to 10, and a discussion of critical accounting estimates is set out in note 2.

After considering the above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. This is further supported by the Group holding sufficient cash resources to support the Company's obligations as they fall due. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

ENVIRONMENT

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

EMPLOYEES' INVOLVEMENT

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

The Company participates in 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 staff appraisal process and communication between directors, managers, teams and individual employees.

EMPLOYMENT OF DISABLED PERSONS

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

Approved by the Board of Directors

and signed on behalf of the Board

PSharp

Pandora Sharp

Company Secretary

25 January 2016

CAUTIONARY STATEMENT

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

PRINCIPAL RISKS AND MITIGATION

The Company is exposed to a number of principal risks and uncertainties that arise from the operation of its business model and strategy. The Company derives almost all of its income from the provision of finance, facilities and services to other Group companies. Its performance would therefore be materially affected by any downturn in the performance of the Group resulting from a crystallisation of any of the risks to which the Group is exposed. Therefore the risks to which the Company is exposed are the same as those for the Group as a whole.

A summary of those risks and uncertainties which could prevent the achievement of the Company's strategic objectives, how the Company 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 Company but rather those which the Company 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. 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 and Capital Risk, Market Risk, and Pension Obligation Risk.

Further information concerning the systems used to manage risk by the Group are included in section B6.4 of the Annual Report and Accounts of the parent company.

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. 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.	

PRINCIPAL RISKS AND MITIGATION (Continued)

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 Council of Mortgage Lenders, the Intermediary Mortgage Lenders Association 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.	

PRINCIPAL RISKS AND MITIGATION (Continued)

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
Both the Company and the Group are exposed to the failure of counterparties with which they place deposits. In addition they are exposed to the risk of loss in the event of the failure of a counterparty with which they have 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.	⬌

PRINCIPAL RISKS AND MITIGATION (Continued)

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.	

PRINCIPAL RISKS AND MITIGATION (Continued)

<table>
<tr><th colspan="3">Operational Risk</th></tr>
<tr><td colspan="3">People Risk</td></tr>
<tr><th>Description</th><th colspan="2">Mitigation</th></tr>
<tr><td>In order to undertake its principal activities the Company employs the vast majority of the Group's employees. It is therefore 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 Company's ability to provide the support required to enable the Group to deliver its business plan and strategic objectives. This would have potentially material implications on the Company's own financial performance and future prospects.</td><td colspan="2">The Company 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.</td></tr>
<tr><td>Change</td><td>The improving employment market and demand for skilled financial services employees has resulted in increasing competition to recruit and retain employees. However the Company 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.</td><td></td></tr>
</table>

PRINCIPAL RISKS AND MITIGATION (Continued)

Systems Risk	
Description	**Mitigation**
The Group is exposed to the Risk that its IT infrastructure and systems are unable to support the Group's operational needs and fail to offer adequate protection against the threat of cybercrime.	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 cybercrime has increased the risk that this could impact its business model and strategic objectives.	

PRINCIPAL RISKS AND MITIGATION (Continued)

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. In addition, the Company is exposed to the risk that it would be unable to continue its principal activities in the event that it is unable to secure and maintain regulatory approvals in relation to the administration of consumer credit loans, regulated mortgage loans (second charge lending) and consumer buy-to-let loans.	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. The Company submitted an application, within the prescribed timescales, for regulatory permissions relating to the FCA's consumer credit regime. Subsequent to the year end, applications have also been submitted to the FCA for regulatory permissions relating to the administration of second charge mortgage loans and registration in relation to the administration of consumer buy-to-let loans..

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.	

PRINCIPAL RISKS AND MITIGATION (Continued)

<table>
<tr><th colspan="3">Liquidity and Capital Risk</th></tr>
<tr><td colspan="3">Funding Risk</td></tr>
<tr><th>Description</th><th colspan="2">Mitigation</th></tr>
<tr><td>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.</td><td colspan="2">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 me 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 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 Group's parent 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.</td></tr>
<tr><td>Change</td><td>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.</td><td>↔</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATION (Continued)

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.	↔

Pension Obligation Risk

Pension Obligation Risk

Description	Mitigation
The Group operates both a defined benefit and defined contribution pension scheme in the UK. The Company is the sponsor for the defined benefit scheme 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 24). 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.	↔

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Paragon Finance PLC, a company registered in England and Wales with registration no: 01917566, for the year ended 30 September 2015.

DIRECTORS

The directors who served during the year and subsequently were:

N S Terrington

J A Heron

R D Shelton

R J Woodman

J A Harvey (resigned 4 March 2015)

K G Allen (appointed 4 March 2015)

P E Rowland (appointed 27 March 2015)

M S Hayes (appointed 1 June 2015)

AUDITOR

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 of the Company's parent company, 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. KPMG LLP were selected as a result of this process, and have expressed their willingness to take office.

Having regard to the benefits of all Group entities sharing the same auditor, the directors resolved that KPMG LLP should also be appointed as auditors of the Company and 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.

INFORMATION PRESENTED IN OTHER SECTIONS

Certain information required to be included in a directors' report by the Companies Act 2006 and regulations made there under 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 Company is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 3 to the accounts.
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in the strategic report.
- Disclosure on any dividends paid during the year is included in the Strategic Report.

Approved by the Board of Directors

and signed on behalf of the Board

PSharp

Pandora Sharp

Company Secretary

25 January 2016

Registered Office: 51 Homer Road, Solihull, West Midlands, B91 3QJ

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON FINANCE PLC

We have audited the Financial Statements of Paragon Finance PLC for the year ended 30 September 2015 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with 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.

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements
In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Peter Birch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
25 January 2016

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2015

	Note	2015 £000	2014 £000
Interest receivable and similar income	4	38,599	36,542
Interest payable and similar charges	5	(35,443)	(33,976)
Net interest income		3,156	2,566
Other operating income	6	25,522	22,530
Total operating income		28,678	25,096
Operating expenses		1,175	(810)
Provisions for losses	9	(6,897)	(4,278)
		22,956	20,008
Fair value net loss	10	(2)	(103)
Operating profit, being profit on ordinary activities before taxation	11	22,954	19,905
Tax on profit on ordinary activities	12	(4,198)	(4,041)
Profit on ordinary activities after taxation	22	18,756	15,864

All activities derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 30 SEPTEMBER 2015

	2015 £000	2014 £000
Profit attributable to members of the Company	18,756	15,864
Actuarial loss on pension fund (note 24)	(6,091)	(3,512)
Deferred tax on actuarial loss (note 24)	1,248	731
Total gains and losses recognised since last Annual Report and Financial Statements	13,913	13,083

BALANCE SHEET

30 SEPTEMBER 2015

	Note	2015 £000	2015 £000	2014 £000	2014 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Tangible assets	13	3,935		4,051	
Financial assets	14	13		25	
Investments – group companies	18	212,035		176,889	
			215,983		180,965
CURRENT ASSETS					
Debtors falling due within one year	19		254,512		282,609
			470,495		463,574
FINANCED BY					
SHAREHOLDERS' FUNDS					
Called up share capital	21	53,447		53,447	
Profit and loss account	22	104,233		90,320	
			157,680		143,767
CREDITORS					
Amounts falling due within one year	23		295,571		305,929
RETIREMENT BENEFIT OBLIGATIONS	24		17,244		13,878
			470,495		463,574

These Financial Statements were approved by the Board of Directors on 25 January 2016.

Signed on behalf of the Board of Directors

K G Allen

Director

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

1. ACCOUNTING POLICIES

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

Accounting convention

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

Tangible fixed assets

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

Depreciation

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

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

Loans to customers

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

Such loans are valued at inception as the amount of initial advance, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Thereafter they are valued at this amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method. The loan balances are then reduced where necessary by a provision for balances which are considered to be impaired.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the expected future cash payments and receipts arising from the loan to the initial carrying amount.

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

Impairment of loans and receivables

Loans and receivables are reviewed for indications of possible impairment throughout the year and at each balance sheet date, in accordance with FRS 26. Where loans exhibit objective evidence of impairment, the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security, discounted at the original EIR. Loans are assessed collectively, compared by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date.

Investments

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

Goodwill

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

1. ACCOUNTING POLICIES (CONTINUED)

Retirement benefit obligations

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations by professionally qualified actuaries using the projected unit method, is charged to the profit and loss. Actuarial gains and losses are recognised in full in the period in which they occur and do not form part of the result for the period, being recognised in the Statement of Recognised Gains and Losses.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date.

Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period are recognised in the result for the period. Any variances against these estimates in the year form part of the actuarial gain or loss.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

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

Operating leases

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

Related party disclosures

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

Current tax

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

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Borrowings

Borrowings are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance.

Interest and all other costs of the funding are expensed to the profit and loss account as interest payable over the term of the borrowing on an EIR basis.

FRS 29 disclosure

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

1. ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments

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

The Company does not enter into speculative derivative contracts.

All derivatives are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative. Fair value is based on market prices, where a market exists. If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments. Changes in the fair value of derivatives are recognised in the profit and loss account, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge.

Hedging

For all hedges, the Company documents, at inception, the relationship between the hedging instruments and the hedged items, as well as its risk management strategy and objectives for undertaking the transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by FRS 26.

For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of FRS 26, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

Where a derivative is used to hedge the variability of cash flows of an asset or liability, it may be designated as a cash flow hedge so long as this relationship meets the hedging requirements of FRS 26. For such an instrument the effective portion of the change in the fair value of the derivative is taken initially to equity, with the ineffective part taken to profit or loss. The amount taken to equity is released to the profit and loss account at the same time as the hedged item affects the profit and loss account. Where a cash flow hedge relationship is terminated, or deemed ineffective, the amount taken to equity will remain there until the hedged transaction is recognised, or is no longer highly probable.

Revenue

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

Fee and commission income

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

Share based payments

In accordance with FRS 20 – 'Share based payments', the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date.

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

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

1. ACCOUNTING POLICIES (CONTINUED)

Cash flow statement

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

Consolidated accounts

The Company is exempt under Section 400 of the Companies Act 2006 from the obligation to prepare group financial statements, being a wholly-owned subsidiary undertaking of The Paragon Group of Companies PLC.

2. CRITICAL ACCOUNTING ESTIMATES

Certain balances reported in the Financial Statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most significant of these are:

Impairment losses on loans to customers

Impairment losses on loans are calculated based on statistical models. The key assumptions revolve around estimates of future cash flows from customer's accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect the current conditions.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results or assumptions which differ from the actual outcomes.

In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided.

Effective interest rates

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based on historical data and reviewed regularly. The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual borrower behaviour and that predicted.

Fair values

Where financial assets and liabilities are carried at fair value, in the majority of cases this can be derived by reference to quoted market prices. Where such a quoted price is not available the valuation is based on cash flow models, based, where possible on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

Retirement benefits

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions. These are listed in note 24. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

3. FINANCIAL RISK MANAGEMENT

The Company's operations were financed principally by a mixture of share capital and loans from other group companies. In addition, various financial instruments, for example debtors and accruals, arise directly from the Company's operations.

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

Credit risk

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

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

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

The maximum credit risk at 30 September 2015 approximates to the carrying value of loans to customers (note 15) and subordinated loans (note 18). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios of other group companies.

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

Liquidity risk

It is the Company's policy to ensure that adequate resources are available at all times to provide for the day to day activities of the Company and to meet regulatory requirements. Management considers the year end position satisfactorily reflects the policies and objectives set out above.

The Company has no external borrowings and liquidity is provided as part of the Group's working capital arrangements. The securitisation process and the terms of the warehouse facility effectively limit liquidity risk from the funding of the Group's loan assets. It remains to ensure that sufficient funding is available to fund the Group's participation in the SPVs, provide capital support for new loans and working capital for the Group. This responsibility rests with the Asset and Liability Committee which sets the Group's liquidity policy and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

Interest rate risk

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

The Company's assets predominantly bear LIBOR linked interest rates or are hedged fixed rate assets. The interest rates charged on the Company's variable rate loan assets are determined by reference to, inter alia, the Company's funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Company's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

Currency risk

The Company has no material exposure to foreign currency risk.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Use of derivative financial instruments

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

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken, and hence all of the Company's derivative financial instruments are for commercial hedging purposes. These are used to protect the Company from exposures principally arising from fixed rate lending or borrowing and borrowings denominated in foreign currencies. Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under FRS 26 either because natural accounting offsets are expected, or obtaining hedge accounting would be especially onerous.

Fair values of financial assets and financial liabilities

Fair values have been determined for all derivatives, listed securities and any other financial assets and liabilities for which an active and liquid market exists. The fair values of cash at bank and in hand, bank loans and overdrafts are not materially different from their book values because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset on a quarterly basis.

Derivative financial instruments are stated at their fair values. The fair values of the interest rate swaps and caps have been determined by reference to prices available from the markets on which these instruments are traded.

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

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £000	2014 £000
On loans to other group companies	33,092	31,684
On loan notes issued by related parties	605	124
Other	10	1
	33,707	31,809
Return on pension scheme assets (note 24)	4,892	4,733
	38,599	36,542

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2015 £000	2014 £000
On bank loans and overdrafts	55	54
On loans from other group companies	31,087	29,630
	31,142	29,684
Return on pension scheme liabilities	4,301	4,292
	35,443	33,976

6. OTHER OPERATING INCOME

Other operating income includes £21.4m (2014: £20.4m) in respect of income receivable from various special purpose vehicle companies within the group which own mortgage and loan assets administered by the Company. Further details are given in note 17.

7. DIRECTORS AND EMPLOYEES

a) Directors

Three of the directors during the period (2014: four) were also directors of the parent company, The Paragon Group of Companies PLC. Their remuneration from the Paragon Group is set out in the Directors' Remuneration Report of The Paragon Group of Companies PLC. No amounts in respect of their emoluments are included in the disclosures below.

	2015 £000	2014 £000
Directors' emoluments:		
Other emoluments	857	690
	857	690
Pension contributions paid in respect of directors	24	27
Emoluments of the highest paid director:		
Excluding pension contributions	353	318
Pension contributions	-	-
	353	318

Five of the directors during the year (2014: seven) (three of whom are directors of the parent company (2014: four)) are members of the Paragon Group defined benefit pension scheme. At 30 September 2015 the accrued benefit under the pension scheme of the highest paid director was £72,470 (2014: £70,823). The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was three (2014: none). The number of the directors during the year in respect of whose service shares were received or receivable under the Group's long-term incentive schemes was eight (2014: seven) (three of whom are directors of the parent company (2014: four)).

The highest paid director exercised share options in The Paragon Group of Companies PLC and shares were received in respect of qualifying services under a long-term incentive scheme

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

7. DIRECTORS AND EMPLOYEES (CONTINUED)

b) Employees

The average number of persons (including directors) employed by the Company during the year was 995 (2014: 874). The costs incurred during the year in respect of these employees were:

	2015	2015	2014	2014
	£000	£000	£000	£000
Share based remuneration	4,363		3,221	
Other wages and salaries	32,265		29,822	
Total wages and salaries		36,628		33,043
National insurance on share based remuneration	1,083		1,274	
Other social security costs	2,718		2,575	
Total social security costs		3,801		3,849
Defined benefit pension cost	1,897		1,885	
Other pension costs	459		455	
Total pension costs		2,356		2,340
Total staff costs		42,785		39,232

Details of the pension schemes operated by the Company are given in note 24.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

8. SHARE BASED REMUNERATION

During the year the Group had various share based payment arrangements with employees. They are accounted for by the Group and the Company as shown below.

The effect of the share based payment arrangements on the Company's profit is shown in note 7.

(a) Share option schemes

Options under the Executive Share Option ('Executive') schemes have been granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee. These options vest so long as the grantee is still employed by the Group at the end of the vesting period and, where applicable, performance criteria have been satisfied. 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 p	2014 Number	2014 Weighted average exercise price p
Options outstanding				
£1 ordinary shares				
At 1 October 2014	2,175,816	230.33	1,758,161	233.27
Granted in the year	1,274,203	345.68	941,989	276.32
In respect of employees transferring out	(13,542)	276.32	(106,846)	199.74
Exercised in the year	(943,815)	137.09	(86,734)	80.05
Lapsed during the year	(320,305)	351.06	(330,754)	416.36
At 30 September 2015	2,172,357	305.19	2,175,816	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).

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

8. SHARE BASED REMUNERATION (CONTINUED)

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

Grant date	Period exercisable	Exercise price	Number 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	33,572	153,076
20/12/2011	01/02/2015 to 01/08/2015	142.56p	-	831,590
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	533,776	602,678
23/12/2013	01/02/2019 to 01/08/2019	276.32p	200,388	206,901
11/06/2015	01/08/2018 to 01/02/2019	345.68p	1,081,476	-
11/06/2015	01/08/2020 to 01/02/2021	345.68p	184,398	-
			2,172,357	1,951,929
			2,172,357	2,175,816

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	1,089,805	184,398	660,122	231,326
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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

8. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan

Awards under this plan comprise a right to acquire ordinary shares in the parent company for nil or nominal payment and will vest on the third anniversary of their granting, to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

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 †	880	2,709
28/03/2007	28/03/2010 to 27/03/2017 †	1,105	3,164
14/06/2007	14/06/2010 to 13/06/2017 †	2,023	6,320
26/09/2007	26/09/2010 to 25/09/2017 †	3,717	10,032
26/11/2007	26/11/2010 to 25/11/2017 †	5,573	24,097
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 †	292,338	775,706
21/12/2011	21/12/2014 to 20/12/2021 †	658,103	2,117,718
28/02/2013	28/02/2016 to 27/02/2023 ‡	1,274,407	1,283,720
10/12/2013	10/12/2016 to 09/12/2023 ‡	1,136,679	1,144,893
18/02/2014	18/12/2017 to 17/12/2024 ‡	940,606	-
		4,800,962	6,159,877

† These awards, which were conditional on the achievement of performance based criteria, have now vested.

‡ 50% of these awards are subject to a Total Shareholder Return ('TSR') test and 50% are subject to an Earnings Per Share ('EPS') test. The TSR test compares the rank of the parent 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 of the Group 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

8. SHARE BASED REMUNERATION (CONTINUED)

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	948,805	1,147,319
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 parent company for nil or nominal payment and will vest on the third anniversary of their granting.

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

8. SHARE BASED REMUNERATION (CONTINUED)

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 parent company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2015 and at 30 September 2014 were:

Grant Date	Transfer date	Number 2015	Number 2014
02/01/2008	02/01/2011 to 02/01/2018	9,969	9,969
05/01/2010	05/01/2013 to 05/01/2020	-	87,057
		9,969	97,026

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

9. PROVISIONS FOR LOSSES

	2015 £000	2014 £000
Impairment of financial assets		
First mortgage loans	(10)	252
Investments in group companies (note 18)	2,569	1,264
Loans to group companies	2,268	2,735
Loans to related parties	2,070	27
	6,897	4,278

10. FAIR VALUE NET LOSS

The fair value net loss of £2,000 (2014: £103,000) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The loss is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

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

	2015 £000	2014 £000
Operating profit is after charging / (recharging):		
Depreciation	2,051	1,935
Auditor remuneration - audit services	53	81
Loss on disposal of fixed assets	-	-
Hire of plant and machinery	422	368
Hire of motor vehicles	320	317
Property rents	1,705	1,571
Costs recharged to other group companies	(35,576)	(36,734)

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

12. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2015 £000	2014 £000
Current tax:		
Corporation tax	3,752	615
Group relief	-	3,029
Prior year credit	(41)	(253)
	3,711	3,391
Deferred tax (note 20):		
Prior year adjustment	480	296
Origination and reversal of timing differences	9	354
Rate change	(2)	-
	487	650
	4,198	4,041

b) Factors affecting the current tax charge

	2015 £000	2014 £000
Profit before tax	22,954	19,905
UK corporation tax at 20.5% (2014: 22%) based on the profit for the year	4,706	4,379
Effects of:		
Provisions and expenses not deductible for tax purposes	1,109	990
Accelerated capital allowances	(19)	186
Movement on short term timing differences	(83)	(346)
Tax on share based remuneration	(1,961)	(1,058)
Prior year credit	(41)	(253)
Other adjustments	-	(30)
Losses not recognised	-	(477)
	3,711	3,391

During the year ended 30 September 2013 the 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 after the year end.

Therefore the standard rate of corporation tax applicable to the Company 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 years ending 30 September 2017 and 30 September 2018 is 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

13. TANGIBLE FIXED ASSETS

	Short leasehold premises £000	Plant and machinery £000	Total £000
Cost			
At 1 October 2013	2,380	9,890	12,270
Additions	20	1,214	1,234
Disposals	-	(986)	(986)
At 30 September 2014	2,400	10,118	12,518
Additions	8	1,928	1,936
Disposals	-	(13)	(13)
At 30 September 2015	2,408	12,033	14,441
Accumulated depreciation			
At 1 October 2013	986	6,528	7,514
Charge for the year	276	1,659	1,935
On disposals	-	(982)	(982)
At 30 September 2014	1,262	7,205	8,467
Charge for the year	276	1,775	2,501
On disposals	-	(12)	(12)
At 30 September 2015	1,538	8,968	10,506
Net book value			
At 30 September 2015	870	3,065	3,935
At 30 September 2014	1,138	2,913	4,051

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

14. FINANCIAL ASSETS

	2015 £000	2014 £000
Loans to customers (note 15)	-	-
Derivative financial assets (note 16)	13	25
	13	25

15. LOANS TO CUSTOMERS

Loans to customers at 30 September 2015 and 30 September 2014, which are all denominated and payable in sterling, are first mortgages which are secured on residential property within the United Kingdom and which are categorised as loans and receivables as defined by FRS 26.

These balances relate to originations which took place in 1992 or earlier, and the Company does not currently originate loans on its own account.

Mortgage loans have a contractual term of up to thirty years, the borrower is entitled to settle the loan at any point and in most cases such early settlement does take place. All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms.

	2015 £000	2014 £000
Balance at 1 October 2014	-	231
Other movements	(26)	(227)
Repayments and redemptions	26	(4)
Balance at 30 September 2015	-	-

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

16. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

	2015	2015	2015	2014	2014	2014
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£000	£000	£000	£000	£000	£000
Other derivatives						
Interest rate swaps	1,543	13	-	2,317	25	-
Total recognised derivative assets	1,543	13	-	2,317	25	-

17. SECURITISATIONS

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

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

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

18. INVESTMENTS - GROUP COMPANIES

	2015 £000	2014 £000
Valuation		
At 1 October 2014	176,889	142,968
Investment during the year	45,520	36,969
Provisions movement (note 9)	(2,569)	(1,264)
Repayment of loans	(7,805)	(1,784)
At 30 September 2015	212,035	176,889
Cost		
At 1 October 2014	178,728	143,543
Investment during the year	45,520	36,969
Repayment of loans	(7,805)	(1,784)
At 30 September 2015	216,443	178,728

The investments are loans to group companies which are not subsidiaries of the Company. The investments include subordinated loans amounting to £176,730,000 (2014: £162,889,000), shares in subsidiaries amounting to £nil (2014: £nil), and investments in Asset Class Notes amounting to £35,305,000 (2014: £14,000,000).

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

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

19. DEBTORS

	2015 £000	2014 £000
Amounts falling due within one year:		
Amounts due from group companies	227,383	256,687
Corporation tax	7,137	11,252
Deferred tax (note 20)	183	264
Other debtors	14,509	8,233
Prepayments and accrued income	5,300	6,173
	254,512	282,609

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

Included in the amount due from group companies is £225,351,000 (2014: £256,627,000) which is interest bearing.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

20. DEFERRED TAX

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

	2015 £000	2014 £000
Balance at 1 October 2014	3,733	3,652
Credit to reserves	1,248	731
Prior year profit and loss charge (note 12)	(480)	(296)
Profit and loss charge (note 12)	(9)	(354)
Rate change (note 12)	2	-
Balance at 30 September 2015	4,494	3,733

The net deferred tax asset recognised is analysed as follows:

	2015 £000	2014 £000
Accelerated tax depreciation	129	157
Retirement benefit obligations	4,311	3,469
Impairment and other provisions	54	107
Net deferred tax asset	4,494	3,733

The balances are analysed as follows:

	2015 £000	2014 £000
Deferred tax debtor (note 19)	183	264
Retirement benefit liability (note 24)	4,311	3,469
Net deferred tax asset	4,494	3,733

21. CALLED UP SHARE CAPITAL

	2015 £000	2014 £000
Allotted:		
71,262,521 ordinary shares of 75p each	53,447	53,447

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

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

	Share Capital £000	Profit and loss account £000	Shareholders' Funds £000
At 1 October 2013	53,447	77,237	130,684
Profit for the financial year	-	15,864	15,864
Actuarial loss on pension fund net of tax	-	(2,781)	(2,781)
At 30 September 2014	53,447	90,320	143,767
Profit for the financial year	-	18,756	18,756
Actuarial loss on pension fund net of tax	-	(4,843)	(4,843)
At 30 September 2015	53,447	104,233	157,680

The cumulative amount of goodwill on acquisitions written off to reserves is £24,712,000 (2014: £24,712,000). This goodwill is included in the profit and loss account to ensure compliance with Financial Reporting Standard 10 - 'Goodwill and intangible assets'. The inclusion of the goodwill in the Profit and Loss Account has of itself no effect on the distributable profits of the Company.

23. CREDITORS

	2015 £000	2014 £000
Amounts falling due within one year:		
Bank loan and overdrafts	426	805
Amounts due to parent undertaking	58,922	110,447
Amounts due to group companies	215,891	177,558
Other creditors	6,946	4,103
Accruals and deferred income	13,386	13,016
	295,571	305,929

The amounts due to parent undertaking is interest bearing and included in the amount due to group companies is £201,071,000 (2014: £177,552,000) which is interest bearing.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

24. RETIREMENT BENEFIT OBLIGATIONS

The Group operates a funded defined benefit pension scheme in the UK ('the Plan''), which is sponsored by the Company. A full actuarial valuation was carried out at 31 March 2013 and updated to 30 September 2015 by a qualified independent actuary.

The liabilities of the Plan are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the Projected Unit method. This amount is reflected in the liability in the balance sheet. The Projected Unit method is an accrued benefits valuation method in which the technical provisions are calculated based on service up until the valuation date allowing for future salary growth until the date of retirement, withdrawal or death, as appropriate. The future service rate is then calculated as the contribution rate required to fund the service accruing over the control period again allowing for future salary growth. As a result of the pension scheme being closed to new entrants, the service cost as a percentage of pensionable salaries is expected to increase as the members of the Plan approach retirement. However the membership is expected to reduce so that the service charge in monetary terms will gradually reduce. The major weighted average assumptions used by the actuary were (in nominal terms):

	30 September 2015	30 September 2014
In determining net pension cost for the year		
Discount rate	4.10%	4.50%
Expected long term rate of return on scheme assets	5.10%	5.50%
Rate of compensation increase	3.65%	3.80%
Rate of price inflation	3.15%	3.30%
Rate of increase of pensions	3.05%	3.20%
In determining benefit obligations		
Discount rate	3.90%	4.10%
Rate of compensation increase	3.55%	3.65%
Rate of price inflation	3.05%	3.15%
Rate of increase of pensions	3.00%	3.05%
Further life expectancy at age 60		
Male member aged 60	29	29
Female member aged 60	31	31
Male member aged 40	32	32
Female member aged 40	34	34

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The assets in the Plan at 30 September 2015 and 30 September 2014 and the expected rate of return were:

	At 30 September 2015		At 30 September 2014	
	Long term rate of return expected	**Value £000**	**Long term rate of return expected**	**Value £000**
Equities	5.80%	56,344	6.40%	56,348
Bonds	3.85%	26,066	3.65%	24,878
Other	4.40%	8,670	5.00%	7,440
	5.50%	91,080	5.50%	88,666
Total market value of assets				
Present value of scheme liabilities		(112,635)		(106,013)
Deficit in the scheme		(21,555)		(17,347)
Related deferred tax (note 20)		4,311		3,469
Net pension liability		(17,244)		(13,878)

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 to act in the best interests of the Plan's beneficiaries. The appointment of directors to the Trustee is determined by the scheme'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.

At 30 September 2015 the Plan assets were invested in a diversified portfolio that consisted primarily of equity and gilt investments. The majority of the equities held by the Plan are in developed markets. The target asset allocations for the year ending 30 September 2016 are 62 % equities, 30% bonds and 8% other assets.

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.

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, i.e. by 31 August 2019.

The rate of return expected on scheme assets is based on the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2015 £000	2014 £000
At 1 October 2014	88,666	79,425
Movement in year		
Contributions by the Group	3,190	3,367
Contributions by scheme members	247	258
Benefits paid	(2,168)	(1,402)
Expected return on scheme assets	4,892	4,733
Actuarial (loss) / gain	(3,747)	2,285
At 30 September 2015	91,080	88,666

The actual return on scheme assets in the year ended 30 September 2015 was £1,145,000 (2014: 7,018,000)

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

	2015 £000	2014 £000
At 1 October 2014	106,013	95,183
Movement in year		
Current service cost	1,897	1,885
Past service costs	-	-
Contributions by scheme members	247	258
Plan curtailments	-	-
Benefits paid	(2,168)	(1,402)
Finance cost	4,302	4,292
Actuarial loss	2,344	5,797
At 30 September 2015	112,635	106,013

The most recent valuation of the scheme liabilities on a buy-out basis obtained by the trustees in accordance with section 224 of the Pensions Act 2004 was calculated at 31 March 2013, when the valuation on that basis was £144.5m.

The sensitivity of the valuation of the scheme liabilities to the principal assumptions disclosed above at 30 September 2015 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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

Category of member	**Duration of liability Years 2015**	**Duration of liability Years 2014**
Active members	24	24
Deferred pensioners	25	25
Current pensioners	15	15
All members	23	23

With effect from 27 June 2011 the agreed rate of employer contributions was 26.6% of gross salaries for participating employees, following the finalisation of the 31 March 2010 actuarial valuation. Since 1 April 2010 an additional contribution of £1,500,000 per annum has been paid by monthly instalments. From 8 October 2013, following the finalisation of the March 2013 valuation, contributions rose to 27.0% of gross salaries for participating employees, the £1,500,000 contribution remained in place and a further additional contribution of £400,000 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 £3.3m.

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

	2015 £000	**2014 £000**
Current service cost	1,897	1,885
Past service cost	-	-
Plan curtailments	-	-
Included within operating expenses	1,897	1,885
Expected return on scheme assets	(4,892)	(4,733)
Funding cost of scheme liability	4,302	4,292
Total expense recognised in profit	1,307	1,444

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

	2015 £000	**2014 £000**
(Loss) / gain on scheme assets	(3,747)	2,285
Loss on scheme liabilities	(2,344)	(5,797)
Total actuarial loss	(6,091)	(3,512)
Tax credit thereon (note 20)	1,248	731
Net actuarial loss	(4,843)	(2,781)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The tax shown above is disproportionate to the actuarial losses recorded in the periods due to the effect on deferred tax of the changes in tax rate descibed in note 12.

The cumulative value of actuarial losses charged to the Statement of Recognised Gains and Losses since 1 October 2001, is £46.6m (2014: £40.5m):

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

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Fair value of scheme assets	91,080	88,666	79,425	69,355	59,045
Present value of scheme obligations	(112,635)	(106,013)	(95,183)	(83,207)	(73,489)
Deficit in the scheme	(21,555)	(17,347)	(15,758)	(13,852)	(14,444)
Experience adjustments on scheme assets:					
Amount (£000)	(3,045)	2,920	4,610	4,427	(4,407)
Percentage of scheme assets	(6.0)%	3.0%	5.8%	6.4%	(7.5)%
Experience adjustments on scheme liabilities:					
Amount (£000)	-	-	(240)	(133)	2,818
Percentage of scheme liabilities	0%	0%	(0.3)%	(0.1)%	3.8%

In addition to the Group Pension Scheme, the Group operates a defined contribution (Stakeholder) pension scheme. Contributions made by the Company to this scheme in the year ended 30 September 2015 were £0.5m (2014: £0.5m).

25. FINANCIAL COMMITMENTS

At 30 September 2015 and 30 September 2014 the Company had commitments to make annual payments under operating leases which expire as follows:

	2015 £000	2014 £000
Plant and machinery		
Within one year	352	239
Between two and five years	380	251
	732	490
Land and buildings		
Within one year	262	-
Between two and five years	938	1,457
Over five years	372	147
	1,572	1,604
	2,304	2,094

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

26. RELATED PARTY TRANSACTIONS

On 27 May 2010, Mr A K Fletcher, an independent non-executive director of the Group, was appointed as a trustee of the Group Pension Plan, and during the first quarter of 2013 became a director of its Corporate Trustee when that was put in place. In respect of this appointment he was paid £10,000 (2014: £10,000) in the year ended 30 September 2015 by the Company, the sponsoring company of the Plan.

The Company has identified the following transactions which are required to be disclosed under the terms of Financial Reporting Standard No. 8 PLC ('FRS 8').

Transactions with Arianty Holdings Limited ('AH')

At the balance sheet date the Company was owed £137,000 (2014: £121,000) by AH, a company under common control as defined by FRS8, in relation to payments made on behalf of AH, which is included in other debtors.

Transactions with Arianty Services Limited ('AS')

At the balance sheet the Company was owed £23,000 (2014: £21,000) by AS, a company under common control as defined by FRS8, in relation to payments made on behalf of AS, which is included in other debtors.

Transactions with First Flexible No.5 PLC ('FF5')

At the balance sheet date the Company was owed £141,000 (2014: £140,000) by FF5, a company under common control as defined by FRS8, in relation to payments made on behalf of FF5, which is included in other debtors.

Transactions with Paragon Mortgages (No. 18) PLC ('PM18')

At the balance sheet date the Company owed £1,823,000 (2014: £823,000) to PM18, a company under common control as defined by FRS8, in relation to payments made by PM18 on its behalf, which is included in other creditors.

At the balance sheet date the Company held the subordinated loan for PM18 of £8,190,000 (2014: £8,190,000), which is included in investments. During the year the Company earned £373,000 (2014: £370,000) in subordinated loan interest. At the balance sheet date PM18 owed £16,000 (2014: £16,000) in relation to subordinated loan interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM18 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £402,000 (2014: £747,000), which is included in other creditors. During the year the Company earned £90,000 (2014: £132,000) in Fee letter interest and at the balance sheet date PM18 owed £3,000 (2014: £5,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

Transactions with Paragon Mortgages (No. 19) PLC ('PM19')

At the balance sheet date the Company was owed £2,268,000 (2014: £3,216,000 by PM19, a company under common control as defined by FRS8, in relation to payments made on behalf of PM19, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM19 of £10,500,000 (2014: £10,500,000) and Class D notes issued by PM19 of £7,000,000 (2014: £7,000,000), which is included in investments. During the period the Company earned £479,000 (2014: £281,000) in subordinated loan interest and £176,000 (2014: £95,000) in Class D note interest. At the balance sheet date PM19 owed £59,000 (2014: £62,000) in relation to subordinated loan interest and £22,000 (2014: £23,000) relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM19 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £737,000 (2014: £1,179,000), which is included in other creditors. During the year the Company earned £116,000 (2014: £78,000) in Fee letter interest and at the balance sheet date PM19 owed £11,000 (2014: £18,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

26. RELATED PARTY TRANSACTIONS (Continued)

Transactions with Paragon Mortgages (No. 20) PLC ('PM20')

At the balance sheet date the Company was owed £1,324,000 (2014: £2,266,000) by PM20, a company under common control as defined by FRS8, in relation to payments made on behalf of PM20, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM20 of £10,500,000 (2014: £11,233,000) and Class D notes issued by PM20 of £7,000,000 (2014: £7,000,000), which is included in investments. During the year the Company earned £484,000 (2014: £108,000) in subordinated loan interest and £134,000 (2014: £29,000) in Class D note interest. At the balance sheet date PM20 owed £59,000 (2014: £108,000) in relation to subordinated loan interest and £17,000 (2014: £29,000) relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM20 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £980,000 (2014: £1,316,000), which is included in other creditors. During the year the Company earned £120,000 (2014: £31,000) in Fee letter interest and at the balance sheet date PM20 owed £11,000 (2014: £31,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

Transactions with Paragon Mortgages (No. 21) PLC ('PM21')

At the balance sheet date the Company was owed £1,807,000 by PM21, a company under common control as defined by FRS8, in relation to payments made on behalf of PM21, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM21 of £6,250,000 and Class D notes issued by PM21 of £6,300,000, which is included in investments. During the period the Company earned £264,000 in subordinated loan interest and £149,000 in Class D note interest. At the balance sheet date PM21 owed £13,000 in relation to subordinated loan interest and £7,000 relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM21 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £780,000, which is included in other creditors. During the year the Company earned £103,000 in Fee letter interest and at the balance sheet date PM21 owed £4,000 in relation to Fee Letter interest, which is included in prepayments and accrued income.

Transactions with Paragon Mortgages (No. 22) PLC ('PM22')

At the balance sheet date the Company was owed £2,401,000 by PM22, a company under common control as defined by FRS8, in relation to payments made on behalf of PM22, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM22 of £7,502,000 and Class D notes issued by PM22 of £7,500,000, which is included in investments. During the period the Company earned £192,000 in subordinated loan interest and £100,000 in Class D note interest. At the balance sheet date PM22 owed £15,000 in relation to subordinated loan interest and £9,000 relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM22 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £1,059,000, which is included in other creditors. During the year the Company earned £69,000 in Fee letter interest and at the balance sheet date PM22 owed £5,000 in relation to Fee Letter interest, which is included in prepayments and accrued income.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2015

26. RELATED PARTY TRANSACTIONS (Continued)

Transactions with Paragon Mortgages (No. 23) PLC ('PM23')

At the balance sheet date the Company was owed £3,042,000 by PM23, a company under common control as defined by FRS8, in relation to payments made on behalf of PM23, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM23 of £8,561,000 and Class D notes issued by PM23 of £7,505,000, which is included in investments. During the period the Company earned £74,000 in subordinated loan interest and £45,000 in Class D note interest. At the balance sheet date PM23 owed £74,000 in relation to subordinated loan interest and £45,000 relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM23 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £1,154,000, which is included in other creditors. During the year the Company earned £26,000 in Fee letter interest and at the balance sheet date PM23 owed £26,000 in relation to Fee Letter interest, which is included in prepayments and accrued income.

Transactions with Paragon Fifth Funding Limited ('P5F')

At the balance sheet date the Company was owed £1,105,000 (2014: £853,000) by P5F, a company under common control as defined by FRS8, in relation to payments made on behalf of P5F, which is included in other debtors.

Transactions with Idem Capital Securities No. 1 Limited ('ICS1')

At the balance sheet date the Company was owed £nil (2014: £14,000) by ICS1, a company under common control as defined by FRS8, in relation to payments made on behalf of ICS1, which is included in other debtors.

27. ULTIMATE PARENT COMPANY

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

Copies of the Group's financial statements are available from that company's registered office at 51 Homer Road, Solihull, West Midlands, B91 3QJ.