Annual Report & Accounts 2014

The Paragon Group of Companies PLC

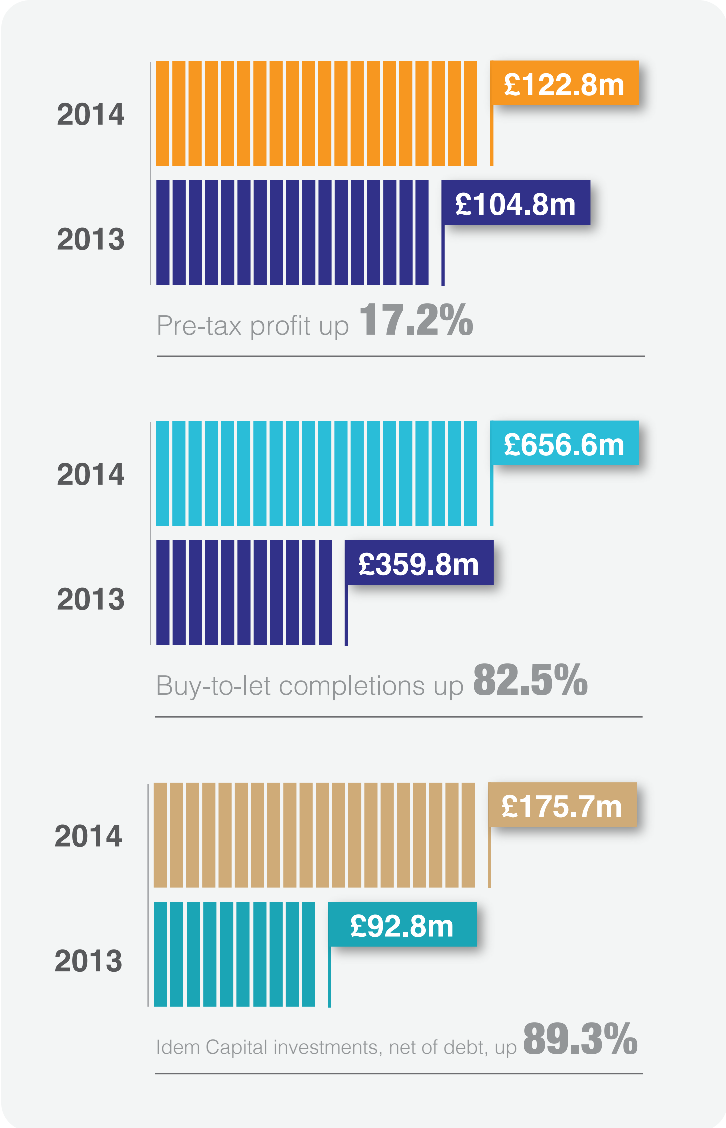
paragon

Contents

CAUTIONARY STATEMENT

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

Financial highlights



Earnings per share (basic)

31.9p

up 13.1% from 28.2p in 2013

Dividend per share

9.0p

up 25.0% from 7.2p in 2013

"Initial **£50.0m share buy-back** programme announced"

Return on equity increased to

10.7%

from 10.1% in 2013

"Significant **progress achieved** in Group's funding diversification"

	2014	2013 (restated)	2012	2011	2010
	£m	£m	£m	£m	£m
Underlying profit before taxation	**122.2**	103.5	94.2	81.1	66.1
Profit before taxation	**122.8**	104.8	95.5	80.8	71.8
Profit after taxation	**97.2**	84.7	72.2	59.6	53.9
Total loan assets	**9,255.9**	8,801.5	8,694.6	8,724.2	8,911.2
Shareholders' funds	**947.1**	873.3	803.5	742.0	692.0

	2014	2013 (restated)	2012	2011	2010
Return on equity	**10.7%**	10.1%	9.3%	8.3%	8.0%
Earnings per share					
- basic	**31.9p**	28.2p	24.2p	20.2p	18.3p
- diluted	**31.1p**	27.3p	23.5p	19.6p	17.8p
Dividend per ordinary share	**9.0p**	7.2p	6.0p	4.0p	3.6p

The derivation of underlying profit before taxation is described in Appendix B.

Amounts shown above for 2013 have been restated for the change in accounting policy described in note 2.

A Strategic report

A1 Chairman's statement

Bob Dench
Chairman

The year ended 30 September 2014 has been a successful period for the Group, the business has performed strongly and significant progress has been made in laying the foundations for further, sustainable growth for the future. Profits have grown strongly to a record level for the Group and our portfolio of loans, including acquired assets, continues to perform well. Other key performance metrics show trends consistent with recent periods: organic cash generation remains strong; net interest margins have increased; redemptions remain low; the cost:income ratio has improved; and, across the portfolio, credit performance is strong, in line with our expectations.

Financial performance

During the year ended 30 September 2014 the Group's profit before taxation increased by 17.2% to £122.8 million (2013 (restated): £104.8 million). Underlying profit, before fair value items, increased by 18.1% to £122.2 million for the year (2013 (restated): £103.5 million).

Earnings per share were 31.9p (2013 (restated): 28.2p), the increase of 13.1% from last year reflecting the improved profits earned by the Group. The increase in profit has also improved the Group's return on equity to 10.7% from 10.1% for the previous year (note 6).

Strong progress has been achieved in the Group's buy-to-let and debt purchase divisions and a banking franchise established. All of the Group's divisions show strong growth prospects. Buy-to-let completions increased by 82.5% to £656.6 million (2013: £359.8 million), with the year-end pipeline increasing by 78.9% to £414.8 million (2013: £231.9 million); net debt purchase investments by Idem Capital increased by 89.3% to £175.7 million (2013: £92.8 million); and Paragon Bank launched car finance, second mortgage and buy-to-let operations.

During the year the Group expanded its funding base significantly through the commencement of retail deposit taking and issues of working capital, mortgage funding and Idem debt. Warehouse facilities for buy-to-let lending were also expanded and enhanced.

The Group again saw a strong increase of 20.2% in net cash generation to £157.8 million (2013: £131.3 million). Group capital ratios remain strong with a core tier 1 ratio of 19.7% and leverage ratio of 8.3% and in view of this strong position I am pleased to announce a £50.0 million share buy-back programme for the forthcoming year.

In view of the results achieved and in line with our stated dividend policy, the Board has proposed a final dividend of 6.0p per share (2013: 4.8p) which, when added to the interim dividend of 3.0p, gives a total dividend of 9.0p per share for the year (2013: 7.2p), an increase of 25.0%, covered 3.5 times by earnings (note 6).

Review of operations

Paragon Mortgages

Buy-to-let completions rose 82.5% to £656.6 million in 2014 as the Group broadened its distribution through its Paragon Mortgages and Mortgage Trust brands. Included within this total was £0.5 million of lending by Paragon Bank, which commenced its buy-to-let operations during September 2014. The buy-to-let market continues to grow, supporting the Private Rented Sector ('PRS') which now accounts for 18% of the housing stock in England. Tenant demand has strengthened throughout the year and recent forecasts suggest the PRS share of total housing stock will continue to grow in the future. The competitiveness of the Group's product offerings reflects the improving funding environment, evidenced by both the increased scale and more attractive pricing of Paragon's securitisation programme when compared to 2013, and, more recently, the addition of retail deposit funding through Paragon Bank.

The credit quality of the buy-to-let portfolio remains excellent, with arrears levels improving across the year to 0.25% (2013: 0.35%). The indexed loan-to-value of the overall buy-to-let portfolio stood at 71.7% at 30 September 2014 compared to 78.4% at the end of 2013.

The annualised redemption rate on the total buy-to-let portfolio was 4.1% in 2014 compared to 2.5% in 2013, reflecting increased housing market activity.

Paragon Mortgages maintains a significant presence for the Group in this growing sector of the UK mortgage market, contributing £80.5 million to underlying Group profit (2013 (restated): £70.3 million), a 14.5% increase.

The aggregate new business pipeline stood at £414.8 million at the year-end, 78.9% above the level at 30 September 2013, underpinning strong growth rates into the new financial year.

"The Group again saw a strong **increase** of 20.2% in net cash generation to £157.8 million"

Idem Capital

Idem Capital, the Group's debt purchase business, completed its busiest year in 2014, with net investments totalling £175.7 million (2013: £92.8 million) and with balances outstanding reaching £426.5 million (2013: £193.7 million). Idem Capital has established itself as one of the largest acquirers of paying debt in the UK, with a 120-month estimated remaining collections ('ERC') balance of £682.2 million at 30 September 2014 (2013: £353.9 million). ERC is a standard measure of scale in the debt purchase market, reflecting the expected gross future recoveries from purchased assets over the coming ten years. During the year Idem Capital raised a bi-lateral non-recourse funding facility of £130.6 million from Bank of America Merrill Lynch to support the purchase of a newly acquired portfolio resulting in pre-debt investment levels of £306.3 million for the year. In addition it completed a £55.0 million non-recourse facility from Goldman Sachs to finance certain portfolios purchased in earlier periods.

The growth in investment levels, strong cash performance and a continued focus on cost control have led to Idem Capital contributing £48.1 million to underlying profit (2013 (restated): £34.5 million).

Idem Capital sees a strong pipeline leading into 2015. Benefitting from a position on the approved purchaser panels of all the major UK banks, Idem Capital will maintain its strategy of augmenting direct investment opportunities with co-investments over the coming year.

Paragon Bank

Since its formal authorisation in February 2014 by the Prudential Regulation Authority ('PRA'), Paragon Bank has launched three lending product lines and successfully established its retail deposit taking activities. Paragon Bank provides the Group with an opportunity to diversify both its income streams and its funding sources.

Paragon Bank's initial lending businesses; car finance, personal finance and buy-to-let, have now come on-stream, with the primary focus on establishing distribution with lending growth following in due course. Paragon Bank launched its first internet-only savings products over the summer, initially in pilot mode to test systems and then, more fully, to test the marketing and distribution propositions. Each proved successful, with Paragon Bank taking £60.1 million of deposits by the year end. The UK retail savings market, totalling in excess of £1 trillion, is a deep and reliable source of funding for Paragon Bank and is capable of supporting its substantial growth opportunities.

In order to support the volumes anticipated in 2015, the Group injected a further £36.2 million of equity into Paragon Bank at the end of September 2014, taking its aggregate investment to £48.9 million. The initial costs of setting up Paragon Bank, obtaining regulatory authorisation and developing business systems and processes resulted in a loss of £6.4 million (2013 (restated): £1.3 million), in line with expectations.

Financing and capital

The Board's strategy includes the delivery of a sustainable and well diversified funding base. The most notable development over the past year has been the establishment of Paragon Bank, which is expected to provide a reliable and cost-efficient funding route for new consumer product lines, in addition to financing an increasing proportion of buy-to-let business over time.

The addition of financing facilities totalling £185.6 million into Idem Capital during the year has materially enhanced both the scale and return potential for the debt purchase business. The Group also completed its second retail bond issue in January 2014, raising £125.0 million with a 2022 maturity.

The past year has seen significant progress in the Group's traditional warehouse to securitisation financing structures, with significantly improved terms for warehouse funding, the addition of a new £100.0 million facility from Natixis and a greater scale of issuance and year-on-year pricing improvements for its securitised bonds. In addition to financing new originations, the securitisations in 2014 also refinanced two legacy transactions, improving funding costs and releasing inefficient cash reserves.

The creation of Paragon Bank results in regulatory supervision for the bank by the PRA and the Financial Conduct Authority ('FCA') and also consolidated supervision for the Group. The Group has extremely strong consolidated capital and leverage ratios when compared to its regulatory requirement, with a Common Equity Tier 1 ratio at 30 September of 19.7% and a leverage ratio of 8.3%.

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

In view of the strong capital base and low leverage in the Company's balance sheet the Board has determined that the Group balance sheet should be rebalanced to deliver returns at a higher rate to shareholders. The Group expects to access either the sterling senior unsecured debt market or the UK retail bond market during the coming year to add incremental long-dated debt to the Group balance sheet. The Group will also commence a share buy-back programme, initially up to £50.0 million, to be reviewed periodically to take account of anticipated investment opportunities and the balance of the Group's debt and equity capital resources.

The Group's dividend policy, established in 2012, is to target a cover ratio of 3.0 to 3.5 times by 2016. Whilst the top end of this range has been reached as a result of today's announcement, the Group will continue to target reductions in the cover ratio towards the lower end of the range by 2016.

Operating environment

Regulation affects the business in a number of ways, with significant developments either completed or proposed during 2014. The Group is well progressed in the authorisation process for its various operating subsidiaries, necessary as a result of the transfer of consumer regulation from the Office of Fair Trading to the FCA. Additionally, the Group is well placed to comply with changes in the second charge conduct rules which come into force in 2016. Finally, Paragon welcomes the debate on appropriate regulation of the buy-to-let market and notes the application of the EU Mortgage Credit Directive to a small subset of the buy-to-let market. We believe this will have little impact on our activities.

Rising house prices have been the subject of much debate over the last year, although the rate of growth has slowed more recently. The Group has consistently applied prudent lending criteria and maintains an in-house surveyor team to maximise its understanding of local and regional markets, both from the house price and letting demand perspectives. This supports the Group's wider credit approach, maintaining its existing tight management of risk, and allows the Group to continue to develop its buy-to-let business with confidence.

It is likely we will see an increase in base rates during 2015 and beyond, albeit gradual, and significantly below pre-financial crisis levels. The impact of potential interest rate increases on our customers (both current and future) is kept under close scrutiny; however both the strong credit and affordability metrics displayed by Paragon's customer base mean the Group is well positioned to manage this change.

Corporate governance

The Board of Directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council in September 2012. During the year the Group complied with the present Code and ensured that preparations were made to ensure that the revised Code, which is introduced for the financial year ending 30 September 2015, will be complied with.

As required by law the Group's remuneration policy was put to shareholders at the Annual General Meeting earlier this year, where it was approved. No changes are planned in the policy in the coming year.

Having considered developing best practice, and the tenure of the existing incumbent, the Group has decided to conduct an audit tender exercise during the forthcoming year.

A review of the Group's governance arrangements was carried out in the year, in the light of developing best practice and the increasing size, complexity and regulatory exposure of the Group. As a result the Board formed a Risk and Compliance Committee, comprising myself and the non-executive directors, to oversee all aspects of risk management within the Group. Fiona Clutterbuck, an independent non-executive director chairs the Committee.

The Group's corporate governance arrangements are discussed further in Section B of this Annual Report.

Board changes

In accordance with the plan previously announced Nick Keen retired as Group Finance Director on 31 May 2014 and was replaced by Richard Woodman. Nick held the post for 19 years, helping to steer the Group through many significant events. His contribution has been greatly valued and I am pleased that the Group has retained his services as part-time chairman of Idem Capital. My fellow directors and I wish him well for the future.

After the year end the Board was strengthened by the appointment of Hugo Tudor as an additional non-executive director.

Below Board level Dave Newcombe became the Managing Director of Idem Capital and Pam Rowland was appointed to the new post of Chief Operating Officer, responsible for the Group's customer servicing and group services functions.

Further details of these changes are given in Section A3.4.

Staff

The excellent progress we have made during the year would not have been achieved without the hard work and dedication of our staff and my fellow directors. I thank them all for their efforts.

Conclusion

The strong new lending and debt purchase pipelines, together with the development of Paragon Bank, present significant sustainable growth prospects for the Group, underpinned by our funding diversification programme and improving debt capacity. At the same time returns for shareholders are being enhanced by higher dividends and our capital management programme. The Board and I look forward with confidence to the Group's future.

ROBERT G DENCH
Chairman
25 November 2014

A2 Business model and strategy

A2.1 THE GROUP'S BUSINESS

The Group is a listed FTSE-250 company, specialising in consumer finance and operating only in the United Kingdom. It is the UK's leading specialist lender of buy-to-let mortgages to professional landlords and residential property investors as well as an active acquirer of loan assets and portfolios and a loan servicing provider for third party clients. It includes one of the first UK banks to be authorised under the new regulatory regime. It operates on a centralised basis with most of its over 900 employees based in its offices in Solihull, West Midlands.

The Group's income

The Group's income is derived from interest, fees and similar charges arising from its investments in first mortgages and consumer loans and fees charged to third parties for administering similar loans on their behalf.

The Group is managed in three business lines

- Paragon Mortgages, which includes most of its originated loan assets;
- Idem Capital, its loan portfolio investment and third party servicing business; and
- Paragon Bank, the Group's banking subsidiary, which accepts savings deposits from customers and invests them in buy-to-let mortgage and consumer loans.

Each division is responsible for the generation of new business with servicing and other support functions managed on a group wide basis. These divisions form the segments used by the Group to describe its business in this Annual Report.

Generation of assets

The Group currently generates new assets from two sources, new originations and purchased debt.

New originations are generated through:

- Paragon Mortgages, which originates new buy-to-let mortgage loans, focussing on professional landlords, through its Paragon Mortgages and Mortgage Trust brands; and
- Paragon Bank, which offers motor finance through its Paragon Car Finance brand and second charge mortgage accounts through Paragon Personal Finance.

The Group's loan investment operation, Idem Capital purchases UK debt portfolios from other lenders and invests in similar arrangements led by third parties.

In the past the Group was an active lender in other consumer credit markets, notably residential mortgages, and the Group's assets still include some balances generated by these operations.

The Group continues to keep the consumer finance market as a whole under review to consider whether lending in any new product areas should be introduced.

Funding the business

The Group's main source of funding for its originated assets is through securitisation, which provides long term matched funding for the book at LIBOR linked interest rates. The Group pioneered this technique in the UK in 1987 and has issued 59 securitisation deals since that time. Before securitisation, assets are funded through committed bank facilities.

The Group's debt investment activity is financed through a mixture of external limited-recourse funding and working capital.

Paragon Bank is funded primarily through retail deposits accepted from the general public through the internet. It is regulated for this purpose by the Bank of England, the Prudential Regulation Authority and the Financial Conduct Authority.

The working capital of the Group is provided by equity and corporate and retail bonds. The Group's funding mix is kept under review, bearing in mind the cost and availability of appropriate sources of finance.

Profitability of the business

The profitability of the business relies on:

- careful management of loan accounts to increase retention and reduce levels of delinquency;
- vigilance in the underwriting and loan acquisition processes to mitigate losses;
- appropriate pricing of new advances or purchased loans;
- arranging appropriate funding sources to sustain the business; and
- maintaining control of operating costs.

A2.2 PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from previous or expected results. To identify and control these risks the Group utilises a Risk Management Framework. Through this framework its principal risks are identified and assessed within the key categories of Business Risk, Credit Risk, Liquidity Risk, Market Risk, Operational Risk, Conduct Risk and Pension Obligation Risk.

The Group's system of risk management includes the Credit Committee, Operational Risk Committee and Asset and Liability Committee ('ALCO'), an experienced Group Risk function and an active internal audit function. This risk management framework is monitored by Board level committees, the Audit Committee before June 2014 and the Risk and Compliance Committee thereafter, as described in the 'Corporate Governance' section of this Annual Report (section B2).

The principal risks inherent in the Group's business model, described in section A2.1, include the following:

Business risk

The risk that UK economic conditions impact on the Group

Deterioration in the general economy of the UK, where all of the Group's operations are situated, might adversely affect all aspects of the Group's business.

Demand for the Group's buy-to-let products is influenced by the performance of the UK's private rented sector, which in turn is dependent on underlying factors such as house prices, supply of rental property, demographic changes and government housing policy. Demand for all of the Group's loan products is dependent on such factors as market interest rates, employment levels and other factors that determine disposable income.

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

The general economic factors affecting the Group in the period going forward, together with the steps taken by the Group's management to address these issues are described in more detail in the Chairman's statement in section A1 and the Chief Executive's review in section A3.

The risk that the Group is unable to procure new assets

The UK financial services market is highly competitive and the Group faces strong competition in all of the core markets in which it operates, including its lending markets and the debt purchase and asset servicing markets. There is a danger that the Group's profitability and / or market share may be impaired if its offerings do not remain competitive.

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

Credit risk

The risk that the Group's loan assets will not be realised in cash

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

The Group's approach to the management of credit risk and the systems in place to mitigate that risk on both originated and purchased assets are described in the section of note 7 to the accounts entitled 'Credit Risk'.

Liquidity risk

The risk that the Group will not be able to finance its future plans

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 business relies on retail deposits, 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.

The Group, through ALCO, seeks to mitigate this risk by investigating alternative sources of finance which are, or might become, available to the Group and by keeping its funding and working capital position under review. Paragon Bank is required, under regulation, to hold prescribed levels of liquid funds in order that requests for retail withdrawals can be met.

The Group's capital position and its policies in respect of capital management are described in note 6 to the accounts. These policies and their application are described more fully in the section of the Chief Executive's review headed 'Capital Management' (within section A3.3).

Market risk

The risk that net income from loan assets will be reduced

Changes in interest rates may adversely affect the Group's net income and profitability. In particular the Group's profitability is determined by the difference between the rates at which it lends and those at which it can borrow. Therefore any changes in market interest rates which result in a mismatch can impact the Group's profit.

The steps taken by the Group to mitigate against the long term effects of interest rate movements, through the structuring of its products and the use of hedging procedures are described in note 7 to the accounts.

Conduct risk

The risk that inappropriate or poor customer treatment could lead to customer detriment

The Group provides a range of financial services products across several brands to consumers and small business customers. As a result, the Group is exposed to potential conduct risk should it fail to treat its customers fairly. This could arise, for example, if certain products fail to meet the needs of customers or customer complaints are handled ineffectively.

The manner in which financial services companies treat their customers is subject to considerable regulatory scrutiny. There is therefore a risk that regulatory bodies may determine that the Group is not ensuring that its customers receive fair treatment. Systemic poor customer treatment may lead to regulatory censure, reputational damage and resulting reductions in the Group's profitability.

As a result, the Group undertakes various mitigating actions in those areas of its business where the potential for this risk is greatest. These actions include the assessment of risks and controls by business owners, separate oversight and assurance, ongoing staff training and the escalation of material risks and issues to appropriate Group risk committees.

Further information regarding the Group's approach to treating its customers fairly is given in section A5.3.

Operational risk

The risk that regulation or legal changes will increase the cost or reduce the scope of the Group's activities

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. These levels of intervention have increased over recent years and this trend is expected to continue in the future.

Current regulatory developments are discussed in the part of the Chief Executive's Review headed 'Regulation' in section A3.2. To the extent that such actions disadvantage the Group, when compared to other market participants, or serve to depress levels of market activity or returns, they present a risk to the Group.

In order to mitigate this risk the Group has been active in explaining its position to the authorities in order that it is not inadvertently disadvantaged. In order to ensure compliance with the various regulatory regimes it is, or may become, subject to, the Group maintains a Compliance function, as part of its risk management framework, which reviews procedures, examines compliance with them and evaluates knowledge levels across relevant functions. The Group also ensures that all employees receive appropriate regulatory training.

The risk that the Group's systems will be unable to support its operational needs

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

To address these risks, the Group's Operational Risk and Compliance Committee is responsible for reviewing key risk indicators and key controls to ensure that they remain adequate for their purpose. The Group has a business continuity plan, accredited under the International Standard ISO 22301, which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant disruption to the business.

The risk that the Group will not have the required staff to execute its plans

The success of the Group is dependent on recruiting and retaining skilled senior management and personnel at all levels of the organisation. The levels of regulation surrounding business conduct mean that highly trained operational staff are vital to the Group's ability to conduct business. Failure to maintain the necessary skill levels across the workforce would put the Group's ability to successfully carry out its plans at risk.

The Group's employment policies, which are designed to mitigate this exposure and ensure that an appropriately skilled workforce is, and remains, in place are described within section A5.1.

Other risks

The Group's exposure to other financial risks, including certain liquidity risks and market risks, and the procedures in place to mitigate those risks are described in detail in note 7 to the accounts.

The Group's exposure to risks relating to its pension arrangements are discussed in note 53 to the accounts.

A3 Chief Executive's review

Nigel Terrington
Chief Executive

During the year ended 30 September 2014 the Group successfully pursued its strategy to deliver shareholder value through developing new lending, purchasing portfolios, entering into new servicing agreements, diversifying its funding base and continuing the careful management of the extant portfolios. The funding and income diversification strategy has been materially advanced by the authorisation of Paragon Bank PLC, the Group's retail deposit funded banking subsidiary, which was granted in February 2014.

A3.1 FINANCIAL REVIEW

CONSOLIDATED RESULTS

For the year ended 30 September 2014

	2014 £m	2013 (restated) £m
Interest receivable	302.4	269.0
Interest payable and similar charges	(123.0)	(108.0)
Net interest income	179.4	161.0
Other operating income	18.5	16.6
Total operating income	197.9	177.6
Operating expenses	(63.4)	(58.9)
Provisions for losses	(12.3)	(15.2)
Underlying profit	122.2	103.5
Fair value net gains	0.6	1.3
Operating profit being profit on ordinary activities before taxation	122.8	104.8
Tax charge on profit on ordinary activities	(25.6)	(20.1)
Profit on ordinary activities after taxation	97.2	84.7
Dividend – rate per share for the year	9.0p	7.2p
Basic earnings per share	31.9p	28.2p
Diluted earnings per share	31.1p	27.3p

Amounts shown above for 2013 have been restated for the change in accounting policy described in note 2.

A3.1 Financial review continued

Total operating income increased by 11.4% to £197.9 million (2013 (restated): £177.6 million). Within this, net interest income increased to £179.4 million from £161.0 million (restated) for the year ended 30 September 2013. The increase reflects both improving margins and growth in the size of the average loan book, which rose by 3.2% to £9,028.7 million (2013: £8,748.0 million) (appendix C). Net interest margins increased in 2014 to 1.99% compared to 1.84% last year (appendix C), driven by new originations and portfolio purchases having higher margins than those assets redeeming in the period and general improvements in the financing costs of the Group's warehouse and new securitisation structures.

Other operating income was £18.5 million for the year, compared with £16.6 million in 2013. The increase reflects a higher level of third party fee income resulting from the number of third party assets brought under the Group's administration in this and the preceding period, together with strong performance-related fees earned on historic servicing contracts.

Operating expenses increased by 7.6% to £63.4 million from £58.9 million for 2013 (restated), principally as a result of increased staff numbers to service the loan portfolios administered by Idem Capital, with average headcount increasing by 14.6% in the year. The operational costs of Paragon Bank, where costs will exceed associated revenues whilst the business becomes established, also had an impact on Group costs in the year. Strong income growth, however, resulted in the cost:income ratio reducing to 32.0% from 33.2% (restated) last year (appendix A), remaining significantly below the industry average. The Board remains focused on controlling operating costs through the application of rigorous budgeting and monitoring procedures and targets a medium term cost:income ratio below 30.0%.

The charge of £12.3 million for loan impairment has reduced from that for 2013 (2013: £15.2 million). As a percentage of average loans to customers (appendix C) the impairment charge has reduced to 0.14% compared to 0.17% in 2013. The Group has seen positive trends in arrears performance over the period, with the incidence of new cases reducing and customers correcting past arrears, whilst increasing property values have served to reduce overall exposure to losses on enforcement of security. The loan books continue to be carefully managed and the credit performance of the buy-to-let book remains exemplary.

Yield curve movements during the period resulted in hedging instrument fair value net gains of £0.6 million (2013: £1.3 million net gains), which do not affect cash flow. The fair value movements of hedged assets or liabilities are expected to trend to zero over time, as such this item represents a timing difference. The Group remains economically and appropriately hedged.

Cash flows from the Group's securitisation vehicle companies and the acquired portfolios remain strong, financing, alongside debt raisings, investments in further loan portfolios, the capital requirements of Paragon Bank and credit enhancement for mortgage originations. Free cash balances were £177.3 million at 30 September 2014 (2013: £170.8 million) (note 39).

Corporation tax has been charged at the rate of 20.8%, compared with 19.2% for the last year; the lower UK Corporation Tax rate in 2014 partially offset the effect of the downward revaluation of deferred tax liabilities made during the previous period.

Profits after taxation of £97.2 million (2013 (restated): £84.7 million) have been transferred to shareholders' funds, which totalled £947.1 million at the year end (2013: £873.3 million).

Following the authorisation of Paragon Bank in the year, the Board conducted a review of its internal reporting requirements and a new segmental reporting format has been adopted.

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

An analysis of the Group's financial assets by type is shown in note 29.

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

	2014 £m	2013 (restated) £m
Underlying operating profit / (loss)		
Paragon Mortgages	80.5	70.3
Idem Capital	48.1	34.5
Paragon Bank	(6.4)	(1.3)
	122.2	103.5

In November 2013, the Group acquired the freehold of its head office building, which it had previously occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7 million and, on the completion of the transaction, the leasehold fixed asset included within Property, Plant and Equipment at £5.4 million and the related lease creditor of £10.2 million included within financial liabilities were both extinguished. The resulting credit of £4.8 million was offset against the purchase consideration.

A3.2 BUSINESS REVIEW

Operating segments

Paragon Mortgages

Paragon Mortgages is one of the longest established lending brands in the buy-to-let mortgage market. Alongside its sister brand, Mortgage Trust, Paragon Mortgages maintains a significant presence for the Group in this growing sector of the UK mortgage market. Trading activity in the year has been strong, with the segment contributing £80.5 million to underlying Group profit (2013 (restated): £70.3 million), an increase of 14.5%.

Total loan assets of the segment at 30 September 2014 were £8,842.9 million, 2.4% higher than the £8,631.6 million a year earlier, of which £8,575.6 million were buy-to-let mortgage assets (30 September 2013: £8,306.9 million).

Buy-to-let

	Outstanding balance		Completions		Pipeline	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Paragon Mortgages	8,575.6	8,306.9	656.1	359.8	369.5	231.9
Paragon Bank	0.5	-	0.5	-	45.3	-
Idem Capital	16.0	17.5	-	-	-	-
	8,592.1	8,324.4	656.6	359.8	414.8	231.9

Buy-to-let completions increased by 82.5% to £656.6 million for the period (2013: £359.8 million). Further expansion of the Group's mortgage capacity, supported by improvements in funding costs, enabled the Group to increase business volumes significantly, resulting in a pipeline of new business of £414.8 million at the year end. This was 78.9% greater than the £231.9 million at the end of September 2013 and supports growth levels into the new financial year. The credit quality of the new lending business written in the year has remained excellent.

A3.2 Business review continued

The increase in available warehouse capacity and the success of the Group's securitisation activity have ensured that the Paragon Mortgages business has been well placed over the year to offer competitive products. It has taken advantage of the opportunities arising from the strength of the private rented sector and the continuing robustness of the housing market during 2014. The Group has maintained two distinct propositions, one targeting professional landlords and the other private investor landlords, which together ensured that it has maintained and developed its market position throughout the year. A recent development has been the alternative funding source for buy-to-let completions provided by Paragon Bank, which enables a wider range of products to be offered and broadens the financing options for the existing production.

The UK housing market has continued to grow throughout 2014 albeit at a reduced pace from the strong recovery reported in 2013. It is clear that the general improvement in the economy, improving customer confidence and historic and current Government stimuli, including the first time buyers initiative, have assisted in increasing levels of house purchase and remortgage activity. The Bank of England reported that gross residential mortgage lending in the year ended 30 September 2014 increased by 26.1% compared to the previous year.

Tenant demand has remained robust and landlord activity has continued to increase during the year. The Council of Mortgage Lenders ('CML') reported that the number of buy-to-let transactions in the year increased by 27.5% while values of buy-to-let advances increased by 35.8% to £25.8 billion (2013: £19.0 billion). The English Housing Survey for 2012-13, published during the year by the Department for Communities and Local Government, found that the private rented sector in England now provides a home for 18.0% of households and has eclipsed the social rented sector for the first time since the 1960s.

At 30 September 2014 the Group's buy-to-let portfolio stood at £8,592.1 million, compared with £8,324.4 million a year earlier. The redemption rate on the overall buy-to-let book, although higher than the 2.5% reported for 2013, still remains low at 4.1%. This performance indicates that Paragon's landlords continue to display a long-term commitment to property investment.

New loans continue to be of a high quality, with a good affordability profile, low average loan-to-value ratios and strong customer credit profiles. The credit performance of the portfolio over the year continued to be exemplary, with the percentage of loans three months or more in arrears (note 7) standing at 0.25% as at 30 September 2014 (30 September 2013: 0.35%) and remaining considerably better than the CML's comparable market average of 0.78% at that date (30 September 2013: 1.15%).

Security values have also benefitted from the effect of increased house prices. The Nationwide house price index showed appreciation in residential property values of 9.4% over the year, causing the indexed loan-to-value ratio of the buy-to-let portfolio to reduce to 71.7% from 78.4% at 30 September 2013 (note 7). The increase in average prices, however, is part of a more volatile picture, which has been particularly marked at the local and regional level. The Group maintains a specialist team of in-house surveyors to maximise its understanding of particular markets, both from a valuation and lettings standpoint.

The number of properties with an appointed receiver of rent reduced by 12.2% to 1,225 at 30 September 2014 (30 September 2013: 1,395). At the end of September 2014, 97.2% of the properties available for letting in the receiver of rent portfolio were let (30 September 2013: 94.8%).

Other assets

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

	2014 £m	2013 £m
Owner-occupied mortgages	59.6	77.4
Secured loans	201.0	237.7
Unsecured loans	6.7	9.6
	267.3	324.7

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

Idem Capital

Idem Capital has continued to focus on the acquisition of paying loan portfolios and the servicing of its own and third party loan portfolios. Opportunities are created through the ongoing process of financial institutions disposing of loan assets, either through de-leveraging activities or business as usual sales.

The UK debt purchase market has remained strong during the year ended 30 September 2014 with each of the larger purchasers reporting increased levels of investments over the period. The major banks continue to trade both paying and non-paying assets and the market is also supported by continued de-leveraging activity and on-sells. Idem Capital has established itself as a major purchaser of consumer debt in the UK, both on its own account and with co-investment partners, and is an active panel member of all the major UK based financial service institutions.

The division has a highly developed loan servicing and collections capability which is used for its own purchases, third party assets and co-investment portfolios. Idem Capital has invested heavily in its compliance infrastructure over the years and is well-placed to meet the requirements of the change of responsibility for the regulation of consumer credit which passed from the Office of Fair Trading (‘OFT’) to the Financial Conduct Authority (‘FCA’) in April 2014.

The financial year has been successful for Idem Capital, with £306.3 million invested in consumer finance assets. Of this total, £254.7 million was invested in secured portfolios with the balancing £51.6 million invested in unsecured loans (2013: £71.9 million of unsecured loan purchases and £20.9 million as a co-investor).

These acquisitions were financed by £130.6 million of dedicated external funding; the first raised by the Group to be secured on Idem Capital assets, resulting in a total net investment of £175.7 million of Group funds in loan portfolios (2013: £92.8 million).

Idem Capital’s investments are summarised below.

	Outstanding balance		Current year investment	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Loan portfolios	**407.2**	169.9	**306.3**	71.9
Co-investments	**19.3**	23.8	**-**	20.9
	426.5	193.7	**306.3**	92.8

These investments helped to increase the outstanding value of Idem Capital investments by 120.2% to £426.5 million at 30 September 2014 (30 September 2013: £193.7 million). Of the total carrying value, including co-investments, 63.2% related to loans secured on property, a key point in differentiating the Idem Capital performance from the broader debt purchase sector, where the focus remains on unsecured loans.

The performance of the portfolios acquired and managed by Idem Capital remains strong, with 120 month gross estimated remaining collections (‘ERC’) of £682.2 million (2013: £353.9 million) (note 7). ERC is a standard measure of scale in the debt purchase industry, reflecting likely future cash flows from the acquired portfolios over the next ten years. At 30 September 2014, cumulative cash receipts totalled 105.3% of the values predicted at the point the loans were acquired.

During the year the division assumed the servicing of a further 26,300 accounts (2013: 50,000 accounts). At 30 September 2014 the Group managed 146,981 accounts on behalf of third parties (30 September 2013: 161,842), 35.4% of the total managed by the Group (30 September 2013: 43.8%), the reduction being due in part to the acquisition by Idem Capital of previously serviced assets. With increased availability of funding for investments in the year, the Group’s strategy has been to focus its servicing capability on its own investments.

The growth in investment levels, strong cash performance and a continued focus on cost management have led to Idem Capital’s contribution to underlying profit for the period reaching £48.1 million (2013 (restated): £34.5 million), an increase of 39.4%.

A3.2 Business review continued

During the year, new financing opportunities for purchased assets have been developed, both for new acquisitions and extant assets, expanding the scale and scope of the portfolio investment opportunities the Group is able to consider. Together with the prospects of continuing vendor activity and the investments made in the year in systems and personnel, the division is well placed as it moves into the new financial year.

Paragon Bank

On 18 February 2014 the Group launched its banking subsidiary, Paragon Bank PLC, following authorisation by the Prudential Regulation Authority ('PRA'). Paragon Bank offers savings and loan products, broadening competition and choice in the UK banking market.

Paragon Bank, regulated by the PRA and by the FCA, is a wholly owned subsidiary of the Company. It is led by Managing Director Richard Doe, previously Chief Executive of ING Direct UK, together with an experienced banking and consumer finance management team and Board of Directors.

During the year, Paragon Bank launched car finance, secured personal loan, buy-to-let mortgage and savings products. The Group provided capital of £48.9 million to Paragon Bank during the year and expects to provide additional capital over time to support its growth. The initial costs of setting up the bank, obtaining regulatory authorisation and developing its business systems resulted in a loss for the year in this segment of £6.4 million (2013 (restated): £1.3 million).

The new lending businesses within Paragon Bank have only recently become operational and as a result, only modest lending volumes were achieved during 2014 while their franchises are being established. This should, however, lead to significant growth in lending in the coming year.

Paragon Bank continues to investigate further product developments, where these match its risk appetite. In addition to organic product development it intends to work with the Idem Capital team where potential asset purchases fit with its risk appetite and business model, thereby broadening the scope of both parts of the Group.

Car finance

The UK car market has continued to grow during the year. September 2014 witnessed 426,000 new car registrations ('64 plate') which was the highest number for a decade and was the 31st consecutive month of growth. Additionally, calendar year-to-date registrations to 30 September 2014 were 1,958,000 which is a 9.1% increase on the same period in 2013.

The UK car finance market has also experienced considerable growth with the Finance and Leasing Association ('FLA') reporting total finance granted in the year ended 30 September 2014 up 17.6% at £31.4 billion (2013: £26.7 billion). There were similar percentage increases for new and used car funding at £20.4 billion and £11.0 billion respectively (2013: £17.5 billion and £9.2 billion).

Paragon Bank launched Paragon Car Finance in February 2014 and has progressed in the establishment of its dealer panel and the promotion of products that meet the new regulatory requirements established following the transfer of responsibility for the regulation of consumer credit from the OFT to the FCA in April 2014. The initial focus has been on the development of the franchise. Advances of £5.3 million were made by the year end.

Personal finance

The secured personal loans market has enjoyed successive year-on-year growth since October 2012. Statistics released by the FLA for September 2014 showed year-on-year growth of over 34.6% to £548 million (2013: £407 million). The total lending volume for the three months ended 30 September 2014 at £150 million represented an increase of 32.7% compared to the corresponding period in 2013 (quarter ended 30 September 2013: £113 million).

Paragon Bank entered the market trading as Paragon Personal Finance on 30 September 2014 with an experienced workforce recruited from the Group's previous secured loan business. The initial activity will centre on ensuring systems perform as expected with broker distribution strengthened quickly thereafter. Initial broker feedback has been very encouraging.

New market entrants over the last year (including Paragon Personal Finance) have provided additional stimulus to the market and consumers are benefitting from competitive pricing and product development. However, at present volumes still remain below pre-crisis levels. The move in April 2014 from OFT to FCA regulation has not led to any noticeable fall in market activity. We see longer term growth in the market and look forward to becoming a market leader in it.

Buy-to-let

During September 2014 Paragon Bank commenced offering buy-to-let mortgages, using the Group's existing systems and distribution channels, with distinct and complementary products to those offered by Paragon Mortgages. By the year end £0.5 million of advances had been made with a pipeline of £45.3 million. The buy-to-let market is discussed in more detail under 'Paragon Mortgages' above.

Savings

The UK savings market continues to grow strongly, with household balances increasing by nearly £40 billion in the year. This strong supply has driven down the rates on offer, with term deposit rates falling by 0.57% over the year.

Paragon Bank offered its first savings accounts to new customers in June 2014 and over the remainder of the year expanded its savings activity; increased rates offered, diversified its product range and invested in advertising. Accounts are offered through the internet and include fixed and variable rate savings products.

Retail deposits at 30 September 2014 had reached £60.1 million (2013: £nil). Paragon Bank savings products featured in 89 best buy tables during August, September and October 2014 and during October Moneyfacts announced Paragon Bank as a finalist for their Online Savings Provider of the Year award.

The initially restricted savings product range is reflective of the stage of development of the bank. It has the capability and capacity to extend this range as its funding requirements grow. The current objective is to offer a limited range of competitive products which meet the needs of our customers.

In addition, in July 2014 the FCA published an interim Cash Savings Market Study, with its key findings being consistent, we consider, with the approach to banking which Paragon Bank has adopted since its launch, positioning it for future regulatory developments.

We expect to build on this initial success and to serve those savers looking for a combination of straightforward systems and competitive products.

Regulation

In September 2014, HM Treasury published a consultation paper setting out details of the legislative changes necessary to implement the Mortgage Credit Directive and move second-charge mortgages from the FCA's consumer credit regime to its mortgage regime. In the same month the FCA published a consultation paper which sets out its proposals for the new second charge lending regime alongside its plans for implementation of the Directive. We will monitor the progress of the consultations but do not believe that either the implementation of the Directive or change of regime for second-charge mortgages will have a material impact on the operation of any of our businesses.

Paragon welcomes the debate on appropriate regulation of the buy-to-let market and notes the application of the Directive to a small subset of the buy-to-let market. We believe this will have little impact on our activities.

All relevant Group companies hold the requisite interim permissions from the FCA under the new consumer credit regime and have been allocated a prescribed period during 2015 in which to make applications for full authorisation.

A3.2 Business review continued

Paragon Bank is regulated by the PRA and the FCA and the Group is subject to consolidated supervision by the PRA. The current and projected rate of regulatory change in this environment, driven by domestic and European policy, is significant. The governance and control structure within Paragon Bank and the wider Group has been established and developed to ensure that the impact of new requirements on the business are clearly understood and planned for.

A3.3 FUNDING REVIEW

Conditions were favourable in the Group's principal funding markets throughout the financial year. Government monetary policy maintained short term interest rates at very low levels and swap rates and gilt yields also approached historic lows. The amount of bonds issued in the sterling securitisation market remained subdued, similar to 2013/14, at approximately one-third of the amount seen prior to the financial crisis. This lack of supply contributed to a narrowing of credit spreads. Swap rates trended higher until July 2014, in anticipation of a rise in interest rates before the calendar year end, but subsequently reduced as a rise became less likely. Bank funding became more available and on better terms, as demonstrated by an increase in the Group's warehouse capacity.

During the period the Group has made significant progress in diversifying its financing, increasing capacity and reducing borrowing costs. In particular, a banking franchise was established, new funding lines were developed for all of its operations and a further retail bond issue added to the Group's central funding.

Paragon Mortgages funding

Buy-to-let mortgage originations outside of Paragon Bank are initially funded through three revolving warehouse facilities totalling £550.0 million. Facilities with Lloyds Bank and Macquarie Bank were renewed on improved terms during the year and a further facility of £100.0 million was agreed with Natixis. This enhanced capacity within the Group, together with the option of using Paragon Bank supports our growth plans in the buy-to-let market.

In the longer term buy-to-let mortgage loans are funded through the securitisation markets. Two new public securitisation deals totalling £700.0 million, with senior notes rated AAA were completed in the year. The Group's 59th transaction, Paragon Mortgages (No. 21) PLC, for £250.0 million, completed post year-end.

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

Securitisation	Amount raised £m	Date	Average funding margin (basis points)
Paragon Mortgages (No. 21) PLC	243.7	November 2014	88
Paragon Mortgages (No. 20) PLC	343.0	July 2014	70
Paragon Mortgages (No. 19) PLC	343.0	March 2014	90
Paragon Mortgages (No. 18) PLC	267.5	September 2013	125
Paragon Mortgages (No. 17) PLC	195.5	October 2012	146

Funding cost margins have improved year-on-year since 2013, reflecting market sentiment and prevailing pricing at the point deals were completed. This trend reflects the strong credit profile of the Group's buy-to-let assets, our experience as an issuer of high quality bonds in the mortgage backed securities market and the general improvement in market conditions for issuers of this type of security.

Included in this year's transactions were the first refinancing of legacy assets in a new Paragon Mortgages securitisation since 2007 and the first refinancing of a post 2010 securitisation. The refinancing of earlier deals has two benefits to the Group; firstly the cost of funding the assets is reduced and secondly cash reserves in the deals are released back to the Group's general funds.

Mortgage assets acquired through Idem Capital, previously funded by Group resources, were also included in a securitisation for the first time in the year. This proves the viability of this funding channel for Idem Capital and releases free cash for future developments of the business.

Idem Capital funding

In January 2014 an Idem special purpose vehicle company ('SPV') issued £130.6 million of sterling floating rate notes to Bank of America Merrill Lynch International Limited. These notes bear interest at a rate of one month LIBOR plus 3.00% and the proceeds of the issue were used to part-fund the purchase of a portfolio of UK second charge residential mortgage loans, on which the borrowing is secured.

In April 2014, another Idem SPV entered into a £55.0 million bank facility with Goldman Sachs Bank USA. This facility, which bears interest at a rate of one month LIBOR plus 3.75%, was used to re-finance existing Idem Capital unsecured loan assets, previously funded intra-group and is secured on those assets.

These structured borrowings, on a limited recourse basis, are the first completed by Idem Capital, broadening its sources of finance and demonstrating its ability to access third party funding, both at the point of the acquisition of assets and during their lifetimes, significantly increasing the range of propositions which the Group is able to consider.

Paragon Bank funding

During the year Paragon Bank was authorised to accept deposits in the retail banking market by the PRA. The Bank has initially targeted the savings market in the UK and deposits are accepted over the internet and processed by a highly automated system with significant scope for future expansion. With the bank expected to contribute increasingly to the Group's originations, the scale of its deposit taking activities is expected to expand materially over the next few years.

Initially deposits accepted by the Bank were used to finance its car finance lending operations, expanding into buy-to-let towards the end of the year. By 30 September 2014 Paragon Bank held deposits of £60.1 million.

Corporate funding

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

In February 2014, the Group issued £125.0 million of 6.125% sterling bonds due January 2022. The bonds, listed on the London Stock Exchange Order Book for Retail Bonds, were issued to provide additional working capital for the Group. This was the second transaction under a £1.0 billion Euro Medium Term Note Programme announced in January 2013, following the previous issuance of £60.0 million in March 2013 and brought the total issued under the programme to £185.0 million. Following the year end, in October 2014, this programme was renewed to allow further issuance.

Further information on all of the above borrowings is given in note 51.

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

Capital management

The Group has continued to enjoy strong cash generation during the year. Free cash balances were £177.3 million at the year-end (30 September 2013: £170.8 million) (note 39) after investments to support the launch of Paragon Bank, new buy-to-let originations and acquisitions by Idem Capital. The Company sees opportunities going forward to deploy capital for new lending activities, which should continue to increase, and to invest further amounts in loan portfolios through Idem Capital as banks and other financial institutions continue to dispose of assets. These cash balances, together with future operational cashflow, will support the Group's growth through investment in these areas.

In pursuance of its dividend policy, and in view of the strong position of the Group and its confidence in the prospects for the business, the Board proposes, subject to approval at the Annual General Meeting on 12 February 2015, a final dividend of 6.0p per share which, when added to the interim dividend of 3.0p, gives a dividend of 9.0p per share for the year. This represents an increase of 25.0% from 2013, bringing the dividend cover to 3.5 times (2013: 3.9 times). The Group's dividend policy, established in 2012, is to target a cover ratio of 3.0 to 3.5 times by 2016. Whilst the top end of this range has been reached as a result of this proposed final dividend, the Group will continue to target reductions in the cover ratio to the lower end of the target range by 2016.

The PRA supervision of the Group referred to above imposes capital adequacy rules upon it. The Group maintains extremely strong capital and leverage ratios, with a CET1 ratio of 19.7% at 30 September 2014 and a leverage ratio at 8.3% (note 6) leaving the Group's capital at 30 September 2014 comfortably in excess of the regulatory requirement.

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

In view of the strong capital base and low leverage in the Company's balance sheet, the Board has determined that the Group's debt and equity capital resources should be rebalanced to deliver returns at a higher rate to shareholders. The Group expects to access either the sterling senior unsecured debt market or the UK retail bond market during the coming year to add incremental long-dated debt to the Group balance sheet. The Group will also commence a share buy-back programme which will take place over the coming year, initially up to £50.0 million, to be reviewed periodically to take account of anticipated investment opportunities and the balance of the Group's debt and equity capital resources. The Company intends that the repurchased shares will be held in treasury.

The Company currently has the necessary shareholder approval to undertake such share buy-backs and will propose the appropriate renewal of the relevant authority at its 2015 Annual General Meeting, when a special resolution seeking authority for the Company to purchase up to 30.6 million of its own shares (10% of the issued share capital) will be put to shareholders.

A3.4 MANAGEMENT AND PEOPLE

Nick Keen, who had been Finance Director since 1995, retired from the Board on 31 May 2014. Nick had been an outstanding member of the team over the years and we are pleased to have retained Nick's services as part-time chairman of the Idem Capital division.

Richard Woodman, previously Director of Corporate Development, was appointed as Finance Director with effect from 31 May 2014. Richard, who is a member of the Chartered Institute of Management Accountants, joined the Group in 1989 and has a wealth of experience within the Group, having held a number of senior strategic and financial roles, including line management responsibility for internal audit and serving as Director of Business Analysis and Planning, prior to being appointed to the Board in February 2012. Richard worked closely with Nick over many years which ensured a smooth transfer of responsibility.

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

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

Dave Newcombe, the Group's former Director of Consumer Loan Servicing, has succeeded Richard Woodman in the role of Managing Director of Idem Capital. In September, Pam Rowland joined the Group as Chief Operating Officer. Pam was formerly Managing Director Change Delivery at Barclays UK Retail and Business Banking.

Our people are important to us and to the future growth and development of the Group. The training and development of our employees together with our rigorous recruitment process are a key part of the Group's organic growth strategy and underpin the strong progress it has made. In May 2014 the Group achieved Investor in People Champion status, placing it in the top 1% of companies in the UK.

A3.5 CONCLUSION

The developments delivered during 2014, enhancing both the scale and breadth of Paragon's business activity, together with the funding diversification progress leave the Group in a position to continue to deliver strong growth into the future. The authorisation of Paragon Bank has provided a catalyst to add incremental income streams and diversify further the Group's funding sources.

We see significant opportunities for growth from our existing businesses and the potential to develop additional products, leaning on the Group's skills and expertise. The highly efficient cost base and improving funding terms provide a strong foundation from which to offer competitive products for our customers. Nevertheless, we remain firmly committed to maintaining a robust and defensive risk appetite, reflected in prudent capital and liquidity policies, together with a rigorous approach to credit and conduct risk for the benefit of our customers, shareholders, and wider stakeholders.

Each of our buy-to-let and debt purchase businesses have firmly established franchises and are achieving strong growth with good profits. We expect Paragon Bank to grow strongly, targeting a break even in 2016, and the generation of substantial profits and returns thereafter.

Excellent progress has been achieved in growing profits while the Group benefits from a strong capital position and I am pleased to announce a 25% increase in the dividend, as well as an initial £50.0 million share buy-back programme, as we seek to complement strong and sustainable growth with improving shareholder returns.

NIGEL S TERRINGTON
Chief Executive
25 November 2014

A4 Going concern

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position, are described in the Chairman's Statement in section A1 and Chief Executive's review in section A3. The principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described in section A2.2.

Note 6 to the accounts includes an analysis of the Group's working and regulatory capital position and policies, while note 7 includes a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, interest rate and liquidity risk. Critical accounting estimates affecting the results and financial position disclosed in this annual report are discussed in note 5.

As described under 'Accountability' in section B2, the Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows. Detailed plans are produced for a rolling 24 month period with longer term forecasts covering a 5 year period. These plans provide information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short term and strategic basis.

The securitisation funding structures described in note 7 ensure that both a substantial proportion of the Group's originated loan portfolio and a significant amount of its acquired Idem Capital assets are match-funded. Repayment of the securitisation borrowings is restricted to funds generated by the underlying assets and there is limited recourse to the Group's general funds. Recent and current loan originations utilising the Group's available warehouse facilities described in note 7 are refinanced through securitisation from time to time.

The Group's retail deposits of £60.1 million, accepted through Paragon Bank are repayable within two years. The liquidity exposure represented by these deposits is monitored, a process supervised by the Asset and Liability Committees of the Group and Paragon Bank. The Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 30 September 2014 Paragon Bank held £100.0 million in liquid assets, £39.4 million of short term investments (note 38) and £60.6 million of cash (note 39).

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

During the year the Group raised a further £125.0 million of working capital though the issue of retail bonds, under a programme renewed after the year end. This increases the outstanding balance to £185.0 million, none of which is repayable before December 2020.

The Group also raised external debt finance for its acquired assets for the first time during the year. The Group has therefore significantly enhanced its access to funding for its business during the year and at 30 September 2014 the Group had free cash balances of £177.3 million immediately available for use (note 39).

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

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

A5 Corporate responsibility

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

A5.1 EMPLOYEES

The welfare, development and engagement of the Group's employees are central to developing a strong culture, with employee capability and motivation acknowledged as being central to delivery of the Group's strategy.

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

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

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

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

Equality and diversity

The Group is committed to providing a working environment in which employees feel valued and respected and are able to contribute to the success of the business, and to employing a workforce that recognises the diversity of its customers. Employees are requested to co-operate with the Group's efforts to ensure the policy is fully implemented.

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

- race, colour, nationality (including citizenship), ethnic or national origins
- gender, sexual orientation, marital or family status
- religious or political beliefs or affiliations
- disability, impairment or age
- real or suspected infection with HIV/AIDS
- membership of a trade union

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

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

A5.1 Employees continued

Composition of the workforce

During the year the workforce has grown by 13.4% to 991 people (2013: 874). Information on the composition of the workforce at the year end is summarised below:

		2014 Females	2014 Males	2013 Females	2013 Males
Employees	(Number)	562	430	490	378
	(Percentage)	56.7%	43.3%	56.5%	43.5%
Management grade employees	(Number)	72	99	65	88
	(Percentage)	42.1%	57.9%	42.5%	57.5%
Senior managers	(Number)	4	15	3	13
	(Percentage)	21.1%	78.9%	18.8%	81.2%
Directors	(Number)	1	7	1	8
	(Percentage)	12.5%	87.5%	11.1%	88.9%

Of these employees, ethnic minority employees comprised 13.2% of the workforce (2013: 12.4%) and 4.7% of management grade employees (2013: 5.9%).

Employees on temporary or short term contracts accounted for 6.4% of the workforce (2013: 3.5%).

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

Training and development

The Group has been accredited under the 'Investors in People' scheme since 1997 and achieved Champion status in May 2014, which is given to organisations who are seen as pioneers in people management practices and role models in strategic leadership and is currently held by only 1% of companies in the UK. This demonstrates the Group's commitment to the training and development of all its employees.

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

The corporate training and development strategy focuses on providing opportunities to develop all employees and is central to the achievement of the Group's business objectives. On average employees received 13.7 days training in the year (2013: 8.7 days).

Employees' involvement

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

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

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

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

Health and Safety policy

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

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

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

Health and safety policies and procedures are managed by the Group Services Division which liaises with senior management and Human Resources as necessary.

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

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

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

The Group's health and safety policy is continually monitored and updated, particularly when changes in the scale or nature of our operations occur. The policy is reviewed at least every twelve months. Live issues and risks are recorded and monthly measures and metrics are issued to the Operational Risk Committee.

ISO18001 was obtained during 2013 and is audited every six months by an external consultant, to benchmark the Group's health and safety practices. In addition, a health and safety co-ordinator is employed within Group Services to manage all health and safety matters, including policies, procedures, risk assessments and training records.

A5.2 ENVIRONMENTAL POLICY

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

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

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

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

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

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

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

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

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

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

Performance indicators

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

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

This information is presented for the 12 months ended 30 September in each year and includes all entities included in the Group's financial statements. Normalised data is based on total operating income of £197.9m (2013 (restated): £177.6m).

Greenhouse gas ('GHG') emissions

		2014 Tonnes CO_2	2013 Tonnes CO_2
Scope 1 (Direct emissions)			
Combustion of fuel:	Operation of gas heating boilers	654	638
	Petrol and diesel used by company cars	200	202
Operation of facilities:	Air conditioning systems	28	25
		882	865
Scope 2 (Energy indirect emissions)			
Directly purchased electricity		2,046	1,792
Total scope 1 and 2		2,928	2,657
Normalised tonnes - scope 1 and 2 CO_2 per £m income		14.8	15.0
Scope 3 (Other indirect emissions)			
Fuel and energy related activities not included in scope 1 or 2		312	302
Water consumption		8	8
Waste generated in operations		16	18
Total scope 3		336	328
Total scopes 1, 2 and 3		3,264	2,985
Normalised tonnes scope 1,2 and 3 CO_2 per £m income		16.5	16.8

The increases in absolute GHG levels shown above relate principally to the increased levels of business activity in the year. There have been no major increases within the capacity of the Group's occupied office space, as a result of which the normalised GHG levels have fallen.

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

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

CO2 values above are calculated based on the DEFRA / DECC guidelines published in May 2014. CO2 values for the year ended 30 September 2013 have been restated for the revised conversion factors published by DEFRA / DECC.

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

A5.2 Environmental policy continued

Power usage

The Group uses mains electricity and natural gas from the UK grid to provide heat, light and power to its office buildings. The amount of power used in the year ended 30 September 2014 is shown below.

	2014 MWh	2013 MWh
Electricity	3,592.8	3,474.2
Natural gas	3,536.9	3,467.8
	7,129.7	6,942.0
Normalised MWh per £m income	36.0	39.1

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

Water usage

The Group's water usage is limited to the consumption of piped water in the UK. No water is extracted directly. Water usage in the year ended 30 September 2014 was 7,766m^3 (2013: 7,720m^3), based on consumption recorded on purchase invoices, a normalised amount of 39.2m^3 per £m income (2013: 43.5m^3 per £m income).

Waste

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

Amounts of waste generated in the year ended 30 September 2014 and the methods of disposal are shown below.

	2014 Tonnes	2013 Tonnes
Recycled	87	88
Landfill	69	80
	156	168
Normalised tonnes per £m income	0.8	0.9

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

A5.3 SOCIAL, COMMUNITY AND HUMAN RIGHTS

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

Commitment to our customers

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

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

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

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

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

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

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

Complaint handling

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

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

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

Charitable contributions

The Group contributes to registered charities relating to financial services or serving the local communities in which it operates. Contributions of £1,137,000 (2013: £917,000) were made by the Group during the year to the work of the Foundation for Credit Counselling which operates StepChange Debt Charity. The increase in contributions from the previous year reflects the numbers of customers in acquired loan portfolios already making use of the charity's services. The Group has also contributed to charities throughout the year by way of single donations.

Other charitable contributions made in the year totalled £17,000 (2013: £21,000). The Group's main objective is to support children's and local charities, although no charity request is overlooked. During the last year the Group has helped many and varied charities and causes such as: Butterflies Children's Charity, Chicks, Solihull Metropolitan Borough Girls Football Team, Silverdale JFC, Handicapped Children's Action Group, The Jennifer Trust, Children with Cancer UK, Children's Heart Foundation, Kids in Action, Wellchild, Rotary Club of St Alphege Youth Speaks, Brainwave, Multiple Sclerosis Society, Lewy Body Society, Motability, Special Needs Adventure Playground, 3H Fund, County Air Ambulance, St Theresa Roman Catholic School, Myton Hospice, Shirley Lions Club, Second Chance, Happy Days, Strongbones Children's Charitable Trust, Vitalise, Rehab, Douglas Bader Foundation, Openwork Cycle Challenge, Macmillan, Disability Aid Trust, Cancer Research and Intouch.

The Group also supports Paragon's Charity Committee, consisting of volunteer employees, which organises a variety of fundraising activities throughout the year. In the calendar year 2013 £15,047 was raised for Macmillan Cancer Support and RSPCA Birmingham, while in the first nine months of 2014 £9,433 has been raised which will be shared between Wythall Animal Sanctuary and Libby Mae's Little Angels. All employees are given the opportunity to nominate a charity each year and a vote is carried out to select the charity or charities to benefit from the following year's fundraising.

Taxation payments

The Group's policy is to comply with all relevant tax laws and regulations and fulfil all of its obligations as a responsible tax payer. It structures its activities based on their commercial substance and the requirements of its funding providers, rather than for tax purposes.

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

	2014 £m	2013 £m
Corporation tax	17.4	22.0
PAYE and National Insurance	17.9	16.1
VAT	0.3	0.4
Total national taxation	35.6	38.5
Business rates	1.1	1.2
	36.7	39.7

The fall in corporation tax paid in the year relates principally to the size and timing of payments on account to HMRC. Corporation tax payable at the year end had increased from £5.9m at 30 September 2013 to £11.9m at 30 September 2014 (note 55).

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

Business practices

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

The Group has carried out the risk assessment required by the Bribery Act 2010 and concluded that it is not a company with a high risk of bribery. The Group conducts all of its business within the UK and with very little outsourcing. However the Group takes its responsibilities seriously and will not tolerate bribery on any scale and, as such, policies have been strengthened and new ones introduced where appropriate.

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

All employees are required to read the Group's anti-bribery and corruption policy and sign to confirm their acknowledgement, understanding and acceptance of its requirements. The anti-bribery culture forms part of the induction course for all new starters and the message is reinforced at any subsequent training sessions. Any employee found to be in breach of these policies will be subject to disciplinary action. No such disciplinary action has taken place in the year ended 30 September 2014.

The Group Director of Legal Services, in conjunction with the Head of Financial Crime Investigations, is responsible for ensuring the Bribery Act risk assessment and resulting policies and procedures are in place and reviewed on a regular basis. They are also responsible for ensuring any changes in the law are noted and applied to the Group's policies and procedures, where appropriate.

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

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

Human rights

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

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

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

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

A6 Approval of strategic report

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

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

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

PANDORA SHARP
Company Secretary
25 November 2014

B Corporate governance

B1 Board of Directors

Robert G Dench - Chairman
Age 64

Bob Dench joined the Group as a non-executive director in September 2004 and was appointed Chairman in February 2007. During an extended career with Barclays he held a number of senior positions in the UK and overseas, leaving in 2004. He is also a non-executive director of AXA UK plc and Chairman of AXA Ireland Limited.

Nigel S Terrington - Chief Executive
Age 54

Nigel Terrington is Chief Executive of the Group. He joined in 1987 and became Chief Executive in 1995, having previously held the positions of Treasurer and Finance Director. Prior to joining the Group, he worked in investment banking. He is currently a member of HM Treasury's Home Finance Forum, the Bank of England's Residential Property Forum and the Chairman's Committee and the Executive Committee of the Council of Mortgage Lenders ('CML'). He has previously held the positions of Chairman of the CML, Chairman of the Intermediary Mortgage Lenders Association ('IMLA'), Chairman of the Finance and Leasing Association ('FLA') Consumer Finance Division and a board member of the FLA. He is an associate of the Chartered Institute of Bankers.

Richard J Woodman - Group Finance Director
Age 49

Richard Woodman was initially appointed to the Board as Director of Corporate Development in 2012, before being appointed Group Finance Director in June 2014. He joined the Group in 1989 and has held various senior strategic and financial roles, latterly as Director of Business Analysis and Planning and Managing Director of Idem Capital. He has taken a lead role in the Group's strategic development and, in particular, in the portfolio acquisition programme through Idem Capital. He is a member of the Chartered Institute of Management Accountants.

John A Heron - Managing Director – Paragon Mortgages
Age 55

John Heron joined the Group in January 1986. He was appointed as Marketing Director in 1990 and in 1994 played a pivotal role in re-establishing the Group's mortgage lending operations as Managing Director of Paragon Mortgages. He joined the Board in 2003 and is responsible for the Group's first mortgage business. He is a Fellow of the Chartered Institute of Bankers, Chair of the CML's buy-to-let panel and a member of the IMLA board.

Edward A Tilly - Non-executive director
Age 71

Ted Tilly was appointed as a non-executive director on 1 April 2008. He was the senior independent director of Retail Decisions PLC from January 2000 until January 2007. He has held a number of directorships including Chairman of Barclays Life Assurance Company Limited from 1999 to 2003. Prior to this he was Chairman and Chief Executive of GE Capital's European insurance division. He was with the Legal & General Group for nearly thirty years where he held a number of senior positions including Director Life and Pensions and Director International. He is the Group's Senior Independent Director.

Alan K Fletcher - Non-executive director
Age 64

Alan Fletcher was appointed as a non-executive director on 25 February 2009. He has considerable experience in financial services, including pension fund trusteeship and investment fund management. He was Chairman of Neville James Holdings prior to its acquisition by Challenger International of Australia, following which he was Sales and Marketing Director of Challenger Group Services and a director of Challenger Life (UK) from 2002 to 2003. He was Chairman of the professional training company, Fresh Professional Development, from 2003 to 2010. He was a member of the General Synod of the Church of England between 2007 and 2010. He has been a member of the Church of England Pensions Board since 2009 and is also a member of its Investment Committee and Chairman of the Housing Committee. He is Chairman of the Group's Remuneration Committee.

Peter J N Hartill - Non-executive director
Age 65

Peter Hartill was appointed as a non-executive director on 11 February 2011. A Chartered Accountant, he is currently Chairman of Deeley Group Limited and a non-executive director of Scott Bader Limited. Previously, he spent forty years with Deloitte, becoming a senior audit partner and a business advisor with experience across a wide range of industries and business issues. Specifically he has considerable experience in acquisitions and disposals, capital raising, risk control and corporate governance in the financial services sector. He is Chairman of the Group's Audit Committee.

Fiona J Clutterbuck - Non-executive director
Age 56

Fiona Clutterbuck was appointed as a non-executive director on 12 September 2012. She is currently the Head of Strategy, Corporate Development and Communications at the Phoenix Group and is also senior independent director of WS Atkins plc and brings to the Board a substantial level of corporate finance experience, having previously held the positions of Managing Director and Head of Financial Institutions Advisory at ABN AMRO Investment Bank, Managing Director and Global Co-Head of Financial Institutions Group at HSBC Investment Bank and Director at Hill Samuel Bank Limited. She is Chairman of the Group's Risk and Compliance Committee.

Hugo R Tudor - Non-executive director
Age 51

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

B2 Corporate governance

Good corporate governance is essential to the ethos of the Paragon Group. The Board is responsible for overall Group strategy and for the delivery of that strategy within a strong corporate governance and corporate responsibility framework.

In April 2014 a review was undertaken of the Group's Governance and Risk Management Framework, excluding Paragon Bank, for a number of reasons including to take account of changes in best practice; the need for enhanced management of regulatory and conduct risks to ensure positive outcomes for customers; the Group's increased exposure to regulatory authorities including, but not limited to, the need for a number of entities within the Group to apply for FCA authorisation during 2015 in relation to their consumer credit activities, and the evolving expectations of external stakeholders. The outcome of this review, in so far as it related to the Company's governance structure, is detailed in this section.

Paragon Bank's governance and risk management framework was established as part of its start-up processes and reflects a similar governance structure to that of the Company with a corporate board, audit committee, remuneration committee and risk and compliance committee and executive committees including an operational risk and compliance committee, asset and liability committee and credit committee. The board of Paragon Bank includes two independent non-executive directors and the intention is to appoint a third.

The Board of Directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council ('FRC') in September 2012 and which is publicly available on their website at www.frc.org. Throughout the year ended 30 September 2014 the Company complied with the provisions of the Code.

The FRC introduced a revised Code for financial years commencing on or after 1 October 2014 and consequently the Group will be reporting against the new Code for the financial year ending 30 September 2015 and work is under way to ensure that we comply with the revised Code.

Leadership

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

During the year the Board of Directors comprised the Chairman, the executive directors (four for the first eight months of the year and three for the remaining four months) and four independent non-executive directors. A further non-executive director was appointed after the year end. All of the directors bring to the Company a broad and valuable range of experience. The names of the directors in office at the date of this report and their biographical details are set out in section B1.

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

The Chairman's other business commitments are set out in the biographical details in section B1 and there have been no significant changes during the period to those commitments.

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

The Board also operates through a number of committees covering certain specific matters, these being:

Board committees

- The Remuneration Committee, which during the year consisted of Alan Fletcher (who chairs the Committee), Fiona Clutterbuck, Peter Hartill and Edward Tilly, all of whom were independent non-executive directors, and the Chairman of the Company, Robert Dench.

- The Audit Committee (formerly the Audit and Compliance Committee), which during the year consisted of Peter Hartill (who chairs the Committee), Fiona Clutterbuck, Alan Fletcher and Edward Tilly, all of whom were independent non-executive directors. The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Committee meets at least three times a year.
- The Risk and Compliance Committee, which was established during the year and consisted of Fiona Clutterbuck (who chairs the Committee), Peter Hartill, Alan Fletcher and Edward Tilly, all of whom were independent non-executive directors and the Chairman of the Company, Robert Dench. The Committee first met in June 2014 and will meet at least four times a year.
- The Nomination Committee, consisting of Robert Dench, who chairs the Committee, Nigel Terrington and all of the non-executive directors, ensuring that a majority of the Committee's members are independent non-executive directors.

Executive committees

- The Asset and Liability Committee, consisting of the heads of relevant functions and chaired by Nigel Terrington, the Chief Executive. The Committee meets regularly and monitors Group liquidity risks, interest rate risks, currency risks and treasury counterparty exposures. Further information on the Group's financial risk management procedures and the Committee's part in them is given in note 7 to the accounts.
- The Credit Committee, consisting of the heads of relevant functions and chaired by Richard Woodman, the Group Finance Director. It meets regularly and is responsible for establishing credit policy and monitoring compliance therewith.
- The Operational Risk and Compliance Committee, consisting of the heads of relevant functions and chaired by the Chief Operating Officer. This Committee was established following the review of the Group's governance and risk management framework and first met in October 2014. It will meet regularly and is responsible for operational, conduct and business risks.

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

The attendance of individual directors at the regular meetings of the Board and its committees in the year is set out below, with the number of meetings each was eligible to attend shown in brackets. Directors who are unable to attend meetings will receive the papers and any comments will be reported to the relevant meeting. Directors have attended a number of ad hoc meetings during the year in addition to the regular Board meetings and have contributed to discussions outside of the regular meeting calendar.

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

The work of the board committees is described further in sections B2.1, B2.2, B2.3 and B3.

Effectiveness

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

All of the directors holding office at the year end were re-elected at the Annual General Meeting on 6 February 2014 and all of them have submitted themselves for re-election at the forthcoming Annual General Meeting.

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

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

The composition of the Board and its committees is kept under review, with the aim of ensuring that there is an appropriate balance of power and authority between executive and non-executive directors and that the directors collectively possess the skills and experience necessary to direct the Company and the Group's business activities.

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

Succession planning has been reviewed and developed across the Group during the year under review and has been an important area of focus for the Board and senior management. In relation to the Board the planned succession of Richard Woodman as Group Finance Director in place of Nicholas Keen progressed smoothly with Richard Woodman undertaking, or being significantly involved in, a number of the finance operations which did not directly report to him before 1 June 2014 several months before he was appointed Group Finance Director.

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

The Board, individual directors and board committees are appraised annually. No review was undertaken of the Risk and Compliance Committee during the year ended 30 September 2014, as it had only met once towards the end of that period. The Risk and Compliance Committee will be included in the annual appraisal of committees during 2015.

During the year ended 30 September 2013 the Board conducted a formal and rigorous performance review, which was facilitated by Socia Limited, who have no other connection with the Group. The facilitator's formal report stated that the review indicated that the Company met the requirements of the Code. An internally facilitated review was undertaken in the year ended 30 September 2014 and no issues arose which were required to be addressed.

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

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

All of the non-executive directors have received presentations during the year on various aspects of the Group's activities. In addition training has been provided by the auditors, Deloitte and other external advisers on topics such as governance, financial reporting and regulation.

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

Accountability

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

The directors' responsibility for the financial statements is described in section B5.

An on-going process for identifying, evaluating and managing the significant risks faced by the Group, which is regularly reviewed by the Board, was in place for the year ended 30 September 2014 and to the date of these financial statements. The directors confirm that they have reviewed the effectiveness of the Group's system of internal control for this period and that these procedures accord with the guidance 'Internal Controls: Guidance for Directors on the Combined Code'.

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

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

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

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

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

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

The system of internal control is monitored by management and by an internal audit function that concentrates on the areas of greater risk and reports its conclusions regularly to management and the Audit Committee. The internal audit work plan is approved annually by the Audit Committee, which reviews the effectiveness of the system of internal control annually and reports its conclusions to the Board. Further details of the role and activities of the Audit Committee and its relationship with the internal and external auditors are set out in section B2.1. The Risk and Compliance Committee will review the Group's risk management framework and the effectiveness of the Group's systems and controls. There will be overlap between the work of the Audit Committee and that of the Risk and Compliance Committee from time to time and the Board will monitor these areas to ensure that no gaps develop in the system of internal control.

Remuneration

Information on how the Group has applied the provisions of the Corporate Governance Code relating to remuneration is set out in the Directors' Remuneration Report in section B3.

Relations with shareholders

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

The Chairman, Chief Executive and Group Finance Director have a full programme of meetings with institutional investors during the course of the year and investors' comments are communicated to all members of the Board, enabling them to develop an understanding of the major shareholders' views of the Group. During the year ended 30 September 2014 meetings were held with investors from the UK, Europe and North America. From time to time other presentations are made to institutional investors and analysts to enable them to gain a greater understanding of important aspects of the Group's business.

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

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

The Senior Independent Director is available to meet with shareholders should they wish to do so and such meetings can be arranged via the Company Secretary.

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

B2.1 AUDIT COMMITTEE

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

The Committee's responsibilities include:

- monitoring the integrity of the Group's financial reporting;

- reviewing the Group’s internal control systems;
- monitoring and reviewing the effectiveness of the Group’s internal audit function; and
- monitoring the relationship between the Group and the external auditor.

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

Until the establishment of the Risk and Compliance Committee in the year the Committee, as the Audit and Compliance Committee, was also responsible for those matters now within the scope of the Risk and Compliance Committee.

Meetings

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

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

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

The Chairman of Paragon Bank’s audit committee is invited to meetings of the Committee when matters relating to the bank are to be discussed.

Significant issues addressed by the Committee in relation to the Financial Statements

The Committee considers whether the accounting policies adopted by the Group are suitable and whether significant estimates and judgements made by the management are appropriate. In evaluating the Group’s financial statements for the year ended 30 September 2014 the Committee considered particularly:

- the calculation of interest income under the Effective Interest Rate method for both internally originated and purchased loan assets;
- the levels of impairment provision against loan assets;
- the valuation of the deficit in the Group’s defined benefit pension scheme; and
- the Group’s capital and funding position and the Group forecasts for future periods.

In each of these areas the Committee was provided with papers discussing the position shown in the accounts, the underlying market conditions and assumptions and the methodology adopted for any calculations. These were reviewed in detail and discussed with the relevant Group staff and the results of this work were considered, together with the results of testing by the external auditor.

The Committee also considered whether this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s performance, business model and strategy.

The Committee was able to reach satisfactory conclusions on all of these areas and therefore resolved to commend the Annual Report to the Board for approval.

External auditor

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

Audit tendering

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

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

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

The Committee has considered the terms of the Order and the increasing frequency of audit tenders seen among comparable companies and has concluded that the interests of good governance would be best served by putting the Group audit out to tender during the financial year ending 30 September 2015. The Group will inform shareholders of the outcome of this process by the time of the announcement of the 2015 results and the successful candidate will be placed before the members for approval at the Annual General Meeting to be held in 2016. If approved they will first report on the financial year ending 30 September 2016. In order to allow time for this process the Committee has recommended that Deloitte be retained as auditor for the year ending 30 September 2015.

The Committee has not identified any factors which might restrict its choice of external auditor.

Audit effectiveness

The Committee have considered the effectiveness of the external audit for the year ended 30 September 2014 and the Group's relationship with the external auditor, Deloitte LLP, on an on-going basis, and have conducted a formal review of the effectiveness of the annual audit before commending this Annual Report to the Board. This review consisted of considering a list of relevant questions, together with the senior financial management of the Group, without the external auditor present, and then discussing the evaluation with the auditors. The Committee was able to conclude, on the basis of this exercise and its experience over the year that the external audit process remained effective and that the auditor was independent and objective. A further review will be carried out following the completion of audit procedures on all Group companies and reported on in next year's annual report.

The effectiveness review undertaken at the time of approval of the 2013 Group accounts was updated once the audit process for all Group companies had been completed and affirmed the original conclusion that the external audit was independent and objective and that the audit process was effective for that financial year.

Before recommending their reappointment to the Board, the Committee engaged with the auditors to ensure that they are still providing the required quality of service and remained independent. During the year the external auditor presented the Committee with their firm's transparency report, which is intended to demonstrate the steps it takes to ensure audit quality with reference to the Audit Quality Framework issued by the Professional Oversight Board of the Financial Reporting Council. More specifically the Committee considered whether the auditor's understanding of the Group's business, their access to appropriate financial services and regulatory specialists within their firm, both locally and nationally, and their understanding of the sectors in which the Group operates were appropriate to the Group's needs. It also assessed the performance of the audit, as described above, the auditor's conduct of their relationship with the Group and the requirements of the Group's financial control process. On this basis the Committee concluded that it might recommend to the Board that the reappointment of Deloitte LLP should be proposed at the forthcoming Annual General Meeting, in accordance with the tendering timetable described above.

Independence

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

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

Fees paid to the external auditor are shown in note 17 to the Accounts. Other than services required to be provided by external auditors by legislation or regulation, non-audit services relate to taxation, securitisation reporting, corporate finance activity and the advisory work in connection with the Group's application for a banking licence (shown as 'other services' in note 17).

In respect of taxation services the Committee has considered the services provided and concluded that the understanding of the Group and the industry demonstrated by the advisers make them well placed to meet the Group's needs. In respect of the securitisation reporting services, the external auditor's firm was selected to provide these services as they were considered to offer the most appropriate skills and experience for the projects concerned in a cost-effective manner, given their existing knowledge of the Group's systems. In respect of the corporate finance services, these represent a success fee that was specific to the transaction concerned and the use of the external auditor's firm was approved by the Committee after having received confirmation from the auditor that they had taken specific steps to protect their independence in accordance with the Auditing Practices Board's Revised Ethical Standards for Auditors. The auditor has confirmed that the engagement team had no connection with this assignment, the work was carried out by a different department within their firm and that the transaction had no impact on audit judgments.

Overall the fees paid to the external auditor for non-audit services (excluding VAT), were £1,158,000 (2013: £1,185,000), which is equivalent to 67% of the total fees paid to them. However £500,000 relates to a success fee payable in the corporate finance transaction described above. Excluding this item, non-audit fees represent 54% of the total.

The Group actively considers other providers for the type of non-audit services provided by the external auditor's firm and has engaged with other audit firms in the period.

Internal audit

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

Reports on internal audit work have been received by the Committee and, where necessary appropriate actions have been recommended to the Board.

The results of this work, together with the Committee's engagement with the management information of the Group and the executive directors, has enabled them to conclude that the statements given in section B2 relating to the Group's systems of internal control and its management of risk are appropriate.

B2.2 RISK AND COMPLIANCE COMMITTEE

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

The Committee's responsibilities include reviewing:

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

Meetings

The Committee meets at least four times a year and has an agenda linked to the financial year. The Committee normally invites the executive directors, Director of Group Risk, Chief Risk Officer of Paragon Bank, Director of Legal Services and Head of Internal Audit to attend meetings of the Committee, although it reserves the right to request any of these individuals to withdraw. The Committee meets with the Director of Group Risk and the Chief Risk Officer of Paragon Bank at least once a year, without the presence of executive management, to discuss their remits and any issues arising from those remits. The Committee shall also have the opportunity to meet with the Head of Internal Audit and/or the external auditor without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.

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

Significant issues addressed by the Committee

The Committee is developing its annual schedule of events as the Group's governance and risk framework is developed and embedded across the Group. It regularly receives the minutes of the Asset and Liability, Credit and Operational Risk and Compliance Committees for consideration together with regulatory updates and oversight of the Group's application for authorisation under the FCA's consumer credit regime.

B2.3 NOMINATION COMMITTEE

The Nomination Committee consists of the Chairman of the Company, Robert Dench, who chairs the Committee, Nigel Terrington and all of the non-executive directors, ensuring that a majority of the Committee's members are independent non-executive directors. The Committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board.

The Group recognises the importance of diversity, including gender diversity, at all levels of the organisation including the Board and the contribution which it can make to Board effectiveness. The Group's diversity policies are described in section A5.1 of the Annual Report, where information on the composition of the workforce is also given. The Group recognises the importance of diversity on the Board, not only of gender, but also of experience and background, and the valuable contribution which such diversity can make towards achieving the appropriate balance of skills and knowledge which an effective board of directors requires.

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

The Committee engages in the process of identification of suitable candidates for appointment to the Board at its request. No meetings of the Committee took place during the year ended 30 September 2014. The Committee did meet to consider and subsequently recommend the appointment of Hugo Tudor to the Board in conjunction with Mr Tudor meeting with the Chairman and other Board members, his attendance as an observer at meetings of the Board and its committees, and reference checking by the Company.

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B3 Directors' remuneration report

This report covers the activities of the Remuneration Committee for the year ended 30 September 2014 and sets out the remuneration policy and remuneration details for the executive and non-executive directors of the Company. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008, as amended in August 2013, and the principles of the UK Corporate Governance Code.

The report is split into three main areas: the Statement by the Chairman of the Committee (B3.1), the Annual Report on Remuneration (B3.2) and the Policy Report (B3.3). The Annual Report on Remuneration provides details on remuneration in the period and some other information required by the Regulations. It will be subject to an advisory shareholder vote at the Annual General Meeting. The Policy Report which sets out the directors' remuneration policy was subject to a binding shareholder vote at the Annual General Meeting held on 6 February 2014. This policy will apply until the Annual General Meeting in 2017, unless revised by a vote of shareholders ahead of that time. It is not proposed to amend the directors' remuneration policy at the Annual General Meeting in 2015.

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

B3.1 STATEMENT BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE

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

Dear Shareholder

The philosophy underpinning the Group's remuneration policy seeks to produce an outcome which is fair and appropriate to the Company, its shareholders, senior executives and staff. Company performance is central, with the focus being on short and long term qualitative and quantitative objectives with an emphasis on strong risk management. The Group has made excellent progress against the objectives set at the beginning of the financial year: underlying operating profit has increased by 18.1% to £122.2 million, £656.6 million of first mortgage loans were advanced, whilst maintaining high credit standards, £175.7 million was invested in loan portfolios, two public securitisations were completed on improving terms, warehouse funding facilities were increased and extended, and Paragon Bank was launched, marking the Group's return to consumer lending. The Committee has reflected this positive performance in applying the remuneration policy.

Performance bonuses of 100% of maximum for Mr N S Terrington, 100% of maximum for Mr R J Woodman for the period from 1 October 2013 to 31 May 2014, when he became Group Finance Director and 85% of maximum for the remainder of the year, 75% of maximum for Mr J A Heron and 75% of maximum for Mr N Keen for the period up to 31 May 2014, the date of his retirement as a director, have been awarded. In reaching this decision, the Committee has reviewed performance against a number of financial and risk based targets, taking into account individual performance, as discussed in more detail in section B3.2.1 below.

Long term incentives ('LTIs') which were granted in December 2010 matured in December 2013. These awards were subject to a Total Shareholder Return ('TSR') performance condition, measured against the FTSE-250 Index over the three year period from the date of grant. The Company's performance over the period ranked in the upper quartile and it is the judgement of the Committee that these rewards to executives are a fair reflection of performance over the period, and therefore the awards vested in full.

During the year the Committee considered various aspects of its policy on executive director remuneration. In particular the use of Earnings Per Share ('EPS') performance conditions in the Group's LTIs and the levels at which these were set was rigorously examined by the Committee to ensure that they were both appropriate and sufficiently challenging. The Committee concluded that the remuneration policy including the performance metrics used for awards of LTIs remained appropriate and would apply during the year and in future years. The EPS metrics will be kept under annual review. There have been no changes to remuneration policy during the year and none are currently proposed.

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

- Salaries for the year ending 30 September 2015 have been increased by 2%, slightly below the general level of increases to other employees.

- Awards of performance shares with a market value of 200% of salary, vesting of half of which is subject to a relative TSR performance condition measured against the constituents of the FTSE-250 Index (excluding investment trusts) and vesting of half of which is subject to an EPS performance condition measured against a retail price index related target, will be awarded shortly.

Together with the Group Chairman, I consulted with major shareholders and a number of shareholder advisory bodies prior to the Committee's finalisation of the decisions above and received broad support.

During the year ending 30 September 2015 the Committee will undertake a review of the new requirements in respect of executive remuneration introduced in the revised version of the UK Code on Corporate Governance applicable to financial years commencing on or after 1 October 2014. It is not expected, at this stage, that any significant changes will be required to executive remuneration or the related incentive plans resulting from this review.

The Committee is mindful that proposed regulatory changes in the financial services sector may result in a need to rebalance the executive directors' pay and as a result, the Committee retains discretion to adjust the proportions of fixed and variable pay within the current total remuneration package if new legislation were to impact the executive directors in due course. Should this be the case, the Company would enter into appropriate dialogue with its major shareholders and, depending on the nature of any changes, may be required to seek shareholder approval for a revised remuneration policy.

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

I commend this report to shareholders and ask you to support the resolution to approve the Company's Annual Report on Remuneration for the year ended 30 September 2014 at the Annual General Meeting in 2015.

ALAN K FLETCHER
Chairman of the Remuneration Committee
25 November 2014

B3.2 ANNUAL REPORT ON REMUNERATION

B3.2.1 Application of policy

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

Consideration by directors of matters relating to directors' remuneration

Remuneration Committee

During the year, the Committee consisted of Alan Fletcher (who chaired the Committee), Fiona Clutterbuck, Peter Hartill and Edward Tilly, all of whom were independent non-executive directors, and the Chairman of the Company, Robert Dench.

None of the non-executive directors who sit on the Committee has any personal financial interest (other than as a shareholder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business. The Chairman of the Company does not participate in discussions on his own remuneration.

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

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

B3.2 Annual report on remuneration continued

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

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

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

NBS has written to the Committee Chairman to confirm its position on these matters. Its total fees for the year ended 30 September 2014 were £73,000 (2013: £109,000), which were charged on the basis of the work carried out by it.

During the year the Committee reviewed and considered the impact of the Prudential Regulation Authority and Financial Conduct Authority's Remuneration Code ('Remuneration Code') which governs the compensation of senior personnel in the banking sector, referred to as 'Remuneration Code Staff'. The Remuneration Code applies to Paragon Bank and as part of its governance arrangements a remuneration committee has been established, reporting to the bank's board of directors, which has identified those bank employees who are Remuneration Code Staff and ensures that Paragon Bank complies with the Remuneration Code on an ongoing basis in respect of those staff. The Committee reviews the work undertaken by the bank's remuneration committee through regular reports submitted to it.

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

Application of remuneration policy for the year ending 30 September 2015

Salary

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

The current salaries of the Chairman and the executive directors with effect from 1 October 2014 are as follows:

		Salary with effect from	
Position	Director	**1 October 2014**	1 October 2013
Chairman	R G Dench	**211,250**	207,000
Chief Executive	N S Terrington	**452,500**	443,450
Group Finance Director	R J Woodman	**285,000**	-
	N Keen	**-**	332,000
Director – Mortgages	J A Heron	**241,250**	236,400
Director – Corporate Development	R J Woodman	**-**	236,400

In view of the progress made by the Group during the year, the Committee agreed that the Chairman's fee and the salaries of Mr N S Terrington and Mr J A Heron would be increased by 2.0% from 1 October 2014. This is below the level of increases for the Group's wider workforce. Mr R J Woodman's salary was reviewed during the year and increased to £285,000 with effect from 1 June 2014 to reflect his new role as Group Finance Director; the next review of his salary will take effect from October 2015.

The non-executive directors' fees have been reviewed during the year and from 1 October 2014 are as follows:

- Base fee £50,000 (2014: £45,000)
- Additional fee for Senior Independent Director £20,000 (2014: £15,000)
- Additional fee for chairmen of committees £20,000 (2014: £15,000)

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

The Company's Articles of Association include a limit on the total aggregate fees that can be paid to non-executive directors. At the 2014 Annual General Meeting shareholders approved a resolution to increase this limit to £400,000, as it was deemed that the previous limit might not have proved adequate to meet the Company's future needs.

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

Pension contributions

The executive directors are members of the Plan, to which the Company contributes at the same rate as for all members. Dependants of executive directors who are members of the Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service. The pension arrangements provide for a pension of 1/37.5 of basic annual salary (to a maximum of 2/3) for every year of eligible service. Where pension contributions are capped, additional payments are made to enable further provision.

As described below the executive directors have each ceased pension accrual in return for a cash supplement calculated to equate to the cost of the Company's contributions towards future service benefits had each individual stayed within the Plan for his future service accrual.

There are no unfunded promises or similar arrangements for directors.

Benefits

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

Performance bonuses

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

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

For the year ending 30 September 2015, the annual bonus will be based on performance against the following performance measures: (1) operational profit, (2) future value of new business and (3) risk, each with equal weightings together with each director's performance against strategic and personal objectives, which will determine the level of a scale factor of between 0.5 and 1.5 times.

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

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

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

Share awards

Executive directors are eligible for awards under the Paragon Performance Share Plan ('PSP') and are entitled to participate in the Paragon UK Sharesave Plan 2009, on the same terms as other employees. The terms of the Sharesave Plan will be reviewed within the next twelve months in line with the Finance Act 2014.

Paragon Performance Share Plan ('PSP')

The PSP has an annual award limit to an individual of shares worth 200% of salary. Awards over shares with a market value of 200% of salary will be granted to the current executive directors in the year ending 30 September 2015. No awards will be made to former directors.

50% of awards are subject to the TSR test and 50% are subject to an EPS test.

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

The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus 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 addition, prior to any awards vesting, the Committee must be satisfied that the requirements of a financial underpin test have been met.

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

Paragon Matching Share Plan ('MSP')

The Committee does not intend to grant any awards in the year ending 30 September 2015. The MSP expires in February 2016 and it is unlikely that this plan will be utilised prior to expiry.

B3.2.2 Directors' remuneration for the year ended 30 September 2014

The information provided in this section has been audited.

Single total figure of remuneration for each director

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

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

Year ended 30 September 2014

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

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

On retirement the Remuneration Committee determined that Mr Keen should be considered a good leaver for the purposes of the PSP and Deferred Bonus Plans. His unvested awards under the PSP will be exercisable at the normal vesting date, subject to the vesting conditions being met and will be scaled back to reflect the part of the vesting period falling before his retirement date. Outstanding awards will be exercisable for a period of twelve months commencing on his date of retirement or the vesting date, whichever is the later. His unvested awards under the Deferred Bonus Plan will be exercisable at the normal vesting date. Outstanding awards will be exercisable for a period of twelve months commencing on his date of retirement or the vesting date, whichever is the later.

Following his retirement Mr Keen was appointed as part-time Chairman of Idem Capital. His remuneration for this new separate appointment is not required to be shown in the table above.

Year ended 30 September 2013

	Fixed remuneration				Variable remuneration				Total
	Salaries and fees	Allowances and benefits	Pension allowance	Pension accrual	Cash bonus	Deferred bonus	Dividend on vested deferred bonus	Share awards	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman									
R G Dench	203	12	-	-	-	-	-	-	215
Executive directors									
N S Terrington	435	14	165	27	567	172	7	1,268	2,655
R J Woodman	232	12	103	-	314	115	4	641	1,421
J A Heron	232	11	88	15	277	75	3	675	1,376
N Keen	325	18	198	-	427	126	5	949	2,048
Non-executive directors									
E A Tilly	60	-	-	-	-	-	-	-	60
A K Fletcher	60	-	-	-	-	-	-	-	60
P J N Hartill	60	-	-	-	-	-	-	-	60
F J Clutterbuck	45	-	-	-	-	-	-	-	45
Total	**1,652**	**67**	**554**	**42**	**1,585**	**488**	**19**	**3,533**	**7,940**

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

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

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

The link between pay and performance - Annual bonus for the year ended 30 September 2014

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

	Measure	Weighting	Outcome	Award level*
Financial performance	Adjusted operating profit	33.33%	£122.2m	18%
Future value of new business	Projected profits from lending and investment activities transacted in the year and projected residual cashflow from acquired portfolios	33.33%	Paragon Mortgages lending £656.1m Idem Capital investments £175.7m Paragon Bank lending £5.8m	29%
Risk	The business having operated within the key risk tolerance levels agreed by the Board	33.33%	See below	24%
Totals		100.00%	Bonus achieved for 2014	71%

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

B3.2 Annual report on remuneration continued

Financial performance

Operating profit for the year exceeded the target level of £110.4 million and the consensus at 30 September 2013 of £110.2 million. Cash generation from both the originated and acquired portfolios was also strong. Tight control was maintained over costs, with the cost:income ratio improving in the year. The costs associated with the establishment and initial operations of Paragon Bank were favourable to those originally forecast.

Future value

Buy-to-let volumes, at £656.6 million (£656.1 million in Paragon Mortgages and £0.5 million in Paragon Bank), were in excess of the original target of £601.0 million, with margins broadly in line with target. In addition to volumes completed during the year, the buy-to-let business ended the financial year with a pipeline of £414.8 million to support future growth in originations.

Acquisitions by Idem Capital, the Group's debt purchase division, were also above target at £175.7 million. Cash flow from purchases continues to exceed the value at the point of underwriting, supporting the growth in the profit contribution by the division in 2014.

The establishment of Paragon Bank was achieved in line with expectation. The scale of the initial savings flow exceeded the original target and the business accelerated its lending plans to offer car finance, personal loans and buy-to-let lending by the year end.

The diversification of the Group's funding sources provides the foundation for future sustainable growth.

Risk

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

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

The final level of each executive director's bonus is adjusted to reflect personal performance against strategic objectives related to each of the elements. These individual performance scale factors are between 0.5 and 1.5 times, according to performance. The objectives for the year ended 30 September 2014 were as follows:

N S Terrington

To deliver strategic leadership working within the parameters of the Group's risk appetite, to deliver the planned financial performance for the year, whilst ensuring fair outcomes for customers, developing future profit streams and positioning the Group to meet its longer term strategic goals. Ensuring the business as a whole operates in such a manner to meet its developing risk, compliance and regulatory requirements.

R J Woodman

The Committee, with advice from the Chief Executive, assessed the performance of the director with reference to the following objectives to 31 May 2014:

- In respect of the Idem Capital division to:
  - achieve its target operating profit;
  - achieve its target new investment volume at agreed return levels;
  - raise its profile and investor/market awareness;
  - maintain the development of operational, migration and compliance standards; and
  - enhance Idem's governance structure to reflect its growing role within the Group.
- To maintain and lead corporate merger and acquisition activities.
- To effectively manage the Group's Business Analysis and Planning department.
- To provide support for the authorisation process for Paragon Bank.

The following objectives were utilised for the period from 1 June 2014, at which date Mr R J Woodman assumed the role of Group Finance Director:

- To deliver strategic leadership working within the parameters of the Group's risk appetite, to deliver the planned financial performance for the year, whilst ensuring fair outcomes for customers, developing future profit streams and positioning the Group to meet its longer term strategic goals. Ensuring the business as a whole operates in such a manner to meet its developing risk, compliance and regulatory requirements.
- Additionally to:
  - implement the risk and compliance framework and revised governance structures, progressing the required operational changes by 30 September;
  - support the transfer of the former Consumer Loan Servicing Director to the appointment of Idem Capital Managing Director from 1 June 2014; and
  - continually develop personal capabilities as Group Finance Director; including leadership of the Group's culture in terms of finance, risk and control.

J A Heron

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

- In respect of the Paragon Mortgages division to:
  - achieve its target operating profit;
  - achieve its target new origination volume at agreed return levels;
  - improve application conversion rates and cost per application levels;
  - manage resource levels to meet immediate and longer term strategic requirements;
  - ensure the mortgage business operates within the key risk tolerance levels agreed by the Board;
  - develop the product range; and
  - maintain a balanced and sustainable distribution profile.
- To provide support for the authorisation process for Paragon Bank.

N Keen

The Committee, with advice from the Chief Executive, assessed the performance of the director prior to his retirement on 31 May 2014 with reference to the following objectives:

- To deliver strategic leadership working within the parameters of the Group's risk appetite, to deliver the planned financial performance for the year, whilst ensuring fair outcomes for customers, developing future profit streams and positioning the Group to meet its longer term strategic goals. Ensuring the business as a whole operates in such a manner to meet its developing risk, compliance and regulatory requirements.
- To review the governance structures of the Group and to make recommendations for their improvement in the light of the changes in the regulatory environment and the Group's business in recent years.

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

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

The Committee, having considered individual performance against the objectives set at the beginning of the year, has agreed the following scale factors for the year ended 30 September 2014:

N S Terrington	1.50
R J Woodman	1.50 (1 October 2013 to 31 May 2014)
	1.20 (1 June 2014 to 30 September 2014)
J A Heron	1.06
N Keen	1.06 (1 October 2013 to 31 May 2014)

The resulting bonuses for 2014, after applying the scale factors to the award levels, and adjusting awards relating to only part of the year pro-rata were as follows:

Executive	Financial performance (max 33%)	Future value of new business (max 33%)	Risk (max 33%)	Scale factor times	Total (percentage of max capped at 100%)	Total £000	Cash £000	Share value £000
N S Terrington	18%	29%	24%	1.50	107%	886	677	209
R J Woodman								
To 31/05/14	18%	29%	24%	1.50	107%	315		
From 01/06/14	18%	29%	24%	1.20	85%	162		
						477	370	107
J A Heron	18%	29%	24%	1.06	75%	354	278	76
N Keen	18%	29%	24%	1.06	75%	332	332	-

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

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

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

Directors' pensions

The total amount charged to the profit and loss account of the Group in respect of pension provision for directors was £505,000 (2013: £555,000).

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

		Accumulated total accrued pension at 30 September	
		2014	2013
Director	Description of entitlement	£000	£000
N S Terrington	Entitled to 1/48.375th of final salary per year of service, payable from age 60. May take reduced early retirement from age 55. Ceased pension accrual on 6 April 2006 but retains final salary linkage	170	167
R J Woodman	Entitled to 1/46.625th of final salary per year of service, payable from age 60. May take reduced early retirement from age 55. Ceased pension accrual on 9 October 2007 and opted out of final salary linkage from 1 April 2011.	60	58
J A Heron	Entitled to 1/49.125th of final salary per year of service, payable from age 60. May take reduced early retirement from age 55. Ceased pension accrual on 6 April 2006 but retains final salary linkage.	96	94
N Keen	Entitled to 1/30th of final salary per year of service, payable from age 60. Entitled to take reduced early retirement from age 55. Ceased pension accrual and opted out of final salary linkage from 1 April 2011. Retired on 13 June 2014, taking a lump sum of £441,000 and a reduced pension of £66,000 per annum.	-	97

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

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

Details of share-based awards

Awards granted in December 2010 under the Group's PSP which vested during the year were subject to performance conditions measured over three financial years, comparing the Group's relative TSR performance against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. The vesting percentage was then reviewed by the Committee against a financial underpin. The Company was ranked above the upper quartile position, giving a 100% vesting percentage and the Committee determined that such level of vesting was consistent with the Company's financial performance.

Paragon Performance Share Plan

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

The awards granted during the year were calculated so as to have a face value of 200% of salary, using the average closing mid-market price of the Company's shares on each of the five dealing days up to and including the day before the grant date. Therefore the face value of the awards granted during the year (being the number of shares in each case multiplied by £3.4098, that being the average of the closing prices of the Company's shares at the end of each of the five dealing days ending on the day before the grant date) were £889,000 for Mr Terrington, £474,000 for each of Mr Woodman and Mr Heron and £666,000 for Mr Keen.

Details of individual entitlements of the directors under the PSP at 30 September 2013, and 30 September 2014 are:

Award date	Date from which exercisable	Expiry date	Market price at award date	N S Terrington Number	R J Woodman Number	J A Heron Number	N Keen Number
Awards outstanding at 30 September 2013							
21/05/2009	21/05/2012	20/05/2019	70.00p	-	385,714	-	-
04/01/2010	04/01/2013	03/01/2020	135.20p	133,815	206,107	240,458	-
17/12/2010	17/12/2013§	16/12/2020	182.00p	450,661	205,886	240,200	337,424
21/12/2011	21/12/2014§	20/12/2021	176.90p	480,912	219,943	256,410	360,114
28/02/2013	28/02/2016‡	27/02/2023	321.20p	278,757	148,595	148,595	208,707
				1,344,145	1,166,245	885,663	906,245
Awards made in the year							
10/12/2013	10/12/2016‡	09/12/2023	345.30p	260,838	139,051	139,051	195,283
Awards exercised in the year							
	On 4 February 2014						
04/01/2010	04/01/2013	03/01/2020	135.20p	-	(206,107)	-	-
	On 27 February 2014						
17/12/2010	17/12/2013§	16/12/2020	182.00p	-	-	-	(337,424)
	On 7 March 2014						
04/01/2010	04/01/2013	03/01/2020	135.20p	-	-	(240,458)	-
17/12/2010	17/12/2013§	16/12/2020	182.00p	-	-	(240,200)	-
Awards lapsing in the year				-	-	-	-
At 30 September 2014 or on retirement				**1,604,983**	**1,099,189**	**544,056**	**764,104**

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

‡ 50% of these awards are subject to the TSR test, as above, and 50% are subject to an EPS test. The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus 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.

The share prices at the exercise dates were £3.595 on 4 February 2014, £4.0032 on 27 February 2014 and £4.0823 on 7 March 2014.

The awards maturing during the year, granted on 17 December 2010, achieved 100% vesting after the application of the performance criteria.

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

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

Share option schemes

Details of individual options held by the directors at 30 September 2013 and 30 September 2014 are:

Award date	Date from which exercisable	Expiry date	Option price	N S Terrington	R J Woodman	J A Heron	N Keen
				Number	Number	Number	Number
Awards outstanding at 30 September 2013							
18/12/2003	18/12/2006	18/12/2013	540.40p	61,527	21,280	25,906	46,261
01/12/2004	01/12/2007	01/12/2014	555.34p	68,874	22,778	27,730	51,656
				130,401	44,058	53,636	97,917
Awards made in the year				-	-	-	-
Awards exercised in the year				-	-	-	-
Awards lapsing in the year							
18/12/2003	18/12/2006	18/12/2013	540.40p	(61,527)	(21,280)	(25,906)	(46,261)
At 30 September 2014 or on retirement				**68,874**	**22,778**	**27,730**	**51,656**

B Corporate governance

Deferred Bonus Shares

Details of individual entitlements of the directors to Deferred Bonus Shares at 30 September 2013 and 30 September 2014 are:

Award date	Date from which exercisable	Expiry date	Market price at award date	N S Terrington Number	R J Woodman Number	J A Heron Number	N Keen Number
Awards outstanding at 30 September 2013							
20/01/2011	01/10/2013	19/01/2015	184.00p	82,248	33,446	40,288	59,672
21/12/2011	01/10/2014	20/12/2015	172.63p	108,198	44,980	36,117	78,952
23/11/2012	01/10/2015	22/11/2016	248.40p	83,297	62,003	27,977	60,854
				273,743	140,429	104,382	199,478
Awards made in the year							
10/12/2013	10/12/2016	09/12/2023	345.30p	55,302	36,906	24,258	40,397
Awards exercised in the year							
On 27 February 2014							
20/01/2011	01/10/2013	19/01/2015	184.00p	-	-	-	(59,672)
On 7 March 2014							
20/01/2011	01/10/2013	19/01/2015	184.00p	-	-	(40,288)	-
On 16 June 2014							
20/01/2011	01/10/2013	19/01/2015	184.00p	-	(20,000)	-	-
At 30 September 2014 or on retirement				**329,045**	**157,335**	**88,352**	**180,203**

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

The face value of the awards granted during the year (being the number of shares in each case multiplied by £3.115, that being the average of the closing prices of the Company's shares at the end of each of the final five dealing days in September 2013) were £172,000 for Mr Terrington, £115,000 for Mr Woodman, £76,000 for Mr Heron and £126,000 for Mr Keen.

The share prices at the exercise dates were £4.0032 on 27 February 2014, £4.0823 on 7 March 2014 and £4.1786 on 16 June 2014.

Rights to further shares under the Deferred Bonus Share Plan are due to be granted in respect of the compulsory deferral of performance bonuses for the year ended 30 September 2014, shown in the single total figure of remuneration table above. The number of shares to be awarded will be determined based on the average market price of the Company's shares on the five dealing days before the awards are granted. The shares, less any clawback, which can be applied by the Remuneration Committee in certain circumstances, will be exercisable by the recipients from the third anniversary of the grant date, subject, in normal circumstances, to the recipient being employed by the Company at that time.

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

Matching Share Plan

The individual interests of the directors in the MSP at 30 September 2013 and 30 September 2014 are:

Award date	Market price at award date	N S Terrington Number	R J Woodman Number	J A Heron Number	N Keen Number
Awards outstanding at 30 September 2013					
05/01/2010§	133.40p	43,249	43,808	22,868	-
		43,249	43,808	22,868	-
Awards made in the year		-	-	-	-
Awards exercised in the year					
On 7 March 2014					
05/01/2010§	133.40p	-	-	(22,868)	-
Awards lapsing in the year		-	-	-	-
At 30 September 2014 or on retirement		**43,249**	**43,808**	**-**	**-**

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

No awards were granted under the MSP during the year ended 30 September 2014.

The awards exercised during the year were exercised on 7 March 2014 when the price of the Company's shares was £4.0823 per share.

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

Directors' interests in shares

The interests of the executive directors in the shares of the Company at 30 September 2014 were:

	N S Terrington Number	R J Woodman Number	J A Heron Number
Unvested awards subject to vesting conditions			
PSP	1,020,507	507,589	544,056
Unvested awards not subject to vesting conditions			
Deferred Bonus Plan	246,797	143,889	88,352
Total unvested awards	1,267,304	651,478	632,408
Vested awards			
Options	68,874	22,778	27,730
PSP	584,476	591,600	-
MSP	43,249	43,808	-
Deferred Bonus Plan	82,248	13,446	-
Total vested awards	778,847	671,632	27,730
Total outstanding awards	2,046,151	1,323,110	660,138
Shares beneficially held	647,972	109,691	252,680
Total interest in shares	2,694,123	1,432,801	912,818
Awards exercised in the year			
PSP	-	206,107	480,658
MSP	-	-	22,868
Deferred bonus scheme	-	20,000	40,288
	-	226,107	543,814

The interests of the Chairman and the non-executive directors at 30 September 2014, which consist entirely of ordinary shares, beneficially held, were as follows:

	Number
R G Dench	117,000
E A Tilly	30,000
A K Fletcher	125,000
P J N Hartill	7,000
F J Clutterbuck	3,214

Share ownership guidelines

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

Guideline holdings and the actual shares held at 30 September 2014 are set out below:

	N S Terrington		R J Woodman		J A Heron	
	100%	200%	100%	200%	100%	200%
Salary (£)	443,450	443,450	236,400	236,400	236,400	236,400
Average share price (p)†	230.46	230.46	262.27	262.27	230.46	230.46
Guideline holding (shares)	192,419	384,837	90,138	180,275	102,577	205,154
Beneficially owned shareholding	647,972		109,691		252,680	
Vested PSP and MSP (net of tax)	332,695		336,767		-	
Deferred Bonus Plan (net of tax)	43,591		7,126		-	
Calculated holding at 30 September 2014	**1,024,258**		**453,584**		**252,680**	

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

At 30 September 2014, all of the executive directors' holdings were in accordance with guideline levels.

B Corporate governance

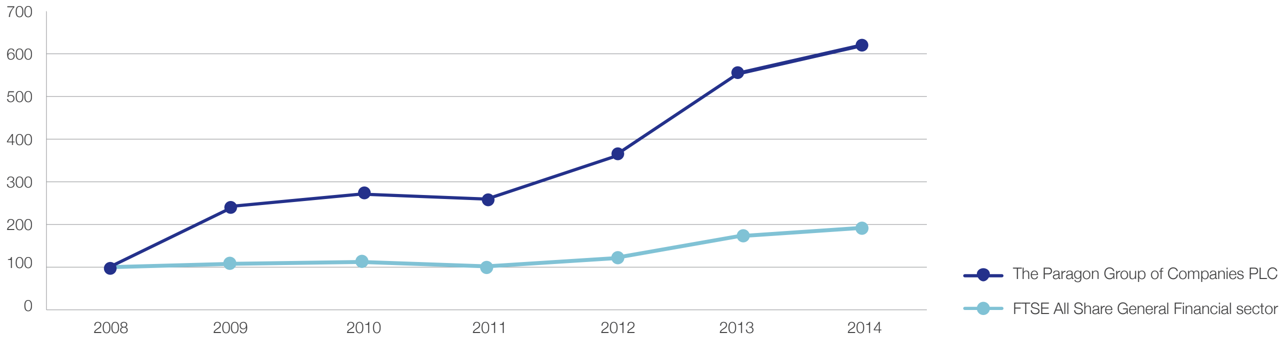
B3.2.3 Other information

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

Performance graph and table

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

Six Year Return Index for the FTSE All Share Financial sector as at 30 September 2014



This graph shows the value, by 30 September 2014, of £100 invested in The Paragon Group of Companies PLC on 30 September 2008, compared with £100 invested in the FTSE General Financial sector index. The other points plotted are the values at the intervening financial year ends.

Table of historic data

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

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

Percentage change in the remuneration of the Chief Executive

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

Component	2014 £000	2013 £000	Change %
Salary	**443**	435	1.8
Benefits	**14**	14	-
Bonus	**886**	739	20.0

The Group's pay review taking effect on 1 October 2013 awarded average percentage increases in wages and salaries to employees as a whole of 2.0%.

The nature and level of benefits available to employees in the year ended 30 September 2014 was broadly similar to that in the previous year.

The total amount of bonus paid to employees, excluding the directors in respect of the year ended 30 September 2014 was 32.9% higher than in 2013, while the profit related pay pool distributed to employees other than directors and heads of function increased by 10.4% between the two years.

Relative importance of spend on pay

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

	Note	2014 £m	2013 £m	Change %
Wages and salaries	14	**31.8**	28.1	+13.2%
Dividend paid	46	**23.7**	20.7	+14.5%
Loan advances and investment in portfolios		**832.3**	452.6	+83.9%
Corporation tax paid	57	**17.4**	22.0	-20.9%

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

Consultations with shareholders and AGM voting

At the Annual General Meeting held on 6 February 2014, all resolutions were passed on a show of hands. Proxy votes lodged in respect of directors' remuneration were as follows:

Resolution	Votes for	% for	Votes against	% against	Discretion	Total votes cast	Votes withheld
Approve remuneration policy	198,421,454	94.6%	11,266,393	5.4%	55,906	209,743,753	7,498,568
Adopt remuneration report	203,397,554	97.0%	6,225,571	3.0%	55,906	209,679,031	7,563,290

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

B3.3 POLICY REPORT

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

Introduction

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

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

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

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

Remuneration policy for the Chairman and executive directors

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

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

The remuneration packages of the individual directors are assessed after a review of their individual performances and an assessment of comparable positions in the financial sector and within a group of pan-sectoral comparators comprising a number of FTSE-250 companies with market capitalisations similar to the Group's, there now being no directly comparable financial services businesses in the UK.

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

Key aspects of the remuneration policy for executive directors

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary			
To provide a competitive, fixed cash component that reflects the scope of individual responsibilities and recognises sustained individual performance in the role.	Remunerate fairly for individual performance, having regard to the importance of motivation. Take into account remuneration levels in the Group as a whole, individual and business performance and objective research into comparable companies.	Salaries for the year ending 30 September 2015 are set out in the Annual Report on Remuneration. Increases, if the Committee is satisfied with the individual's performance will normally broadly follow those awarded for the rest of the organisation. Changes in the scope or responsibilities of a director's role may require an adjustment to salary above the normal level of increase.	None.
Benefits			
To provide market levels of benefits on a cost-effective basis.	Private health cover for the executive and their family, life insurance cover of up to seven times salary and company car or cash alternative. Other benefits may be offered from time to time broadly in line with market practice.	Private health care benefits are provided through third party providers and therefore the cost to the company and the value to the director may vary from year to year. The maximum car allowance is £12,000 per annum. It is intended the maximum value of benefits offered will remain broadly in line with market practice.	None.

B3.3 Policy report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Pension			
To provide competitive post-retirement benefits.	1/37.5 of basic annual salary for each year of eligible service. A cash alternative is offered in lieu of pension accrual, equating to the approximate cost to the Company of defined benefit provision, normally reviewed every five years. For new external appointments a cash allowance or company pension contribution set at a rate lower than that for existing directors may be awarded.	Maximum pension 2/3 of salary at retirement or the value of the annual cash alternative calculated by the Company's actuary.	None.
Annual bonus			
To incentivise executives to achieve specific, predetermined goals that drive delivery of the Company's operational objectives over a one-year period. To reward individual performance. To encourage retention and alignment with shareholders' interests through a three-year deferral of a proportion of bonus, awarded in shares.	Each executive director's annual bonus is based on a challenging mix of financial, strategic and risk-related performance measures. 25% of amounts awarded in excess of £50,000 are deferred, to be satisfied in shares (together with the aggregate amount of accrued dividend thereon), for three years. Higher levels of deferment may be required by the Committee. The deferral is operated under the Deferred Bonus Plan which contains a clawback mechanism applicable to all participants in the event of misconduct or a material misstatement of the Group's accounts. The annual bonus is non-pensionable.	Maximum bonus potential is 200% of salary. For target performance a bonus of 100% of salary will be awarded, with additional amounts being awarded for exceptional performance. If a bonus is awarded the minimum that could be paid is 8.25% of salary. For performance below threshold, no bonus is payable.	The performance targets are set by the Committee at the start of the year with input, as appropriate, from the Chairman and Chief Executive. The bonus is calculated as follows: Performance against a range of measures, with the majority relating to financial metrics and the remainder reflecting risk-related measures; and Each element is then subject to a scale factor that can reduce or increase the bonus (subject to the overall cap of 200% of salary) according to performance against personal and strategic objectives relating to the three elements. This determines the percentage payout of the annual bonus, which is capped at the maximum opportunity of 200% of salary. Details of the performance targets set for the year under review and performance against them are provided in the Annual Report on Remuneration.

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

B3.3 Policy report continued

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

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

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

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Salary and fees			
To ensure that the Group can attract and retain the appropriate number and mix of non-executive directors with the correct experience to provide balance, oversight and challenge.	Non-executive director fees are reviewed on a periodic basis and are subject to the Articles of Association. The Chairman's fee is set annually by the Committee, whilst the non-executive directors' fees are determined by the Board. The Board will exercise judgement in determining the extent to which non-executive directors fees are altered in line with market practice, given the requirement to procure and retain the appropriate skills and given the expected time commitments. Non-executive directors are paid an annual base fee with additional fees for the roles of Senior Independent Director or chairman of a board committee.	Salaries and fees for the year ending 30 September 2014 are set out in the Annual Report on Remuneration. Increases above those awarded for the rest of the organisation may be made to reflect the periodic nature of any review. Changes in the scope, responsibilities of a director's role, or the time commitment required, may require an adjustment to the level of their fee. The Articles of Association of the Company contain a maximum level of fees that can be paid annually to non-executive directors. This is reviewed by the Board from time to time.	None.

Remuneration Committee flexibility, discretion and judgement

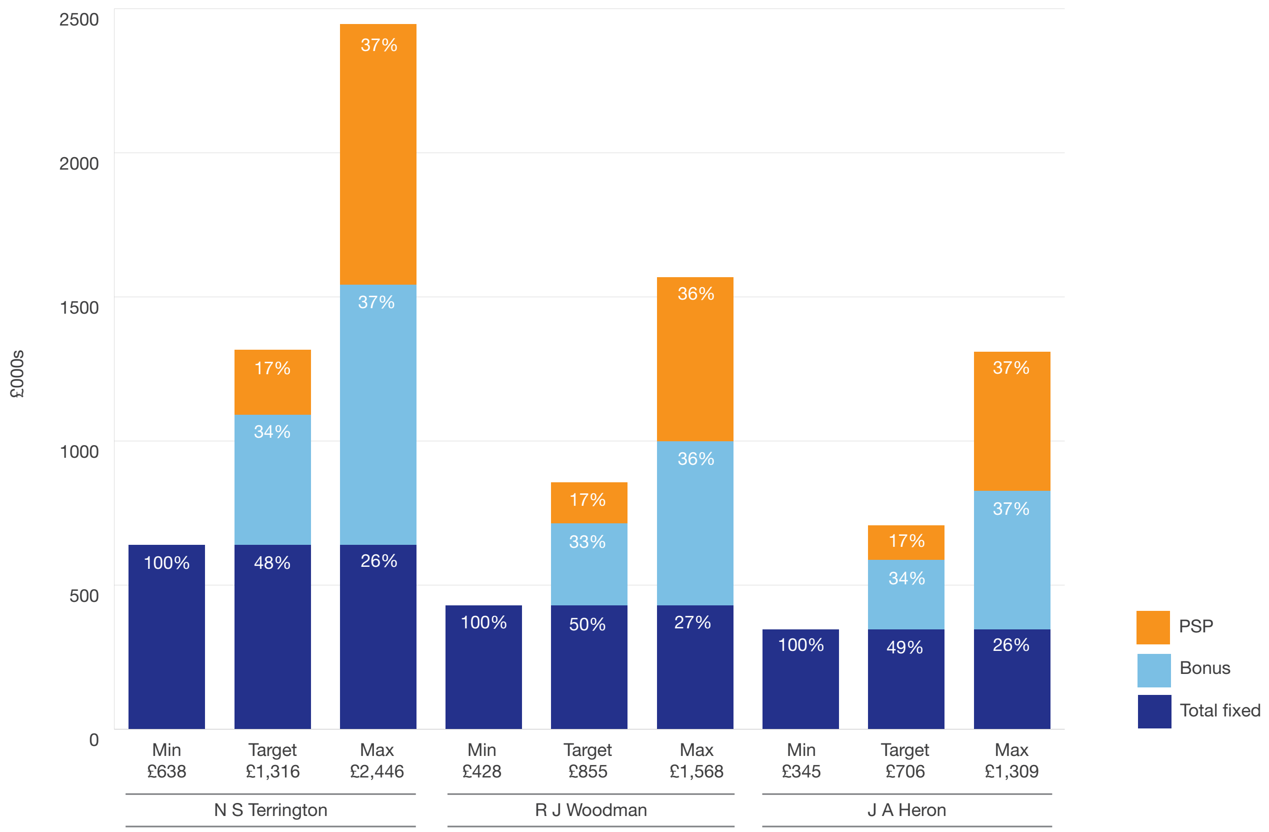
The Committee operates the variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans the Committee has certain operational powers. These include the determination of:

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

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

Illustrations of the application of the remuneration policy

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



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

Total fixed pay is based on the latest salary, benefits and pension allowances (including both the accrual under the defined benefit scheme and the cash supplement), with the amounts being calculated on a basis consistent with those shown in the single total figure of remuneration table for the year ended 30 September 2014.

	Salary £000	Benefits £000	Pension £000	Total fixed £000
N S Terrington	453	14	171	638
R J Woodman	285	12	131	428
J A Heron	241	12	92	345

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

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

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

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

Choice of performance measures and approach to target setting

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

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

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

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

Policy on recruitment and promotion

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

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

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

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

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

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

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

Current service contracts and terms of engagement

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

The current contracts are dated as follows:

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

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

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

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

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

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

E A Tilly	-	1 April 2014 to 1 April 2017
A K Fletcher	-	25 February 2012 to 25 February 2015
P J N Hartill	-	11 February 2014 to 11 February 2017
F J Clutterbuck	-	12 September 2012 to 12 September 2015
H R Tudor	-	24 November 2014 to 24 November 2017

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

Policy on termination payments

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

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

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

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

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

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

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

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

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

Consideration of employment conditions elsewhere in the Group

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

Directors and senior staff are eligible to participate in the PSP and the MSP, although no awards have been made under the MSP since January 2010 and the Remuneration Committee has no current intention of making any further grants during the current financial year or, other than in exceptional circumstances, before the expiry of the MSP in 2016. The two plans are in place to encourage the long-term retention of key executives who are considered to have the potential to influence shareholder value creation and awards are not offered to staff generally.

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

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

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

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

Consideration of shareholders' views

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

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

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

Legacy arrangements

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

B3.4 APPROVAL OF DIRECTORS' REMUNERATION REPORT

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

This Directors' Remuneration Report, section B3 of the Annual Report and Accounts, including both the Annual Report on Remuneration and the Policy Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors

ALAN K FLETCHER
Chairman of the Remuneration Committee
25 November 2014

B4 Directors' report

The directors of The Paragon Group of Companies PLC (registered number 2336032) submit their Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 7'), which also includes additional disclosures made in accordance with the Listing Rules of the UK Listing Authority.

Directors and their interests

The directors of the Company during the year were:

R G Dench
N S Terrington
R J Woodman
J A Heron
N Keen (Retired 31 May 2014)
E A Tilly*
A K Fletcher*
P J N Hartill*
F J Clutterbuck*
* Non-executive directors.

The directors' interests in the shares of the Company are disclosed in the Directors' Remuneration Report in section B3. There have been no changes in the directors' interests in the share capital of the Company since 30 September 2014.

Other than as stated above, the directors had no interests in securities issued by the Company. The directors have no interests in the shares or debentures of the Company's subsidiary companies.

On 24 November 2014, after the end of the year, Mr H R Tudor was appointed as a non-executive director. At that date he had an interest in 385,000 of the Company's £1 ordinary shares and £1,000,000 of the Company's 6.00% sterling denominated notes due 2020.

The appointment and replacement of the Company's directors is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts and related legislation and the individual service contracts and terms of appointment of the directors. The powers of the directors, and their service contracts and terms of appointment, are described in the Corporate Governance section, Section B2. The Articles of Association may only be amended by the Company's shareholders in general meeting.

Under article 143 of the Company's Articles of Association, the Company has qualifying third party indemnity provisions for the benefit of its directors which were in place throughout the year and which remain in force at the date of this report, in the form of directors and officers liability insurance.

In accordance with the Articles of Association Mr H R Tudor will retire from the Board at the end of the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

In addition, the UK Corporate Governance Code recommends that all directors should be subject to reappointment annually and therefore all of the other directors, Mr R G Dench, Mr N S Terrington, Mr R J Woodman, Mr J A Heron, Mr E A Tilly, Mr A K Fletcher, Mr P J N Hartill and Ms F J Clutterbuck, have agreed to voluntarily retire from the Board at the end of the forthcoming Annual General Meeting, and, being eligible, offer themselves for re-election.

None of the directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

From 1 October 2008, a director has had a statutory duty to avoid a situation in which he or she has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. A director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other directors. The Articles of Association include the relevant authorisation for directors to approve such conflicts.

None of the directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

Capital structure

Details of the issued share capital of the Company, together with details of movements in its issued share capital in the year, are given in note 40 to the accounts. The Company has one class of ordinary shares which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The rights and obligations attaching to ordinary shares are set out in the Articles of Association of the Company.

There are no specific restrictions on the size of a member's holding or on the transfer of shares. Both of these matters are governed by the general provisions of the Company's Articles of Association and prevailing legislation. The Articles of Association may be amended by special resolution of the shareholders. The directors are not aware of any agreements between holders of the Company's shares in respect of voting rights or which might result in restrictions on the transfer of securities.

Details of employee share schemes are set out in note 16 to the accounts. Votes attaching to shares held by employee benefit trusts are not exercised at general meetings of the Company.

The Company presently has the authority to issue ordinary shares up to a value of £101,800,000 and to make market purchases of up to 30,500,000 £1 ordinary shares, granted at the Annual General Meeting on 6 February 2014. These authorities expire at the conclusion of the forthcoming Annual General Meeting on 12 February 2015 and resolutions will be put to that meeting proposing that they be renewed.

Purchase of own shares

At 30 September 2007 the Company had, as part of a £40.0 million repurchase programme, repurchased 6,689,000 10p ordinary shares having an aggregate nominal value of £668,900. The reasons for the repurchase programme were set out in an announcement made by the Company through RNS on 25 May 2005. On 29 January 2008 these shares were consolidated into 668,900 £1 ordinary shares. All of these shares were held as at 30 September 2014 and 30 September 2013 as treasury shares, representing 0.2% of the issued share capital excluding treasury shares, and this holding represents the maximum number of its own £1 ordinary shares held by the Company at any time during the past year.

On 25 November 2014 the Group announced a share buy-back programme of up to £50.0 million. The reasons for this purchase are set out in section A3.3 of this Annual Report.

Dividends

The directors recommend a final dividend of 6.0p per share (2013: 4.8p per share) which, taken with the interim dividend of 3.0p per share (2013: 2.4p per share) paid on 25 July 2014, would give a total dividend for the year of 9.0p per share (2013: 7.2p per share).

Substantial shareholdings

Notifications of the following major voting interests, comprising over 3%, in the Company's ordinary share capital, notifiable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules or section 793 of the Companies Act 2006, had been received by the Company as at 30 September 2014 and at 31 October 2014, being a date not more than one month before the date of the notice convening the forthcoming Annual General Meeting.

	31 October 2014		30 September 2014	
	Ordinary shares	% Held	Ordinary shares	% Held
BlackRock	29,914,087	9.76	33,555,680	10.94
Standard Life Investments	24,697,286	8.05	24,697,286	8.05
EJF Capital	21,572,031	7.04	18,739,951	6.11
M & G Investment Management	15,506,789	5.06	15,506,789	5.06
Royal London Asset Management	9,205,885	3.00	*	*

* Less than 3% at this date

Political expenditure

Company law requires the disclosure of political donations and political expenditure by any Group company. During the year ended 30 September 2014 no such payments were made (2013: £nil).

Auditors

The directors have taken all reasonable steps to make themselves and the Company's auditors 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.

A resolution for the reappointment of Deloitte LLP as the auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will take place on 12 February 2015 in London. A notice convening the Annual General Meeting is being circulated to shareholders with this Annual Report and Accounts.

Information presented in other sections

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

- Commentary on the likely future developments in the business of the Group is included in the Strategic Report (Section A).
- A description of the Group's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 7 to the accounts.
- Particulars of events occurring after the balance sheet date are described in note 51 to the accounts, and discussed in the Strategic Report (Section A).
- Information concerning directors' contractual arrangements and entitlements under share based remuneration arrangements is given in Section B3, the Directors' Remuneration Report.
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in Section A5.1 – 'Employees'.
- Disclosures concerning greenhouse gas emissions are given in Section A5.2 – 'Environmental policy'.

Rule DTR7.2.1 of the Disclosure and Transparency Rules requires the Group's disclosures on Corporate Governance to be included in the Directors' Report. This information is presented in Sections B2, B2.1, B2.2 and B2.3 and the information in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

Rule DTR 4.1.5 of the Disclosure and Transparency Rules requires that the annual report of a listed company contains a management report containing certain prescribed information. This Directors' Report, including the other sections of the Annual Report incorporated by reference, comprises a management report for the Group for the year ended 30 September 2014, for the purposes of the Disclosure and Transparency Rules.

Section B4 of this Annual Report, together with the other sections of the Annual Report incorporated by reference, comprise a directors' report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

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

PANDORA SHARP
Company Secretary
25 November 2014

B5 Statement of directors' responsibilities
in relation to financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards ('IFRS') and have also elected to prepare company financial statements in accordance with IFRS. In respect of the financial statements for the year ended 30 September 2014, company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 2006 and Article 4 of the IAS Regulation.

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

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

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

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

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

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole;
- The Directors' Report, including those other sections of the Annual Report incorporated by reference, comprises a management report for the purposes of the Disclosure and Transparency Rules, which includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

PANDORA SHARP
Company Secretary
25 November 2014

C Independent auditor's report

C1 Independent auditor's report
to the members of The Paragon Group of Companies PLC

Opinion on financial statements of The Paragon Group of Companies PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2014 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Movements in Equity and the related notes 1 to 62. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 3 to the consolidated financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board ('IASB').

In our opinion the consolidated financial statements comply with IFRSs as issued by the IASB.

Going concern

As required by the Listing Rules we have reviewed the directors' statement in section A4 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Impairment provisioning for financial assets	
The assessment of the Group's calculation of provisions for impairment losses against purchased and originated loans and receivables is complex and requires management to make significant judgements regarding the identification of impaired accounts, expectations of future cash flows arising from customers and the realisation of any security held.	We confirmed that impairment models are working as intended. We challenged the appropriateness of management's key assumptions used in the impairment calculations for loans and receivables. This involved assessing key assumptions for appropriateness in the context of external data and prior experience. Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias. We used internal IT specialists to test key controls over the loan administration systems and the manner in which data is extracted from these systems into the models used to determine impairment.
Revenue recognition	
Revenue recognition and specifically the application of the requirement in IAS 39 - 'Financial Instruments' to recognise income on purchased and originated loans using an effective interest rate method is a complex area, requiring management to make significant judgements relating to the expected life of each loan and the related cash flows which could significantly impact the level of income recognised in any given period.	We confirmed that the revenue recognition models are working as intended. We challenged management's assumptions in respect of cash flow estimates, focusing on the timing and level of early redemptions and assessed whether the revenue recognition policies adopted were in compliance with IFRS. This involved assessing key assumptions for appropriateness in the context of external data and prior experience. Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias. We used internal IT specialists to test key controls over the loan administration systems and the manner in which data is extracted from these systems into the models used to determine revenue recognition.
Retirement benefit obligation valuation	
Determining the key assumptions used to calculate the present value of the retirement benefit obligation requires significant management judgement in relation to inflation rates, discount rates and mortality rates.	We evaluated the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation, as set out in note 53 using market data from our in-house actuarial specialists detailing the range of assumptions used as at 30 September 2014. We also performed sensitivity analysis over the key assumptions in order to assess the potential for management bias.

The Audit Committee's consideration of these risks is set out in section B2.1.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £9.2 million (2013: £7.9 million), which is 7.5% (2013: 7.5%) of pre-tax profit and represents 1.0% (2013: 0.9%) of equity. Individual components of the Group are audited to a lower level of materiality, none of which exceeded 50% of Group materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £184,000 (2013: £156,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the principal trading subsidiaries within the Group's three reportable segments which account for 100% of the Group's profit before tax and net assets. All entities are managed, controlled and audited from the head office.

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work over the principal trading subsidiaries comprised statutory audits which were executed at levels of materiality applicable to each individual entity, lower than that for the Group as described above.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, in section B5, 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

PETER BIRCH (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
25 November 2014

D The accounts

D1.1 Consolidated income statement

For the year ended 30 September 2014

	Note	2014 £m	2013 (restated) £m
Interest receivable	10	302.4	269.0
Interest payable and similar charges	11	(123.0)	(108.0)
Net interest income		179.4	161.0
Other operating income	12	18.5	16.6
Total operating income		197.9	177.6
Operating expenses	13	(63.4)	(58.9)
Provisions for losses	18	(12.3)	(15.2)
Operating profit before fair value items		122.2	103.5
Fair value net gains	19	0.6	1.3
Operating profit being profit on ordinary activities before taxation		122.8	104.8
Tax charge on profit on ordinary activities	20	(25.6)	(20.1)
Profit on ordinary activities after taxation for the financial year		97.2	84.7

	Note	2014	2013 (restated)
Earnings per share			
- basic	22	31.9p	28.2p
- diluted	22	31.1p	27.3p

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

Comparative information has been restated for the change in accounting standards described in note 2.

D1.2 Consolidated statement of comprehensive income

For the year ended 30 September 2014

	Note	2014		2013 (restated)	
		£m	£m	£m	£m
Profit for the year			**97.2**		84.7
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Actuarial (loss) on pension scheme	53	**(2.1)**		(2.2)	
Tax thereon	23	**0.4**		-	
			(1.7)		(2.2)
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge (losses) / gains taken to equity	44	**(1.4)**		1.2	
Tax thereon	23	**0.3**		(0.2)	
			(1.1)		1.0
Other comprehensive income for the year net of tax			**(2.8)**		(1.2)
Total comprehensive income for the year			**94.4**		83.5

Comparative information has been restated for the change in accounting standards described in note 2.

D1.3 Consolidated balance sheet

30 September 2014

	Note	2014 £m	2013 £m	2012 £m
Assets employed				
Non-current assets				
Intangible assets	24	**7.9**	8.5	9.1
Property, plant and equipment	26	**22.9**	9.6	10.7
Financial assets	29	**9,969.6**	9,715.3	9,505.2
		10,000.4	9,733.4	9,525.0
Current assets				
Other receivables	37	**6.5**	7.6	7.3
Short term investments	38	**39.4**	-	-
Cash and cash equivalents	39	**848.8**	587.3	504.8
		894.7	594.9	512.1
Total assets		**10,895.1**	10,328.3	10,037.1
Financed by				
Equity shareholders' funds				
Called-up share capital	40	**307.3**	306.2	301.8
Reserves	41	**688.0**	614.7	550.2
Share capital and reserves		**995.3**	920.9	852.0
Own shares	48	**(48.2)**	(47.6)	(48.5)
Total equity		**947.1**	873.3	803.5
Current liabilities				
Financial liabilities	49	**54.4**	3.0	2.0
Current tax liabilities	55	**11.9**	5.9	13.3
Other liabilities	56	**40.1**	36.2	36.7
		106.4	45.1	52.0
Non-current liabilities				
Financial liabilities	49	**9,814.0**	9,383.4	9,159.0
Retirement benefit obligations	53	**17.3**	15.7	13.9
Deferred tax	54	**10.1**	9.9	7.6
Other liabilities	56	**0.2**	0.9	1.1
		9,841.6	9,409.9	9,181.6
Total liabilities		**9,948.0**	9,455.0	9,233.6
		10,895.1	10,328.3	10,037.1

Approved by the Board of Directors on 25 November 2014.

Signed on behalf of the Board of Directors.

N S Terrington
Chief Executive

R J Woodman
Group Finance Director

D1.4 Company balance sheet
30 September 2014

	Note	2014 £m	2013 £m	2012 £m
Assets employed				
Non-current assets				
Property, plant and equipment	26	**19.6**	5.6	6.7
Investment in subsidiary undertakings	27	**928.0**	678.2	622.6
		947.6	683.8	629.3
Current assets				
Other receivables	37	**103.9**	115.0	80.1
Cash and cash equivalents	39	**166.5**	153.9	124.5
		270.4	268.9	204.6
Total assets		**1,218.0**	952.7	833.9
Financed by				
Equity shareholders' funds				
Called-up share capital	40	**307.3**	306.2	301.8
Reserves	41	**456.4**	423.1	373.8
Share capital and reserves		**763.7**	729.3	675.6
Own shares	48	**(39.5)**	(39.5)	(39.5)
Total equity		**724.2**	689.8	636.1
Current liabilities				
Financial liabilities	49	-	1.6	1.4
Current tax liabilities	55	**2.3**	4.8	4.4
Other liabilities	56	**196.5**	76.4	71.1
		198.8	82.8	76.9
Non-current liabilities				
Financial liabilities	49	**293.2**	177.7	120.2
Deferred tax	54	**1.8**	1.8	-
Other liabilities	56	**-**	0.6	0.7
		295.0	180.1	120.9
Total liabilities		**493.8**	262.9	197.8
		1,218.0	952.7	833.9

Approved by the Board of Directors on 25 November 2014.

Signed on behalf of the Board of Directors.

N S Terrington
Chief Executive

R J Woodman
Group Finance Director

D1.5 Consolidated cash flow statement

For the year ended 30 September 2014

	Note	2014 £m	2013 £m
Net cash (utilised) by operating activities	57	(269.5)	(31.9)
Net cash (utilised) by investing activities	58	(65.2)	(1.6)
Net cash generated by financing activities	59	596.5	115.2
Net increase in cash and cash equivalents		261.8	81.7
Opening cash and cash equivalents		585.9	504.2
Closing cash and cash equivalents		847.7	585.9
Represented by balances within:			
Cash and cash equivalents		848.8	587.3
Financial liabilities		(1.1)	(1.4)
		847.7	585.9

D1.6 Company cash flow statement

For the year ended 30 September 2014

	Note	2014 £m	2013 £m
Net cash generated by operating activities	57	189.5	49.8
Net cash (utilised) by investing activities	58	(278.2)	(61.7)
Net cash generated by financing activities	59	101.3	41.3
Net increase in cash and cash equivalents		12.6	29.4
Opening cash and cash equivalents		153.9	124.5
Closing cash and cash equivalents		166.5	153.9
Represented by balances within:			
Cash and cash equivalents		166.5	153.9
Financial liabilities		-	-
		166.5	153.9

D1.7 Statement of movements in equity

For the year ended 30 September 2014

		The Group		The Company	
	Note	2014 £m	2013 £m	2014 £m	2013 £m
Total comprehensive income for the year		94.4	83.5	53.8	66.9
Dividends paid	46	(23.7)	(20.7)	(23.7)	(20.7)
Net movement in own shares		(0.6)	0.9	-	-
(Deficit) / surplus on transactions in own shares	47	(0.8)	(0.4)	1.1	4.4
Charge for share based remuneration	14	3.2	3.1	3.2	3.1
Tax on share based remuneration	23	1.3	3.4	-	-
Net movement in equity in the year		73.8	69.8	34.4	53.7
Opening equity		873.3	803.5	689.8	636.1
Closing equity		947.1	873.3	724.2	689.8

1. GENERAL INFORMATION

The Paragon Group of Companies PLC is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 2336032. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Group's operations and its principal activities are set out in the Strategic Report in section A2.

These financial statements are presented in pounds sterling, which is the currency of the economic environment in which the Group operates.

2. ADOPTION OF NEW AND REVISED REPORTING STANDARDS

In the preparation of these financial statements the following new reporting standards are being applied for the first time.

(a) Consolidation

IFRS 10 – 'Consolidated Financial Statements', IFRS 11 – 'Joint Arrangements', IFRS 12 – 'Disclosure of Interests in Other Entities', IAS 27 (Revised) – 'Separate Financial Statements' and IAS 28 (Revised) – 'Investments in Associates and Joint Ventures' form the new IFRS regime for consolidation. These standards are effective for financial statements prepared under IFRS for periods beginning on or after 1 January 2013 and for financial statements prepared under IFRS as endorsed by the European Union for periods beginning on or after 1 January 2014, though early adoption is allowed. The directors have decided to apply these standards for the first time in the preparation of these financial statements.

The adoption of these standards does not change the entities included within the consolidated accounts from those previously consolidated, nor do consolidated results presented under the new standards differ from how they would formerly have appeared.

(b) IFRS 13 – 'Fair Value Measurement'

IFRS 13, which is applied for the first time in the preparation of these accounts, sets out new guidance on the establishment of fair value for accounting purposes and enhanced disclosures. It applies to all amounts in the Group's financial statements presented at fair value, but its adoption has not had a material impact on the results or financial position of the Group or the Company.

(c) Amendment to IAS 19 – 'Employee Benefits'

In compiling these financial statements, the directors have adopted the revision to IAS 19 – 'Employee Benefits', which applies to the Group's accounts for the year ended 30 September 2014. In accordance with the transitional provisions included in the Standard, it has been applied retrospectively. While this revision does not affect the calculation of the deficit in the Group's defined benefit pension plan, shown in the balance sheet, the presentation of the movements in that balance in the income statement and statement of total comprehensive income is amended.

In particular:

- The funding cost of the plan liabilities and the expected return on the plan assets are no longer recognised in 'Interest Payable' and 'Interest Receivable' respectively. Instead the funding cost of the net deficit is recognised in interest payable, at the rate which would previously have been applied to the scheme's total liabilities.
- The administrative costs of the plan are no longer included in the calculation of service cost, which is included within wages and salaries, but are instead calculated as a separate annual cost, included in 'Operating Expenses'.
- The actuarial gain or loss will reflect any movements in the deficit no longer reflected in the income statement.
- As a deferred tax asset is recognised on the deficit, movements in deferred tax in current year income and reserves are adjusted to reflect the new accounting.

The effect of these restatements on the consolidated income statement and the Group's earnings per share for the year ended 30 September 2013 is shown below.

	As originally reported £m	Restatement £m	As restated £m
Interest receivable	272.6	(3.6)	269.0
Interest payable and similar charges	(111.3)	3.3	(108.0)
Net interest receivable	161.3	(0.3)	161.0
Other operating income	16.6	-	16.6
Total operating income	177.9	(0.3)	177.6
Operating expenses	(58.6)	(0.3)	(58.9)
Provisions for losses	(15.2)	-	(15.2)
Operating profit	104.1	(0.6)	103.5
Fair value net gains	1.3	-	1.3
Profit before tax	105.4	(0.6)	104.8
Tax charge	(20.2)	0.1	(20.1)
Profit on ordinary activities after taxation	85.2	(0.5)	84.7
Earnings per share			
- Basic	28.4p	(0.2)p	28.2p
- Diluted	27.5p	(0.2)p	27.3p

The effect of these restatements on the consolidated statement of comprehensive income for the year ended 30 September 2013 is shown below.

	As originally reported £m	Restatement £m	As restated £m
Profit on ordinary activities after taxation	85.2	(0.5)	84.7
Actuarial (loss) on pension scheme	(2.8)	0.6	(2.2)
Tax thereon	0.1	(0.1)	-
Cash flow hedge gains taken to equity	1.2	-	1.2
Tax thereon	(0.2)	-	(0.2)
Other comprehensive income	(1.7)	0.5	(1.2)
Total comprehensive income	83.5	-	83.5

D The accounts

Had the 2011 revision to IAS 19 not been adopted in the preparation of these financial statements and the previous version of the Standard used instead, the differences in the consolidated income statement and the Group's earnings per share for the year ended 30 September 2014 would have been as follows:

	Under Previous IAS 19 £m	Difference £m	Under IAS 19 Revised (2011) £m
Interest receivable	307.2	(4.8)	302.4
Interest payable and similar charges	(126.7)	3.7	(123.0)
Net interest receivable	180.5	(1.1)	179.4
Other operating income	18.5	-	18.5
Total operating income	199.0	(1.1)	197.9
Operating expenses	(63.1)	(0.3)	(63.4)
Provisions for losses	(12.3)	-	(12.3)
Operating profit	123.6	(1.4)	122.2
Fair value net gains	0.6	-	0.6
Profit before tax	124.2	(1.4)	122.8
Tax charge	(25.9)	0.3	(25.6)
Profit on ordinary activities after taxation	98.3	(1.1)	97.2
Earnings per share			
Basic	32.3p	(0.4)p	31.9p
Diluted	31.5p	(0.4)p	31.1p

The differences in the consolidated statement of comprehensive income for the year ended 30 September 2014 would have been as follows.

	Under Previous IAS 19 £m	Difference £m	Under IAS 19 Revised (2011) £m
Profit on ordinary activities after taxation	98.3	(1.1)	97.2
Actuarial (loss) on pension scheme	(3.5)	1.4	(2.1)
Tax thereon	0.7	(0.3)	0.4
Cash flow hedge (losses) taken to equity	(1.4)	-	(1.4)
Tax thereon	0.3	-	0.3
Other comprehensive income	(3.9)	1.1	(2.8)
Total comprehensive income	94.4	-	94.4

The adoption of the revised standard has no effect on the consolidated balance sheet or cash flow statement of the Group or on the financial statements of the Company in either the year ended 30 September 2013 or the year ended 30 September 2014.

(d) Standards not yet adopted

At the date of authorisation of these financial statements the following International Financial Reporting Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 – 'Financial Instruments'; and
- IFRS 15 – 'Revenue from Contracts with Customers'.

The adoption of IFRS 9 will require changes to the valuation and income recognition methods relating to the Group's Loans to Customers, Borrowings and derivative assets and liabilities. This Standard will come into force with effect from the Group's financial statements for the year ending 30 September 2019, if it is endorsed by the European Union. The European Union has yet to indicate when it expects the Standard to be endorsed. Following the publication of the final version of the Standard by the IASB in July 2014, the Group has begun to assess its potential impact, and will report further on this in future periods.

IFRS 15 will replace the standards currently governing the recognition of that part of the Group's income which does not derive directly from financial assets. If endorsed by the European Union, it will come in to force with effect from the Group's financial statements for the year ending 30 September 2018, but is not expected to have a material impact on its results or financial position.

Other Standards and interpretations in issue but not effective do not address matters relevant to the Group's accounting and reporting.

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In the financial years reported upon this means that the financial statements accord also with International Financial Reporting Standards as approved by the International Accounting Standards Board.

The particular policies applied are described below.

(a) Accounting convention

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

(b) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2014. Subsidiaries comprise all those entities over which the Group has control. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

In accordance with IFRS 10 – 'Consolidated Financial Statements' companies owned by charitable trusts into which loans originated by group companies were sold as part of its warehouse and securitisation funding arrangements, where the Group enjoys the benefits of ownership, are treated as subsidiaries.

Similarly, trusts set up to hold shares in conjunction with the Group's employee share ownership arrangements are also treated as subsidiaries.

(c) Going concern

The consolidated financial statements have been prepared on the going concern basis. The directors' reasons for the adoption of this basis are given in the Strategic Report in section A4.

(d) Goodwill

Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair value of the purchase consideration over the fair values of acquired assets, including intangible assets, is held on the balance sheet and reviewed annually to determine whether any impairment has occurred.

Negative goodwill is written off as it arises.

As permitted by IFRS 1, the Group has elected not to apply IFRS 3 – 'Business Combinations' to combinations taking place before its transition date to IFRS (1 October 2004). Therefore any goodwill which was written off to reserves under UK GAAP will not be charged or credited to the profit and loss account on any future disposal of the business to which it relates.

(e) Intangible assets

Intangible assets comprise purchased computer software and other intangible assets acquired in business combinations.

Purchased computer software is capitalised where it has a sufficiently enduring nature and is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

Other intangible assets acquired in business combinations include brands and business networks and are capitalised in accordance with the requirements of IFRS 3 – 'Business Combinations'. Such assets are stated at attributed cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 6.67% per annum.

(f) Leases

Leases are accounted for as operating or finance leases in accordance with IAS 17 – 'Leases'. A finance lease is deemed to be one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

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

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost for property held under a sale and leaseback transaction represented the sale value.

Depreciation is provided on cost in equal annual instalments over the lives of the assets. Land is not depreciated. The rates of depreciation are as follows:

Freehold premises	2% per annum
Short leasehold premises	over the term of the lease
Computer hardware	25% per annum
Furniture, fixtures and office equipment	15% per annum
Company motor vehicles	25% per annum

(h) Investments in subsidiaries

The Company's investments in subsidiary undertakings are valued at cost less provision for impairment.

(i) Loans to customers

Loans to customers are considered to be 'loans and receivables' as defined by IAS 39 – 'Financial Instruments: Recognition and Measurement'. They are therefore accounted for on the amortised cost basis.

Loans advanced are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter all loans to customers are valued at this initial amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method. The loan balances are then reduced where necessary by a provision for balances which are considered to be impaired.

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

(j) Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for impairment.

Income from finance lease contracts is accounted for on the actuarial basis.

(k) Impairment of loans and receivables

Loans and receivables are reviewed for indications of possible impairment throughout the year and at each balance sheet date, in accordance with IAS 39. Where loans exhibit objective evidence of impairment, the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security, discounted at the original EIR. Loans are assessed collectively, grouped by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date.

For financial accounting purposes provisions for impairments of loans to customers are held in an allowance account. These balances are offset against the gross value of the loan when it is written off on the administration system. After this point a salvage balance may be held in respect of any further recoveries expected on the loan.

(l) Investments in structured entities

Investments in structured entities are intended to be held to maturity and are therefore accounted for on the amortised cost basis. The return from such investments is calculated on the EIR basis.

(m) Amounts owed by or to group companies

In the accounts of the Company balances owed by or to other group companies are carried at the current amount outstanding less any provision. Where balances owing between group companies fall within the definition of either financial assets or financial liabilities given in IAS 32 – 'Financial Instruments: Presentation' they are classified as 'Loans and Receivables' or 'Other financial liabilities', respectively.

(n) Short term investments

Short term investments are held as part of the liquidity requirement of Paragon Bank PLC. As such they are designated as 'Available for Sale', as defined by IAS 39 - 'Financial Instruments: Recognition and Measurement' and are consequently measured at their fair value which corresponds to their market value at the balance sheet date.

Remeasurement gains and losses are recognised in the income statement within interest receivable.

(o) Cash and cash equivalents

Balances shown as cash and cash equivalents in the balance sheet comprise demand deposits and short-term deposits with banks with initial maturities of not more than 90 days.

(p) Own shares

Shares in The Paragon Group of Companies PLC held in treasury or by the trustees of the Group's employee share ownership plans are shown on the balance sheet as a deduction in arriving at total equity. Own shares are stated at cost.

(q) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of temporary differences. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Tax relating to items taken directly to equity is also taken directly to equity.

(r) Retail deposits

Retail deposits are carried in the balance sheet on the amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

Interest payable to the customer is expensed to the income statement as interest payable over the deposit term on an Effective Interest Rate basis.

(s) Borrowings

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

Interest and all other costs of the funding are expensed to the income statement as interest payable over the term of the borrowing on an Effective Interest Rate basis.

(t) Finance lease payables

Balances due on the lease arising from the sale and leaseback of a Group property were recognised in creditors at the total amount payable less interest not yet accrued. Interest was accrued on the actuarial basis.

The profit which arose on the sale and leaseback transaction was held within deferred income and was credited to profit over the lease term on a straight line basis.

(u) Derivative financial instruments

Derivative instruments utilised by the Group comprise currency swap, interest rate swap and interest rate option agreements. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Group in line with the Group's risk management policies.

The Group does not enter into speculative derivative contracts.

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

(v) Hedging

For all hedges, the Group documents, at inception, the relationship between the hedging instruments and the hedged items, as well as its risk management strategy and objectives for undertaking the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by IAS 39.

For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of IAS 39, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets or retail deposit liabilities) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

Where a derivative is used to hedge the variability of cash flows of an asset or liability, it may be designated as a cash flow hedge so long as this relationship meets the hedging requirements of IAS 39. For such an instrument the effective portion of the change in the fair value of the derivative is taken initially to equity, with the ineffective part taken to profit or loss. The amount taken to equity is released to the income statement at the same time as the hedged item affects the income statement. Where a cash flow hedge relationship is terminated, or deemed ineffective, the amount taken to equity will remain there until the hedged transaction is recognised, or is no longer highly probable.

(w) Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. As required by IAS 12 – 'Income Taxes', deferred tax assets and liabilities are not discounted to take account of the expected timing of realisation.

(x) Retirement benefit obligations

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

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

The expected financing cost of the deficit, as estimated at the beginning of the period is recognised in the result for the period within interest payable. Any variances against the estimated amount in the year form part of the actuarial gain or loss.

The charge to the income statement for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

(y) Revenue

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

(z) Fee and commission income

Other income includes administration fees charged to borrowers, which are credited when the related service is performed, fees charged to third parties for account administration services, which are credited as those services are performed, and commissions receivable on the sale of insurances, which are taken to profit at the point at which the Group becomes unconditionally entitled to the income.

(aa) Share based payments

In accordance with IFRS 2 – 'Share based payments', the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date.

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

Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

(bb) Dividends

In accordance with IAS 10 – 'Events after the balance sheet date', dividends payable on ordinary shares are recognised in equity once they are appropriately authorised and are no longer at the discretion of the Company. Dividends declared after the balance sheet date, but before the authorisation of the financial statements remain within shareholders' funds.

(cc) Foreign currency

Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 – 'The Effects of Changes in Foreign Exchange Rates'. The functional currency of the Group is the pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

Gains and losses on retranslation are included in interest payable or interest receivable depending on whether the underlying instrument is an asset or a liability, except where deferred in equity in accordance with the cash flow hedging provisions of IAS 39.

(dd) Segmental reporting

The accounting policies of the operating segments are the same as those described above for the Group as a whole. Costs attributed to each segment represent the direct costs incurred by the segment operations and an allocation of the costs of areas of the business which serve all segments. Such allocations are weighted by the value of loan assets in each segment, adjusted for the relative effort involved in the administration of each asset class.

4. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair values have been determined for all derivatives, listed securities and any other financial assets and liabilities for which an active and liquid market exists.

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a risk adjusted interest rate. The principal inputs to these valuation models are LIBOR benchmark interest rates for the currencies in which the instruments are denominated, sterling, euros and dollars. The cross currency basis swaps have a notional principal related to the outstanding currency borrowings and therefore the estimated rate of repayment of these notes also affects the valuation of the swaps. In order to determine the fair values the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counter-party. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors.

For assets and liabilities carried at fair value, IFRS 7 requires that the measurements should be classified using a fair value hierarchy reflecting the inputs used, and defines three levels. Level 1 measurements are unadjusted market prices, level 2 measurements are derived from observable data, such as market prices or rates, while level 3 measurements rely on significant inputs which are not derived from observable data. As described above the valuations of the Group's derivatives are based on market information and they are therefore classified as level 2 measurements. Details of these assets are given in note 36. The short term investments described in note 38 are freely traded securities for which a market price quotation is available and are classified as level 1 measurements. The Group had no financial assets or liabilities in the year ended 30 September 2014 or the year ended 30 September 2013 valued using level 3 measurements. The fair values of cash and cash equivalents, bank loans and overdrafts and asset backed loan notes, which are carried at amortised cost are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises. While the Group's asset backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it and an adjustment is required. As these valuation exercises are not wholly market based they are considered to be level 2 measurements.

To assess the likely fair value of the Group's retail deposit liabilities, the directors have considered the estimated cash flows expected to arise based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. On this basis they have concluded that the carrying value of these liabilities, determined on the amortised cost basis, is not significantly different from their fair value derived on a discounted cash flow basis. Given the mixture of observable and non-observable inputs these are considered to be level 2 measurements.

To assess the likely fair value of the Group's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. On this basis they have concluded that the carrying value of these assets, determined on the amortised cost basis, is not significantly different from the fair value of the assets derived on a discounted cash flow basis. Given the mixture of observable and non-observable inputs these are considered to be level 2 measurements.

5. CRITICAL ACCOUNTING ESTIMATES

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

(a) Impairment losses on loans to customers

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

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

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided.

(b) Effective interest rates

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. These estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual borrower behaviour and that predicted.

(c) Fair values

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

(d) Retirement benefits

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions. These are listed in note 53. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

6. CAPITAL MANAGEMENT

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- To ensure that sufficient regulatory capital is available to meet any externally imposed requirements.

The Group sets the amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as retail or corporate bonds, or sell assets to reduce debt.

Following the authorisation of Paragon Bank by the Prudential Regulation Authority ('PRA'), the Group became subject to regulatory capital rules on a consolidated basis. This is discussed further below.

(a) Dividend cover

Following its rights issue in 2008 the Group pursued a progressive dividend policy with the dividend being increased from 3.0p in respect of that year to 4.0p in respect of the year ended 30 September 2011. In 2012 as a result of the progress of the business, the directors adopted a new policy under which the dividends will increase so that, by the year ending 30 September 2016, the level of dividend cover will be maintained in the range 3.0 to 3.5 times.

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

	Note	2014	2013 (restated)
Profit after tax for the year (£m)		97.2	84.7
Proposed dividend in respect of the year (£m)	46	27.4	21.8
Dividend cover (times)		3.5	3.9

(b) Return on equity

Return on equity ('ROE') is defined by the Group by comparing the profit after tax for the year to the average of the opening and closing equity positions.

The Group's ROE for the year ended 30 September 2014 is derived as follows:

	2014 £m	2013 (restated) £m
Profit for the year	97.2	84.7
Divided by		
Opening equity	873.3	803.5
Closing equity	947.1	873.3
Average equity	910.2	838.4
Return on equity	10.7%	10.1%

(c) Gearing

The Board of Directors regularly review the proportion of working capital represented by debt and equity. Net debt is calculated as total debt, other than securitised and warehouse debt, valued at principal value, less free cash up to a maximum of the total debt. Adjusted equity comprises all components of equity (i.e. share capital, share premium, minority interest, retained earnings and revaluation surplus) other than amounts recognised in equity relating to cash flow hedges.

The debt and equity amounts at 30 September 2014 and at 30 September 2013 were as follows:

	Note	2014 £m	2013 £m
Debt			
Corporate bond	51	**110.0**	110.0
Retail bonds	51	**185.0**	60.0
Bank overdraft	49	**1.1**	1.4
Less: Applicable free cash	39	**(177.3)**	(170.8)
Net debt		**118.8**	0.6
Equity			
Total equity		**947.1**	873.3
Less: cash flow hedging reserve	44	**(0.6)**	(1.7)
Adjusted equity		**946.5**	871.6
Total working capital		**1,065.3**	872.2
Debt		**11.2%**	0.1%
Equity		**88.8%**	99.9%
Total working capital		**100.0%**	100.0%

The movements in the proportion of working capital represented by debt and equity during 2014 resulted primarily from the operation of the policy described above.

(d) Regulatory capital

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. As part of this supervision the regulator will issue individual capital guidance setting an amount of regulatory capital, defined under the international Basel III rules, implemented through the Capital Requirements Regulation and Directive ('CRD IV'), which the Group is required to hold relative to its risk weighted assets in order to safeguard depositors against the risk of losses being incurred by the Group.

The Group's regulatory capital is monitored by the Board of Directors and the Asset and Liability Committee, who ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

At 30 September 2014 the Group's regulatory capital of £981.1m (2013: £934.0m) was comfortably in excess of that required by the regulator. Although the Group was not subject to supervision at 30 September 2013, disclosures at that date are provided in this section for comparative purposes.

The Group's regulatory capital differs from its equity as certain adjustments are required by the regulator. A reconciliation of the Group's equity to its regulatory capital determined in accordance with CRD IV at 30 September 2014 is set out below.

	Note	2014 £m	2013 £m
Total equity		947.1	873.3
Deductions			
Proposed final dividend	46	(18.3)	(14.6)
Intangible assets	24	(7.9)	(8.5)
Deferred tax adjustment	*	(0.5)	(0.6)
Common Equity Tier 1 ('CET1') capital		920.4	849.6
Other tier 1 capital		-	-
Total Tier 1 capital		920.4	849.6
Corporate bond	51	110.0	110.0
Less: amortisation adjustment	†	(53.8)	(31.8)
		56.2	78.2
Collectively assessed credit impairment allowances		4.5	6.2
Total Tier 2 capital		60.7	84.4
Total regulatory capital		981.1	934.0

* Deferred tax assets in subsidiary companies are required to be deducted from regulatory capital. This balance is offset against the deferred tax liability in the consolidated accounts.

† When tier 2 capital instruments have less than five years to maturity the amount eligible as regulatory capital reduces by 20% per annum. As the Group's £110m Corporate Bond matures in 2017, this adjustment is required.

The risk weighted assets calculated under the CRD IV framework, against which this capital is held, and the proportion of these assets it represents, are calculated as shown below.

	2014 £m	2013 £m
Credit risk		
Balance sheet assets	4,220.8	4,001.2
Other	108.7	108.7
Total credit risk	4,329.5	4,109.9
Operational risk	337.1	291.9
Market risk	-	-
Total risk weighted assets	4,666.6	4,401.8

	%	%
Solvency ratios		
CET1	19.7	19.3
Total regulatory capital	21.0	21.2

The CRD IV risk weightings for credit risk exposures are calculated using the Standardised approach. As risk weightings and credit valuation adjustments are not available at 30 September 2013 those for 30 September 2014 have been used in calculating the comparative amounts above for illustrative purposes.

The table below shows the calculation of the leverage ratio, based on the consolidated balance sheet assets adjusted for the post offer pipeline of loan assets at 30 September 2014.

	2014 £m	2013 £m
Total balance sheet assets	10,895.1	10,328.3
Post offer pipeline	207.7	116.5
Exposure	11,102.8	10,444.8
Tier 1 capital	920.4	849.6
Leverage ratio	8.3%	8.1%

The regulatory capital disclosures in these financial statements relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the year.

7. FINANCIAL RISK MANAGEMENT

The principal financial risks arising from the Group's normal business activities are credit risk, liquidity risk, interest rate risk and currency risk. During the year the Board established a Risk and Compliance Committee, consisting of non-executive directors. The Credit Committee and the Asset and Liability Committee ('ALCO') are executive sub-committees of the Risk and Compliance Committee which review and agree policies for managing each of these risks, which are summarised below. The Corporate Governance Statement in Section B2 provides further detail on the operations of these committees. Before the establishment of the Risk and Compliance Committee the other committees reported directly to the Board. The financial risk management policies have remained unchanged throughout the year and since the year end. The position disclosed below is materially similar to that existing throughout the year. Paragon Bank has its own risk management structure which is overseen by the Group committees.

Use of derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. Such instruments are contracts with counter-parties and are used only to limit the exposure of the Group to movements in market interest or exchange rates.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken, and hence all of the Group's derivative financial instruments are for commercial hedging purposes only. These are used to protect the Group from exposures principally arising from fixed rate lending or borrowing and borrowings denominated in foreign currencies. Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under the IAS 39 rules, while in other cases hedge accounting has not been adopted either because natural accounting offsets are expected or because complying with the IAS 39 hedge accounting rules would be particulary onerous.

The Group has designated a number of derivatives as fair value hedges for accounting purposes. In particular this treatment is used for:

(a) hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis.

(b) hedging the interest rate risk of groups of fixed rate retail deposits with interest rate derivatives on a portfolio basis.

In both cases the Group believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Group to these assets and liabilities.

The Group has also designated cash flow hedging relationships, principally arising from currency borrowings, where a specified foreign exchange basis swap, set up as part of the terms of the borrowing is used.

The Company has no derivative assets or liabilities.

Credit risk

The Group's business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of acquiring or underwriting a new loan, where strict lending criteria are applied, and in the collections process.

Primary responsibility for credit risk management across the Group lies with the Credit Committee. The Credit Committee is made up of four senior members of staff, headed by the Group Finance Director. Its key responsibilities include setting and reviewing credit policy, controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

In order to control credit risk relating to counterparties to the Group's derivative financial instruments, short-term investments and cash deposits, ALCO determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits.

The assets of the Group and the Company which are subject to credit risk are set out below:

		The Group		The Company	
		2014	2013	**2014**	2013
	Note	**£m**	£m	**£m**	£m
Loans to customers	32	**9,255.9**	8,801.5	**-**	-
Investments in structured entities	35	**19.3**	23.8	**-**	-
Derivative financial assets	36	**693.9**	890.0	**-**	-
Amounts owed by Group companies	37	**-**	-	**103.9**	115.0
Accrued interest	37	**0.3**	0.2	**-**	-
Short term investments	38	**39.4**	-	**-**	-
Cash	39	**848.8**	587.3	**166.5**	153.9
Maximum exposure to credit risk		**10,857.6**	10,302.8	**270.4**	268.9

While this maximum exposure represents the potential loss which might have to be accounted for by the Group, the terms on which the Group's loan assets are funded, described under Liquidity Risk below, limit the amount of principal repayments on the Group's securitised and warehouse borrowings in cases of capital losses on assets, significantly reducing the effective shareholder value at risk.

Loans to customers and other investments in loan assets

The Group's credit risk is primarily attributable to its loans to customers. There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

The Group's loan assets at 30 September 2014 are analysed as follows:

	2014 £m	2014 %	2013 £m	2013 %
Buy-to-let mortgages	8,592.1	92.8%	8,324.4	94.6%
Owner occupied mortgages	59.6	0.7%	77.4	0.9%
Total first mortgages	8,651.7	93.5%	8,401.8	95.5%
Secured loans	436.2	4.7%	248.4	2.8%
Loans secured on property	9,087.9	98.2%	8,650.2	98.3%
Car loans	5.7	0.1%	1.3	-
Retail finance loans	0.4	-	1.5	-
Other loans	161.9	1.7%	148.5	1.7%
Total loans to customers	9,255.9	100.0%	8,801.5	100.0%

Other loans include unsecured loans either advanced by Group companies or acquired from their originators at a discount.

The Group's underwriting philosophy is based on a combination of sophisticated individual credit assessment and the automated efficiencies of a scored decision making process. Information on each applicant is combined with data taken from a credit reference bureau to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provides evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement.

First mortgages and secured loans are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities. Car loans are effectively secured by the financed vehicle.

Despite this security, in assessing credit risk, an applicant's ability and propensity to repay the loan remain the principal factors in the decision to lend.

In considering whether to acquire pools of loan assets or invest in loan portfolios, the Group will undertake a due diligence exercise on the underlying loan accounts. Such assets are generally not fully performing and are offered at a discount to their current balance. The Group's procedures may include inspection of original loan documents, verification of security and the examination of the credit status of borrowers. Current and historic cash flow data will also be examined. The objective of the exercise is to establish, to a level of confidence similar to that provided by the underwriting process, that the assets will generate sufficient cash flows to recover the Group's investment and generate an appropriate return.

An analysis of the indexed loan to value ratio ('LTV') for those loan accounts secured on property by value at 30 September 2014 is set out below. For acquired accounts the effect of any discount on purchase is allowed for.

	2014 First mortgages %	2014 Secured loans %	2013 First mortgages %	2013 Secured loans %
Loan to value ratio				
Less than 70%	48.5	28.7	30.3	29.5
70% to 80%	25.9	14.5	25.6	14.3
80% to 90%	16.4	18.1	25.4	14.1
90% to 100%	5.7	15.8	14.6	14.3
Over 100%	3.5	22.9	4.1	27.8
	100.0	100.0	100.0	100.0
Average loan to value ratio	71.4	84.1	77.9	89.0
Buy-to-let	71.7		78.4	
Owner-occupied	32.4		35.1	

D The accounts

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an annual increase of 9.4% in the year ended 30 September 2014 (2013: 5.0%).

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2014 and 30 September 2013, compared to the industry averages at those dates published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was:

	2014 %	2013 %
First mortgages		
Accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	0.25	0.35
Buy-to-Let accounts excluding receiver of rent cases	0.04	0.07
Owner Occupied accounts	3.94	4.24
CML data for mortgage accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	0.78	1.15
Buy-to-Let accounts excluding receiver of rent cases	0.69	0.99
Owner Occupied accounts	1.55	1.86
All mortgages	1.42	1.75
Secured loans		
Accounts more than 2 months in arrears	19.84	21.46
FLA data for secured loans	17.20	17.50
Car loans		
Accounts more than 2 months in arrears	7.85	25.52
FLA data for all personal loans	4.10	5.80
Other loans		
Accounts more than 2 months in arrears	87.50	81.98

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2013 has been published by the FLA or CML, the comparative industry figures above have been amended.

The Group calculates its headline arrears measure for buy-to-let mortgages shown above, based on the numbers of accounts three months or more in arrears, including purchased Idem assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by the CML in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will be higher for closed books such as the owner occupied mortgage book and the retail finance and unsecured loan books than for comparable active ones, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The improvement in the arrears position for car loans shown above is due to the recommencement of lending in this market, through Paragon Bank, with the new performing cases reducing the overall average.

The figures shown above for secured loans and other loans include purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price.

The payment status of the carrying balances of the Group's loan assets, before provision for impairment, at 30 September 2014 and at 30 September 2013 split between those accounts considered as performing and those included in the population for impairment testing, is shown below.

First Mortgages

	2014 £m	2013 £m
Not past due	8,477.6	8,173.6
Arrears less than 3 months	125.0	172.6
Performing accounts	8,602.6	8,346.2
Arrears 3 to 6 months	5.9	5.4
Arrears 6 to 12 months	3.9	6.4
Arrears over 12 months	20.2	26.9
Possessions and similar cases	39.4	38.2
Impairment population	69.4	76.9
	8,672.0	8,423.1

Consumer Finance

	Secured loans £m	Car loans £m	Retail finance loans £m	Total £m
30 September 2014				
Not past due	291.2	3.8	0.1	295.1
Arrears less than 2 months	33.8	2.0	-	35.8
Performing accounts	325.0	5.8	0.1	330.9
Arrears 2 to 6 months	24.5	0.1	-	24.6
Arrears 6 to 9 months	12.4	-	-	12.4
Arrears 9 to 12 months	11.9	-	0.1	12.0
Arrears over 12 months	67.2	0.6	2.0	69.8
Impairment population	116.0	0.7	2.1	118.8
	441.0	6.5	2.2	449.7
30 September 2013				
Not past due	175.6	0.8	0.2	176.6
Arrears less than 2 months	22.8	0.2	-	23.0
Performing accounts	198.4	1.0	0.2	199.6
Arrears 2 to 6 months	16.7	0.1	-	16.8
Arrears 6 to 9 months	7.9	-	-	7.9
Arrears 9 to 12 months	6.6	-	0.1	6.7
Arrears over 12 months	25.1	0.7	2.1	27.9
Impairment population	56.3	0.8	2.2	59.3
	254.7	1.8	2.4	258.9

Other loans

	2014 £m	2013 £m
Not past due	14.5	18.6
Arrears less than 1 month	1.0	1.7
Performing accounts	15.5	20.3
Arrears 1 to 3 months	1.1	1.5
Arrears 3 to 6 months	1.5	1.8
Arrears 6 to 12 months	4.0	3.8
Arrears over 12 months	157.9	140.2
Impairment population	164.5	147.3
	180.0	167.6

Arrears in the tables above are based on the contractual payment status of the customers concerned. Where assets have been purchased by the Idem Capital loan investment business, customers may already have been in arrears at the time of acquisition and an appropriate adjustment made to the consideration paid.

Investments in structured entities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by third parties to purchase pools of loan assets. All such investments are denominated in sterling and the underlying loans are made to United Kingdom borrowers. Cash generated by the assets is distributed to investors in accordance with a specified priority of payments. The Group has no obligation to make further contributions to the SPV companies concerned.

The management has considered the position of the underlying assets and concluded that they will generate sufficient cash flows to repay the amount of the investment.

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

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

	2014 Carrying value £m	2014 84 month ERC £m	2014 120 month ERC £m	2013 Carrying value £m	2013 84 month ERC £m	2013 120 month ERC £m
Loans to customers	407.2	554.8	649.9	169.9	272.6	313.3
Investments in structured entities	19.3	26.6	32.3	23.8	31.7	40.6
	426.5	581.4	682.2	193.7	304.3	353.9

Amounts shown as loans to customers above include loans disclosed as first mortgages and other loans (note 29).

Derivative financial assets

In order to control credit risk relating to counterparties to the Group's derivative financial instruments and cash deposits, ALCO determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits. Such counterparties are typically highly rated banks and, for all cash deposits and derivative positions held within the Group's securitisation structures, must comply with criteria set out in the financing arrangements, which are monitored externally. Where a derivative counterparty fails to meet the required criteria they are obliged under the terms of the instruments to set aside a cash collateral deposit. The amounts of these cash collateral deposits, which do not form part of the Group's cash position, are given in note 36.

The Group's exposure to credit risk in respect of the counterparties to its derivative financial assets, analysed by their long term credit rating as determined by Fitch is set out below.

	2014 £m	2013 £m
Carrying value of derivative financial assets		
Counterparties rated		
AA-	193.5	261.1
A+	4.2	6.8
A	496.2	622.1
Gross exposure	693.9	890.0
Collateral amounts posted	(87.3)	(120.4)
Net exposure	606.6	769.6

Short term investments

The Group's short term investments are held within Paragon Bank and form part of the liquidity buffer it is required to hold by the PRA. These investments may only be placed in treasury bills and gilts issued by the UK government, or such similar instruments as are permitted by the regulator, and as such the credit risk is judged to be minimal.

Cash and cash equivalents

The Group's cash balances are held in sterling at highly rated banks in current accounts and as short fixed term deposits and money market placements. The Group has a large exposures policy to mitigate any concentration risk in respect of its cash deposits. Credit risk on these balances, and the interest accrued thereon, is considered to be minimal.

Liquidity risk

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.

Paragon Bank, which commenced deposit taking in the year, is subject to regulation by the PRA in this respect, which aims to ensure that sufficient liquid assets are held to mitigate the liquidity risk inherent in deposit taking.

The Group's originated loan assets, outside Paragon Bank, are principally financed by asset backed loan notes ('Notes') issued through the securitisation process. In a securitisation an SPV company within the Group will issue Notes secured on a pool of mortgage or other loan assets owned by the SPV in a public offer. The Notes have a maturity date later than the final repayment date for any asset in the pool, typically over thirty years from the issue date. The noteholders are entitled to receive repayment of the Note principal from principal funds generated by the loan assets from time to time, but their right to the repayment of principal is limited to the cash available in the SPV. Similarly, payment of accrued interest to the noteholders is limited to cash generated within the SPV. There is no requirement for any Group company other than the issuing SPV to make principal or interest payments in respect of the Notes. This matching of the maturities of the assets and the related funding substantially reduces the Group's exposure to liquidity risk. Details of Notes in issue are given in note 51 and the assets backing the Notes are shown in notes 30 and 31.

During the year ended 30 September 2014 the Group extended securitisation funding to certain of the purchased assets generated through its Idem Capital business. Although privately funded, these SPVs have similar liquidity risk characteristics to the public issues described above.

In each case the Group provides funding to the SPV at inception, subordinated to the Notes, which means that the primary credit risk on the pool assets is retained within the Group. The Group receives the residual income generated by the assets. These factors mean that the risks and rewards of ownership of the assets remain with the Group, and hence the loans remain on the Group's balance sheet.

Cash received from time to time in each SPV is held until the next interest payment date when, following payment of principal, interest and the associated costs of the SPV, the remaining balances become available to the Group. Cash balances are also held within each SPV to provide credit enhancement for the particular securitisation, allowing interest and principal payments to be made even if some of the loans default. In order to provide further credit enhancement in certain of the SPVs, specific economic trigger events exist which cause additional cash to be retained in the SPV rather than being transferred to the Group. While the Group can, if it chooses, contribute additional cash to cover these requirements, it is under no obligation to do so. During the year ended 30 September 2013, one such trigger event occurred in Paragon Secured Finance (No. 1) plc, one of the Group's consumer finance securitisations, and £2.4m of additional cash was retained in that company. No such events occurred in the year ended 30 September 2014. Whether any such events in any of the Group's other SPVs arise in the future will depend on the performance of the general economy and its impact on mortgage and loan arrears in each SPV. However if all of the remaining trigger events occurred, a total of £77.7m of additional cash would be retained in the SPV companies (2013: £70.5m). The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 39.

Newly originated mortgage loans are initially funded by a revolving loan facility or 'warehouse' from the point of their origination until their inclusion in a securitisation transaction. A warehouse company functions in a similar way to an SPV, except that funds are drawn down as advances are made, repaid when loans are securitised and may subsequently be redrawn.

On 29 February 2008 the warehouse facility provided to Paragon Second Funding Limited ceased to be available for new drawings and new mortgage lending ceased, although the secured assets held within it at that time continued to be funded. Repayment of the principal on this warehouse facility is not required unless amounts are realised from the underlying secured assets. The final repayment date of the facility is later than the final due date of the secured assets it funds.

Mortgage loans advanced since the recommencement of lending in 2010 have been funded through one of three warehouse facilities, which are detailed in note 51. Each warehouse facility is agreed with an individual bank and is available for drawing and redrawing for a set commitment period, although each has the option to be renewed before the period ends. After the end of the commitment period the funding will remain in place for a further period until the underlying assets can be sold or refinanced. Repayment of the principal amount of the facilities is not required unless amounts are realised from the secured assets either through repayment, securitisation or asset sales, even after the end of the period. There is no further recourse to other assets of the Group in respect of either interest or principal on the borrowings. The warehouse facilities due for expiry in the period were all renewed on the same or improved terms.

As with the SPVs, the Group provides subordinated funding to the warehouse companies and restricted cash balances are held within them. Contributions to the subordinated funding are made each time a drawing on the facility concerned is made. These amounts provide credit enhancement to the warehouse and cover certain fees. This funding is repaid when assets are securitised. The amount of subordinated funding outstanding in the three active warehouse companies at 30 September 2014 was £41.4 million (2013: £38.8 million).

Further details of the warehouse facilities are given in note 51 and details of the loan assets within the warehouses are given in note 30.

The securitisation process and the terms of the warehouse facilities 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 ALCO 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.

The final repayment date for all of the securitisation borrowings and the old warehouse borrowing is more than five years from the balance sheet date, the earliest falling due in 2033 and the latest in 2050.

The equivalent sterling principal amount outstanding at 30 September 2014 under the SPV and warehouse arrangements, allowing for the effect of the cross currency basis swaps, described under currency risk below, which are net settled with the loan payments, was £8,829.6m (2013: £8,324.0m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date would be £16,694.4m (2013: £17,363.4m). As the principal will, as discussed above, reduce as customers repay or redeem their accounts, the cash flow will in practice be far less than this amount.

In February 2013, the Group initiated a Euro Medium Term Note issuance programme, with a maximum issuance of £1,000.0m, from which, in January 2014, it made an issue of £125.0m of fixed term retail bonds falling due for payment in December 2021. The Group had the ability to issue further notes under the programme within twelve months of its inauguration and it was subsequently renewed for a further twelve months in October 2014 and may be further renewed.

The Group's investments in purchased loan portfolios and structured entities are funded from its free cash balances and securitisation borrowings and these investments carry no obligation to make further payments. They therefore pose no liquidity risk to the Group.

The total undiscounted amounts, inclusive of estimated interest, which would be payable in respect of the Group's non-securitisation borrowings and retail deposits, should those balances remain outstanding until the contracted repayment date, or the earliest date on which repayment can be required, are set out below.

	Retail deposits £m	Corporate bond £m	Retail bonds £m	Total £m
30 September 2014				
Payable in less than one year	**54.2**	**4.1**	**11.3**	**69.6**
Payable in one to two years	**7.0**	**4.1**	**11.3**	**22.4**
Payable in two to five years	**-**	**114.1**	**33.8**	**147.9**
Payable in over five years	**-**	**-**	**208.6**	**208.6**
	61.2	**122.3**	**265.0**	**448.5**
30 September 2013				
Payable in less than one year	-	4.1	3.6	7.7
Payable in one to two years	-	4.1	3.6	7.7
Payable in two to five years	-	118.2	10.8	129.0
Payable in over five years	-	-	68.1	68.1
	-	126.4	86.1	212.5

Amounts payable in respect of the 'other accruals' shown in note 56 fall due within one year. The cash flows described above will include those for interest on borrowings accrued at 30 September 2014 disclosed in note 56.

In order to reduce the liquidity risk inherent in the retail deposit balances shown above, which are held by Paragon Bank PLC, its regulator, the PRA requires that it, like other regulated banks, maintains a buffer in the form of liquid assets to ensure it has sufficient available funds at all times to protect against unforeseen circumstances.

The amount of this buffer is calculated using Individual Liquidity Guidance ('ILG') set by the PRA based on the Individual Liquidity Adequacy Assessment ('ILAA') submitted by Paragon Bank. In addition, further liquid resources must be maintained based upon stress tests linked to the key liquidity risks of Paragon Bank and for other purposes specified by the regulator. At 30 September 2014 the liquidity buffer comprises the £39.4m of assets (2013: £nil) shown as short term investments in the Group's balance sheet (note 38), together with certain of the cash balances shown as 'Bank Cash' in note 39.

The cash flows which are expected to arise from derivative contracts in place at the year end, estimating future floating rate payments and receipts on the basis of the yield curve at the balance sheet date are as follows:

	2014 Total cash outflow / (inflow) £m	2013 Total cash outflow / (inflow) £m
On derivative liabilities		
Payable in less than one year	**0.2**	0.3
Payable in one to two years	**0.4**	0.2
Payable in two to five years	**0.2**	0.4
Payable in over five years	**0.9**	1.0
	1.7	1.9
On derivative assets		
Payable in less than one year	**(0.8)**	(0.3)
Payable in one to two years	**(0.1)**	(0.2)
Payable in two to five years	**-**	(0.4)
Payable in over five years	**(0.9)**	(1.0)
	(1.8)	(1.9)
	(0.1)	-

Interest rate risk

The Group manages interest rate risk, the risk that margins will be adversely affected by movements in market interest rates, 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's ALCO monitors the interest rate risk exposure on the Group's loan assets and asset backed loan notes and ensures compliance with the requirements of the trustees in respect of the Group's securitisations and the terms of other borrowings. Paragon Bank has its own ALCO which focuses on the risks within the bank, including the retail deposit position, although the Group's committee maintains oversight.

The rates of interest payable on the loan facilities and on asset backed loan notes issued in the securitisation process are reset either quarterly or monthly on the basis of LIBOR. Where asset backed loan notes are issued in foreign currencies, cross-currency basis swaps are put in place converting the reference interest rate to a sterling LIBOR basis.

The Group's retail deposits either bear variable interest rates or are fixed rate liabilities which are hedged in accordance with the Group's risk management strategy. The interest rates paid on the Group's variable rate deposits are determined by reference to, inter alia, returns achievable in the Group's lending markets and the rates being charged on similar products in the market.

The Group's loan assets predominantly bear LIBOR linked interest rates or are hedged fixed rate assets. The interest rates charged on the Group's variable rate loan assets are determined by reference to, inter alia, the Group's funding costs and the rates being charged on similar products in the market.

Generally these factors ensure the matching of changes in interest rates on the Group's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term. Forward rate agreements may be used to hedge against any perceived risk of temporary increases in LIBOR rates at month ends.

The return to the Group from its investments in structured entities is primarily attributable to the cash generation of the underlying portfolio. There is no direct exposure to market interest rate risk.

The Group's working capital borrowings comprise corporate bonds and retail bonds issued under a Euro Medium Term Note Programme. All bonds issued to date have fixed interest rates and therefore are not exposed to fluctuations in interest rates, although the retail bond programme includes the facility to issue floating rate instruments in the future.

The Group has entered into various interest rate basis swap arrangements to alter the effective basis of interest payments on certain borrowings to match the underlying assets, though due to their nature and low notional value, they do not have a significant impact on the Group's results.

To assess the Group's exposure to interest rate movements, the notional impact of a 1% change in UK interest rates on the equity of the Group at 30 September 2014, and the notional annualised impact of such a change on the operating profit of the Group, based on the year-end balance sheet have been calculated.

On this basis, a 1% increase in UK interest rates would reduce the Group's equity at 30 September 2014 by £4.0m (2013: £4.0m) and increase profit before tax by £11.3m (2013: £8.2m).

This calculation allows only for the direct effects of any change in UK interest rates. In practice such a change might have wider economic consequences which would themselves potentially affect the Group's business and results.

Although certain of the Group's borrowings have interest rates dependant on US Dollar and Euro LIBOR rates, the effect of the cross currency basis swaps is such that the Group's results have no material exposure to movements in these rates. The effects of independent 1% increases in US or Euro interest rates would be to increase the Group's equity by £1.3m (2013: £1.2m) and £2.0m (2013: £2.1m) respectively.

All the borrowings of the Company have fixed interest rates. Assets and liabilities with other group companies bear interest at floating rates based on LIBOR which reset within three months of the balance sheet date. The finance lease bore notional interest only; all other balances are non-interest bearing.

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of the asset backed loan notes denominated in US dollars and euros, which are described in note 51. Although IAS 39 requires that they be accounted for as currency liabilities and valued at their spot rates, a condition of the issue of these notes was that interest rate and currency swaps ('cross-currency basis swaps') were put in place for the duration of the borrowing, having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing. As a result the Group has no material exposure to foreign currency risk, and no sensitivity analysis is presented for currency risk.

The equivalent sterling principal amounts of notes in issue under these arrangements, and their carrying values at 30 September 2014 and 30 September 2013 are:

	2014 Equivalent sterling principal £m	2014 Carrying value £m	2013 Equivalent sterling principal £m	2013 Carrying value £m
US dollar notes	2,646.7	3,077.2	2,775.6	3,232.0
Euro notes	1,884.0	2,151.9	1,936.7	2,373.1
	4,530.7	5,229.1	4,712.3	5,605.1

None of the assets or liabilities of the Company are denominated in foreign currencies.

8. SEGMENTAL INFORMATION

Following the authorisation of its banking subsidiary in the year the Group conducted a review of its internal reporting requirements and concluded that the most relevant analysis of its business was that based on the entities within the Group generating its assets. This reflects current internal management structures and the differing regulatory environments in which the Group operates.

This new format of reporting was adopted for internal use and therefore the segments presented in these financial statements have been determined in a similar way.

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

Each of these businesses invests in consumer finance assets, and an analysis of the Group's financial assets by type and segment is shown in note 29.

Dedicated financing and administration costs of each of these businesses are allocated to the segment and shared costs, and the financing costs of the Group's working capital invested, are allocated based on the segments' use of those resources.

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

Financial information about these business segments, prepared on the same basis as used in the consolidated accounts of the Group, is shown below. Results for the year ended 30 September 2013 have been reanalysed on the basis of the new segments, as well as being restated for the change in accounting standard described in note 2.

Year ended 30 September 2014

	Paragon Mortgages £m	Idem Capital £m	Paragon Bank £m	Total £m
Interest receivable	241.9	60.4	0.1	302.4
Interest payable	(115.3)	(7.5)	(0.2)	(123.0)
Net interest income	126.6	52.9	(0.1)	179.4
Other operating income	7.5	11.0	-	18.5
Total operating income	134.1	63.9	(0.1)	197.9
Operating expenses	(41.3)	(15.8)	(6.3)	(63.4)
Provisions for losses	(12.3)	-	-	(12.3)
	80.5	48.1	(6.4)	122.2
Fair value net gains / (losses)	0.6	-	-	0.6
Operating profit / (loss)	81.1	48.1	(6.4)	122.8
Tax charge				(25.6)
Profit after tax				97.2

Year ended 30 September 2013

	Paragon Mortgages £m	Idem Capital £m	Paragon Bank £m	Total £m
Interest receivable	231.6	37.4	-	269.0
Interest payable	(106.9)	(1.1)	-	(108.0)
Net interest income	124.7	36.3	-	161.0
Other operating income	7.0	9.6	-	16.6
Total operating income	131.7	45.9	-	177.6
Operating expenses	(46.2)	(11.4)	(1.3)	(58.9)
Provisions for losses	(15.2)	-	-	(15.2)
	70.3	34.5	(1.3)	103.5
Fair value net gains / (losses)	1.3	-	-	1.3
Operating profit / (loss)	71.6	34.5	(1.3)	104.8
Tax charge				(20.1)
Profit after tax				84.7

The assets and liabilities attributable to each of the segments at 30 September 2014, 30 September 2013 and 30 September 2012 were:

	Paragon Mortgages £m	**Idem Capital £m**	**Paragon Bank £m**	**Total £m**
30 September 2014				
Segment assets	**10,343.3**	**445.8**	**106.0**	**10,895.1**
Segment liabilities	**(9,658.8)**	**(226.6)**	**(62.6)**	**(9,948.0)**
	684.5	**219.2**	**43.4**	**947.1**
30 September 2013				
Segment assets	10,127.4	200.9	-	10,328.3
Segment liabilities	(9,338.6)	(115.1)	(1.3)	(9,455.0)
	788.8	85.8	(1.3)	873.3
30 September 2012				
Segment assets	9,896.2	140.9	-	10,037.1
Segment liabilities	(9,116.8)	(116.8)	-	(9,233.6)
	779.4	24.1	-	803.5

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

The total additions to non-current assets, excluding financial instruments, attributable to each segment during the years ended 30 September 2014 and 30 September 2013 were:

	2014 £m	2013 £m
Paragon Mortgages	**16.0**	1.3
Idem Capital	**4.9**	0.3
Paragon Bank	**0.2**	-
	21.1	1.6

Being:

	Note	2014 £m	2013 £m
Intangible Assets	24	**0.7**	0.6
Property, Plant and Equipment	26	**20.4**	1.0
		21.1	1.6

9. REVENUE

	Note	2014 £m	2013 (restated) £m
Interest receivable	10	**302.4**	269.0
Other operating income	12	**18.5**	16.6
Total revenue		**320.9**	285.6
Arising from:			
Paragon Mortgages		**249.4**	238.6
Idem Capital		**71.4**	47.0
Paragon Bank		**0.1**	-
Total revenue		**320.9**	285.6

10. INTEREST RECEIVABLE

	2014 £m	2013 (restated) £m
Interest on loans to customers	**295.0**	262.8
Other interest receivable	**2.6**	2.1
Income from structured entities	**4.8**	4.1
Total interest on financial assets	**302.4**	269.0

Interest on loans to customers includes £6.0m (2013: £8.5m) charged on accounts where an impairment provision has been made.

11. INTEREST PAYABLE AND SIMILAR CHARGES

	Note	2014 £m	2013 (restated) £m
On retail deposits		0.1	-
On asset backed loan notes		83.5	74.3
On corporate bond		4.1	4.1
On retail bonds		9.0	2.1
On bank loans and overdrafts		24.4	24.9
Total interest on financial liabilities		121.1	105.4
On pension scheme deficit	53	0.6	0.6
On finance leases		0.1	0.8
Other finance costs		1.2	1.2
		123.0	108.0

12. OTHER OPERATING INCOME

	2014 £m	2013 £m
Loan account fee income	4.9	4.4
Insurance income	2.0	2.0
Third party servicing	10.8	9.5
Other income	0.8	0.7
	18.5	16.6

13. OPERATING EXPENSES

	Note	2014 £m	2013 (restated) £m
Employment costs	14	41.2	37.4
Auditor remuneration	17	1.8	1.9
Amortisation of intangible assets	24	1.3	1.2
Depreciation	26	1.6	2.1
Operating lease rentals	61	1.9	2.0
Other administrative costs		15.6	14.3
		63.4	58.9

14. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 933 (2013: 814). The number of employees at the end of the year was 991 (2013: 874).

Staff costs incurred during the year in respect of these employees were:

	2014 £m	2014 £m	2013 (restated) £m	2013 (restated) £m
Share based remuneration	3.2		3.1	
Other wages and salaries	31.8		28.1	
Total wages and salaries		35.0		31.2
National Insurance on share based remuneration	1.3		1.9	
Other social security costs	2.8		2.4	
Total social security costs		4.1		4.3
Defined benefit pension cost	1.6		1.6	
Other pension costs	0.5		0.3	
Total pension costs		2.1		1.9
Total staff costs		41.2		37.4

Details of the pension schemes operated by the Group are given in note 53.

The Company has no employees. Details of the directors' remuneration are given in note 15.

15. KEY MANAGEMENT REMUNERATION

The remuneration of the directors, who are the key management personnel of the Group and the Company, is set out below in aggregate in accordance with IAS 24 – 'Related Party Transactions'. Further information about the remuneration of individual directors is provided in the Report of the Board to the Shareholders on Directors' Remuneration in section B3.2.2.

	2014 £m	2014 £m	2013 £m	2013 £m
Salaries and fees	1.6		1.7	
Cash amount of bonus	1.7		1.6	
Social security costs	0.5		0.6	
Short-term employee benefits		3.8		3.9
Post-employment benefits		0.5		0.5
IFRS 2 cost in respect of directors	1.7		1.9	
National Insurance thereon	1.0		1.8	
Share based payment		2.7		3.7
		7.0		8.1

Post-employment benefits shown above are shown as 'Pension allowance' in section B3.2.2. Costs in respect of share awards shown in the Annual Report on Remuneration are determined on a different basis to the IFRS 2 charge shown above.

Social security costs paid in respect of directors are required to be included in this note by IAS 24, but do not fall within the scope of the disclosures in the Directors Remuneration Report.

16. SHARE BASED REMUNERATION

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

The effect of the share based payment arrangements on the Group's profit is shown in note 14.

Further details of share based payment arrangements are given in the Report of the Board to the Shareholders on Directors' Remuneration in section B3.2.2.

(a) Share option schemes

Options under the Executive Share Option ('Executive') schemes have been granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee. These options vest so long as the grantee is still employed by the Group at the end of the vesting period and, where applicable, performance criteria have been satisfied. The Executive schemes no longer operate.

The Group also operates an All Employee Share Option ('Sharesave') scheme. Grants under this scheme vest, in the normal course, after the completion of the appropriate service period and subject to a savings requirement.

A reconciliation of movements in the number and weighted average exercise price of options over £1 ordinary shares during the year ended 30 September 2014 and the year ended 30 September 2013 is shown below.

	2014 Number	2014 Weighted average exercise price p	2013 Number	2013 Weighted average exercise price p
Options outstanding				
At 1 October 2013	**1,758,161**	**233.27**	3,510,184	176.16
Granted in the year	**941,989**	**276.32**	-	-
Exercised or surrendered in the year	**(86,734)**	**80.05**	(1,375,702)	73.83
Lapsed during the year	**(330,754)**	**416.36**	(376,321)	283.41
At 30 September 2014	**2,282,662**	**230.33**	1,758,161	233.27
Options exercisable	**223,887**	**555.34**	510,890	471.65

The weighted average remaining contractual life of options outstanding at 30 September 2014 was 17.9 months (2013: 15.3 months). The weighted average market price at exercise for share options exercised in the year was 370.25p (2013: 326.46p).

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

Grant date	Period exercisable	Exercise price	Number 2014	Number 2013
Executive Schemes				
18/12/2003	18/12/2006 to 18/12/2013	540.40p	**-**	188,190
01/12/2004	01/12/2007 to 01/12/2014	555.34p	**223,887**	236,942
			223,887	425,132
Sharesave Schemes				
18/07/2008	01/09/2013 to 01/03/2014	63.00p	**-**	51,666
20/07/2010	01/09/2013 to 01/03/2014	100.32p	**-**	31,035
20/07/2010	01/09/2015 to 01/03/2016	100.32p	**168,476**	183,876
20/12/2011	01/02/2015 to 01/08/2015	142.56p	**872,495**	898,247
20/12/2011	01/02/2017 to 01/08/2017	142.56p	**157,684**	168,205
23/12/2013	01/02/2017 to 01/08/2017	276.32p	**633,678**	-
23/12/2013	01/02/2019 to 01/08/2019	276.32p	**226,442**	-
			2,058,775	1,333,029
			2,282,662	1,758,161

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 2014, which were all made under the Sharesave scheme, are shown below. No awards were made in the year ended 30 September 2013.

Grant date	23/12/13	23/12/13
Number of awards granted	691,122	250,867
Market price at date of grant	367.50p	367.50p
Contractual life (years)	3.5	5.5
Fair value per share at date of grant	1.31	1.31
Inputs to valuation model		
Expected volatility	49.18%	49.18%
Expected life at grant date (years)	3.39	5.40
Risk-free interest rate	1.40%	1.40%
Expected dividend yield	1.96%	1.96%
Expected annual departures	5.00%	5.00%

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the six years preceding the grant date.

(b) Paragon Performance Share Plan

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

The conditional entitlements outstanding under this scheme at 30 September 2014 and 30 September 2013 were:

Grant date	Period exercisable	Number 2014	Number 2013
09/01/2007	09/01/2010 to 08/01/2017 †	**2,709**	3,294
28/03/2007	28/03/2010 to 27/03/2017 †	**3,164**	3,164
14/06/2007	14/06/2010 to 13/06/2017 †	**6,320**	6,320
26/09/2007	26/09/2010 to 25/09/2017 †	**10,032**	10,032
26/11/2007	26/11/2010 to 25/11/2017 †	**24,097**	25,200
18/03/2008	18/03/2011 to 17/03/2018 †	**88,261**	95,975
21/05/2009	21/05/2012 to 20/05/2019 †	**535,714**	556,580
04/01/2010	04/01/2013 to 03/01/2020 †	**255,804**	784,520
17/12/2010	17/12/2013 to 16/12/2020 †	**782,161**	1,906,736
21/12/2011	21/12/2014 to 20/12/2021 *	**2,150,054**	2,154,577
28/02/2013	28/02/2016 to 27/02/2023 ‡	**1,315,938**	1,318,542
23/09/2013	23/09/2016 to 22/09/2023 ‡	**-**	20,894
10/12/2013	10/12/2016 to 09/12/2023 ‡	**1,219,595**	-
		6,393,849	6,885,834

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

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

‡ 50% of these awards are subject to the TSR test, as above, and 50% are subject to an EPS test. The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus 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.

The number of share options outstanding and the exercise price under each of the arrangements shown above which were outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2014 and the year ended 30 September 2013 are shown below:

Grant date	10/12/13	28/02/13	23/09/13
Number of awards granted	1,222,021	1,318,542	20,894
Market price at date of grant	345.30p	321.20p	311.10p
Fair value per share at date of grant	192.31p	187.11p	218.68p
Inputs to valuation model			
Expected volatility	30.46%	32.80%	31.43%
Risk-free interest rate	1.16%	0.68%	1.72%
Expected dividend yield	2.09%	1.92%	2.22%

For all of the above grants the contractual life and expected life at grant date is three years and no departures are expected.

For awards granted before 18 July 2008 the expected volatility of the share price used in determining the fair value was based on the annualised standard deviation of daily changes in price over the previous year from the grant date. The expected volatility for awards granted between this date and 30 September 2008 is calculated using the same method but using daily changes in price over the six years preceding the grant date. The expected volatility for awards granted after this date is calculated using the same method but using daily changes in price over the three years preceding the grant date.

(c) Deferred Bonus awards

Awards under these plans comprise a right to acquire ordinary shares in the Company for nil or nominal payment. The conditional entitlements outstanding under these plans at 30 September 2014 and 30 September 2013 were:

Grant date	Period exercisable	Number 2014	Number 2013
20/01/2011	01/10/2013 to 19/01/2015	95,694	215,654
21/12/2011	01/10/2014 to 20/12/2015	301,025	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	-
		830,775	776,216

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

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2014 and the year ended 30 September 2013 are shown below.

Grant date	10/12/13	23/11/12
Number of awards granted	174,519	259,537
Market price at date of grant	345.30p	248.40p
Fair value per share at date of grant	324.31p	231.01p
Inputs to valuation model		
Risk-free interest rate	1.16%	0.78%
Expected dividend yield	2.09%	2.42%

(d) Matching Share Plan

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

The conditional entitlements outstanding under this scheme at 30 September 2014 and at 30 September 2013 were:

Grant date	Period exercisable	**Number 2014**	Number 2013
09/01/2007	09/01/2010 to 09/01/2017	**3,723**	5,625
02/01/2008	02/01/2011 to 02/01/2018	**22,329**	22,329
05/01/2010	05/01/2013 to 05/01/2020	**87,057**	109,925
		113,109	137,879

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 2014 or the year ended 30 September 2013.

17. AUDITOR REMUNERATION

The analysis of fees payable to the Company's auditors and their associates, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 is set out below. This analysis includes amounts charged to the profit and loss account or included within the issue costs of debt and equity in respect of fees paid to the Group auditors and their associates.

	2014 £000	**2014 £000**	2013 £000	2013 £000
Audit fee of the company		**129**		178
Other services				
Audit of subsidiary undertakings pursuant to legislation		**390**		305
Total audit fees		**519**		483
Audit related assurance services				
Interim review		**41**		40
Tax compliance services	**111**		126	
Tax advisory services	**349**		571	
		460		697
Other assurance services				
Securitisation reporting		**170**		145
Corporate finance services		**500**		83
Other services		**28**		260
Total fees		**1,718**		1,708
Irrecoverable VAT		**252**		342
Total cost to the Group		**1,970**		2,050
Of which:				
Charged to profit and loss account (note 13)		**1,800**		1,876
Included in issue costs of debt		**170**		174
Total cost to the Group		**1,970**		2,050

In addition to the amounts above, the auditors received fees of £7,000 (2013: £7,000), excluding VAT, in respect of the audit of the Group pension scheme.

Fees paid to the auditors and their associates for non-audit services to the Company are not disclosed because the consolidated accounts of the Group are required to disclose such fees on a consolidated basis.

18. PROVISIONS FOR LOSSES

	2014 £m	2013 £m
Impairment of financial assets (note 33)		
First mortgage loans	**8.0**	6.8
Other secured loans	**1.4**	4.2
Finance lease receivables	**0.1**	0.1
Retail finance loans	**-**	-
Other loans	**2.8**	4.1
	12.3	15.2

19. FAIR VALUE NET GAINS

	2014 £m	2013 £m
Net (loss) / gain on derivatives designated as fair value hedges	**(0.1)**	1.2
Fair value adjustments from hedge accounting	**0.4**	(1.2)
Ineffectiveness of fair value hedges	**0.3**	-
Ineffectiveness of cash flow hedges	**0.1**	-
Net gains on other derivatives	**0.2**	1.3
	0.6	1.3

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

20. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2014 £m	2013 (restated) £m
Current tax		
UK Corporation Tax on profits of the period	25.0	18.4
Adjustment in respect of prior periods	(0.5)	(0.1)
Total current tax	24.5	18.3
Deferred tax	1.1	1.8
Tax charge on profit on ordinary activities	25.6	20.1

(b) Deferred tax charge for the year

The deferred tax charge in the income statement comprises the following temporary differences:

	2014 £m	2013 (restated) £m
Accelerated tax depreciation	-	-
Retirement benefit obligations	0.1	0.1
Impairment and other provisions	1.3	0.3
Utilisation of tax losses	-	2.6
Other timing differences	(0.5)	(1.1)
Deferred tax charge for the year	0.9	1.9
Recognition of liability not previously recognised	0.2	2.2
Change in tax rate	-	(2.3)
Deferred tax charge (note 54)	1.1	1.8

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

(c) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 22% (2013: 23.5%). The differences are explained below:

	2014 £m	2013 (restated) £m
Profit on ordinary activities before taxation	122.8	104.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22% (2013: 23.5%)	27.0	24.6
Effects of:		
Permanent differences	(0.9)	(2.1)
Change in rate of taxation on deferred tax assets and liabilities	-	(2.3)
Prior year (credit)	(0.5)	(0.1)
Tax charge for the year	25.6	20.1

21. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARAGON GROUP OF COMPANIES PLC

The Company's profit after tax for the financial year amounted to £53.8m (2013: £66.9m). A separate income statement has not been prepared for the Company under the provisions of Section 408 of the Companies Act 2006.

The Company has no other items of comprehensive income for the years ended 30 September 2014 or 30 September 2013.

22. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2014	2013 (restated)
Profit for the year (£m)	97.2	84.7
Basic weighted average number of ordinary shares ranking for dividend during the year (million)	304.6	300.5
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)	7.6	9.9
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)	312.2	310.4
Earnings per ordinary share		
- basic	31.9p	28.2p
- diluted	31.1p	27.3p

23. TAX CREDITED / (CHARGED) TO EQUITY

	The Group		The Company	
	2014	2013 (restated)	**2014**	2013
	£m	£m	**£m**	£m
On actuarial (loss) on pension scheme (note 53)	**0.4**	-	**-**	-
On gains on cash flow hedges (note 44)	**0.3**	(0.2)	**-**	-
Tax on items recognised in comprehensive income	**0.7**	(0.2)	**-**	-
On share based payment (note 45)	**1.3**	3.4	**-**	-
Total tax credited to equity	**2.0**	3.2	**-**	-
Of which				
Current tax	**1.1**	3.7	**-**	-
Deferred tax (note 54)	**0.9**	(0.5)	**-**	-
	2.0	3.2	**-**	-

Included in tax credited to equity in the year ended 30 September 2013 is £0.8m charged in respect of the effect of the changes in corporation tax rates described in note 20 on deferred tax assets.

24. INTANGIBLE ASSETS

	Goodwill (note 25)	Computer software	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 October 2012	7.6	4.1	8.1	19.8
Additions	-	0.6	-	0.6
Disposals	-	(0.4)	-	(0.4)
At 30 September 2013	7.6	4.3	8.1	20.0
Additions	-	0.7	-	0.7
Disposals	-	(0.6)	-	(0.6)
At 30 September 2014	**7.6**	**4.4**	**8.1**	**20.1**
Accumulated amortisation and impairment				
At 1 October 2012	6.0	2.7	2.0	10.7
Amortisation charge for the year	-	0.6	0.6	1.2
On disposals	-	(0.4)	-	(0.4)
At 30 September 2013	6.0	2.9	2.6	11.5
Amortisation charge for the year	-	0.8	0.5	1.3
On disposals	-	(0.6)	-	(0.6)
At 30 September 2014	**6.0**	**3.1**	**3.1**	**12.2**
Net book value				
At 30 September 2014	**1.6**	**1.3**	**5.0**	**7.9**
At 30 September 2013	1.6	1.4	5.5	8.5
At 30 September 2012	1.6	1.4	6.1	9.1

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

25. GOODWILL

The goodwill carried in the accounts was recognised on the acquisition of The Business Mortgage Company and its subsidiaries ('TBMC') in December 2008. The cash generating unit to which this goodwill was attributed for impairment testing purposes was TBMC, which is the lowest level within the Group at which this goodwill is currently monitored, though the operations of the acquired entity will, in time, be integrated with those of the First Mortgage division.

An impairment review undertaken at 30 September 2009 indicated a write down of £6.0m which was charged to the profit and loss account. Further reviews were undertaken at each year-end up to 30 September 2014 each of which indicated no further impairment.

The recoverable amount of TBMC used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board covering a four year period. The pre-tax discount rate applied to the cash flow projection is 6.7% and cash flows beyond the four year budget are extrapolated using a 2.0% growth rate, being the average long term growth rate in the United Kingdom economy over a twenty year period.

The key assumptions underlying the value in use calculation for the TBMC business are:

- Level of business activity, based on management expectations. Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment.
- Discount rate, which is based on the Group's cost of capital.

The directors believe that no reasonably possible change in any of the key assumptions above would cause the carrying value of the unit to exceed its recoverable amount.

26. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and Buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 October 2012	24.7	6.7	31.4
Additions	0.4	0.6	1.0
Disposals	(1.3)	(0.4)	(1.7)
At 30 September 2013	23.8	6.9	30.7
Additions	19.9	0.5	20.4
Disposals	(20.8)	(0.4)	(21.2)
At 30 September 2014	**22.9**	**7.0**	**29.9**
Accumulated depreciation			
At 1 October 2012	16.3	4.4	20.7
Charge for the year	1.2	0.9	2.1
On disposals	(1.3)	(0.4)	(1.7)
At 30 September 2013	16.2	4.9	21.1
Charge for the year	0.7	0.9	1.6
On disposals	(15.3)	(0.4)	(15.7)
At 30 September 2014	**1.6**	**5.4**	**7.0**
Net book value			
At 30 September 2014	**21.3**	**1.6**	**22.9**
At 30 September 2013	7.6	2.0	9.6
At 30 September 2012	8.4	2.3	10.7

The net book value of land and buildings includes £nil in respect of land and buildings held under finance leases (2013: £5.6m, 2012: £6.7m).

On 4 November 2013, the Group acquired the freehold in its head office building, which it had previously occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7m and costs and stamp duty were £1.0m. On the completion of the transaction the leasehold fixed asset included in Land and Buildings at a value of £5.4m and the related lease creditor, included in financial liabilities at £10.2m (note 52) were both extinguished.

(b) The Company

	Land and Buildings £m
Cost	
At 1 October 2012	20.8
Additions	-
Disposals	-
At 30 September 2013	20.8
Additions	19.9
Disposals	(20.8)
At 30 September 2014	**19.9**
Accumulated depreciation	
At 1 October 2012	14.1
Charge for the year	1.1
On disposals	-
At 30 September 2013	15.2
Charge for the year	0.5
On disposals	(15.4)
At 30 September 2014	**0.3**
Net book value	
At 30 September 2014	**19.6**
At 30 September 2013	5.6
At 30 September 2012	6.7

The net book value of land and buildings at 30 September 2013 and 30 September 2012 represented buildings held under finance leases.

On 4 November 2013, the Company acquired the freehold in its head office building, which it had previously occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7m and costs and stamp duty were £1.0m. On the completion of the transaction the leasehold fixed asset included in Land and Buildings at a value of £5.4m and the related lease creditor, included in financial liabilities at £10.2m (note 52) were both extinguished.

27. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group Companies £m	Loans to Group Companies £m	Loans to ESOP Trusts £m	Total £m
At 1 October 2012	136.0	480.5	6.1	622.6
Investments in subsidiaries	61.7	-	-	61.7
Disposal of subsidiaries	(0.1)	-	-	(0.1)
Loans advanced	-	19.3	4.1	23.4
Loans repaid	-	(23.3)	-	(23.3)
Provision movements	(3.7)	-	(2.4)	(6.1)
At 30 September 2013	193.9	476.5	7.8	678.2
Investments in subsidiaries	123.8	-	-	123.8
Disposal of subsidiaries	-	-	-	-
Loans advanced	-	403.9	1.8	405.7
Loans repaid	-	(276.0)	-	(276.0)
Provision movements	2.7	-	(6.4)	(3.7)
At 30 September 2014	**320.4**	**604.4**	**3.2**	**928.0**

Investments in and disposals of subsidiaries represent transactions between the Company and various of its subsidiaries.

During the year ended 30 September 2014 the Company received £48.8m in dividend income from its subsidiaries (2013: £54.7m) and £33.0m of interest on loans to Group companies (2013: £30.6m).

The principal operating subsidiaries, and the nature of the Group's interest in them, are shown in note 28.

28. PRINCIPAL OPERATING SUBSIDIARIES

Principal operating subsidiaries where the share capital is held within the Group comprise:

	Holding	Principal Activity
Direct subsidiaries of The Paragon Group of Companies PLC		
Paragon Finance PLC	100%	Residential mortgages and asset administration
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Paragon Mortgages (2010) Limited	100%	Residential mortgages
Paragon Car Finance Limited	100%	Vehicle finance
Idem Capital Holdings Limited	100%	Intermediate holding company
Moorgate Servicing Limited	100%	Intermediate holding company
Paragon Bank PLC	100%	Deposit taking, residential mortgages and loan and vehicle finance
SPV Securities Limited	100%	Asset investment
The Business Mortgage Company Limited	100%	Mortgage broker
Paragon Fourth Funding Limited	100%	Residential mortgages
Paragon Mortgages (No. 7) PLC	100%	Residential mortgages
Paragon Mortgages (No. 8) PLC	100%	Residential mortgages
Paragon Mortgages (No. 9) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 10) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 11) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 12) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 13) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 14) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 15) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 16) PLC	100%	Residential mortgages
Paragon Mortgages (No. 17) PLC	100%	Residential mortgages
Paragon Personal and Auto Finance (No. 3) PLC	100%	Loan and vehicle finance
Paragon Secured Finance (No. 1) PLC	100%	Loan finance
First Flexible (No. 7) PLC	100% *	Residential mortgages
Subsidiary of Paragon Mortgages Limited		
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance
Subsidiaries of Mortgage Trust Limited		
Mortgage Trust Services plc	100%	Residential mortgages and asset administration
First Flexible No. 6 PLC	100% *	Residential mortgages
Subsidiary of Moorgate Servicing Limited		
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Direct and indirect subsidiaries of Idem Capital Holdings Limited		
Moorgate Loan Servicing Limited	100%	Asset administration
Idem (No. 3) Limited	100%	Asset investment
Idem Capital Securities Limited	100%	Asset investment
Idem First Finance Limited	100%	Asset investment
Paragon Personal Finance Limited	100%	Consumer loan finance

The holdings shown above are those held by the Group. The shareholdings of the Company are the same as those held by the parent company identified above, except that for the shareholdings marked * the parent company holds only 74% of the share capital, the remainder being held by other group companies.

The financial year end of all of the Group's subsidiary companies is 30 September. They are all registered in England and Wales and they all operate in the United Kingdom.

The issued share capital of all subsidiaries consists of ordinary share capital, except that First Flexible No. 6 PLC has additional preference share capital held by the Group.

As part of the Group's financing arrangements certain mortgage and consumer loans originated by Paragon Mortgages (2010) Limited and Mortgage Trust Limited or acquired by Idem Capital Securities Limited have been sold to special purpose entity companies, which had raised non-recourse finance to fund these purchases. The shares of these companies are ultimately beneficially owned through independent trusts and are considered to be controlled by the Group, as defined by IFRS 10 and hence they are considered to be subsidiaries of the Group.

The principal companies party to these arrangements comprise:

	Principal Activity
First Flexible No. 4 plc	Residential mortgages
First Flexible No. 5 plc	Residential mortgages
Idem Capital Securities (No. 1) s.à r.l.	Asset investment
Paragon Fifth Funding Limited	Residential mortgages
Paragon Sixth Funding Limited	Residential mortgages
Paragon Mortgages (No. 18) PLC	Residential mortgages
Paragon Mortgages (No. 19) PLC	Residential mortgages
Paragon Mortgages (No. 20) PLC	Residential mortgages

All of these companies are registered and operate in the United Kingdom except Idem Capital Securities (No. 1) s.à r.l. which is registered in the Grand Duchy of Luxembourg.

The Company has taken advantage of the exemption under Section 410(2) of the Companies Act 2006 and the information presented above relates only to those entities whose results or financial position principally affect that of the Group. A full list of subsidiary entities at 30 September 2014 will be included in the Company's next Annual Return submitted to the Registrar of Companies.

29. FINANCIAL ASSETS

	Note	2014 £m	2013 £m	2012 £m
Loans and receivables	30	**9,250.2**	8,800.2	8,692.1
Finance lease receivables	31	**5.7**	1.3	2.5
Loans to customers	32	**9,255.9**	8,801.5	8,694.6
Fair value adjustments from portfolio hedging	34	**0.5**	-	1.1
Investments in structured entities	35	**19.3**	23.8	9.1
Derivative financial assets	36	**693.9**	890.0	800.4
		9,969.6	9,715.3	9,505.2

The Group's loan assets and investments in structured entities at 30 September 2014, analysed between the segments described in note 8 are as follows:

	Paragon Mortgages £m	Idem Capital £m	Paragon Bank £m	Total £m
At 30 September 2014				
First mortgages	**8,635.2**	**16.0**	**0.5**	**8,651.7**
Consumer loans	**207.7**	**391.2**	**5.3**	**604.2**
Loans to customers	**8,842.9**	**407.2**	**5.8**	**9,255.9**
Investments in structured entities	**-**	**19.3**	**-**	**19.3**
Total investments in loans	**8,842.9**	**426.5**	**5.8**	**9,275.2**
At 30 September 2013				
First mortgages	8,384.3	17.5	-	8,401.8
Consumer loans	247.3	152.4	-	399.7
Loans to customers	8,631.6	169.9	-	8,801.5
Investments in structured entities	-	23.8	-	23.8
Total investments in loans	8,631.6	193.7	-	8,825.3

30. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2014, 30 September 2013 and 30 September 2012, which are all denominated and payable in sterling, were:

	2014 £m	2013 £m	2012 £m
First mortgage loans	**8,651.7**	8,401.8	8,295.6
Secured loans	**436.2**	248.4	279.9
Retail finance loans	**0.4**	1.5	2.0
Other unsecured loans	**161.9**	148.5	114.6
	9,250.2	8,800.2	8,692.1

First mortgages are secured on residential property within the United Kingdom; secured loans enjoy second charges on residential property. Retail finance loans are unsecured. The estimated value of the security held against those loans above which are considered to be impaired or past due, representing the lesser of the outstanding balance and the estimated valuation of the property for each such account was:

	2014 £m	2013 £m
First mortgage loans	**49.8**	54.4
Secured loans	**105.1**	41.6
	154.9	96.0

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

Under the terms of certain first mortgage products, the customer had the right to draw down further funds. Those arrangements terminated during the year, and at 30 September 2014 the Group's commitment in respect of such facilities was £nil (2013: £6.7m).

The loans shown above pledged as collateral for the liabilities described in note 51, or held within Paragon Bank, at 30 September 2014 and 30 September 2013 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2014			
In respect of:			
Asset backed loan notes	**7,094.7**	**528.1**	**7,622.8**
Warehouse facilities	**1,526.4**	**-**	**1,526.4**
Total pledged as collateral	**8,621.1**	**528.1**	**9,149.2**
Bank assets	**0.5**	**-**	**0.5**
Other assets not pledged as collateral	**30.1**	**70.4**	**100.5**
	8,651.7	**598.5**	**9,250.2**
30 September 2013			
In respect of:			
Asset backed loan notes	6,940.8	240.7	7,181.5
Warehouse facilities	1,426.7	-	1,426.7
Total pledged as collateral	8,367.5	240.7	8,608.2
Bank assets	-	-	-
Other assets not pledged as collateral	34.3	157.7	192.0
	8,401.8	398.4	8,800.2

31. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans. The average contractual life of such loans is 65 months (2013: 56 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

The minimum lease payments due under these loan agreements are:

	2014 £m	2013 £m	2012 £m
Amounts receivable			
Within one year	**2.3**	0.9	1.6
Within two to five years	**4.9**	1.2	1.7
After five years	**-**	0.1	-
	7.2	2.2	3.3
Less: future finance income	**(0.7)**	(0.2)	(0.2)
Present value	**6.5**	2.0	3.1

The present values of those payments, net of provisions for impairment, carried in the accounts are:

	2014 £m	2013 £m	2012 £m
Amounts receivable			
Within one year	**2.1**	0.8	1.5
Within two to five years	**4.4**	1.1	1.6
After five years	**-**	0.1	-
Present value	**6.5**	2.0	3.1
Allowance for uncollectible amounts	**(0.8)**	(1.0)	(1.2)
Provision for recoveries	**-**	0.3	0.6
Carrying value	**5.7**	1.3	2.5

The Group considers that the fair value of its finance lease receivables is not significantly different to their carrying values. Whilst the Group has the benefit of the underlying vehicle as security on these loans, no account of this is taken in the allowance for uncollectible amounts shown above. The Group has insufficient information on the current condition of finance leased vehicles to derive a reliable estimate of the value which could be realised from vehicles to offset against arrears accounts. Accordingly, no such disclosure is provided.

The loans shown above pledged as collateral for liabilities or held within Paragon Bank at 30 September 2014 and 30 September 2013 were:

	2014 £m	2013 £m
In respect of:		
Asset backed loan notes	**0.4**	1.0
Warehouse facilities	**-**	-
Total pledged as collateral	**0.4**	1.0
Bank assets	**5.3**	-
Other assets not pledged as collateral	**-**	0.3
	5.7	1.3

D The accounts

32. LOANS TO CUSTOMERS

The movements in the Group's investment in loans to customers in the year ended 30 September 2014 and the year ended 30 September 2013 were:

	2014	2013
	£m	£m
Cost		
At 1 October 2013	**8,801.5**	8,694.6
Additions	**980.9**	436.3
Effective Interest Rate ('EIR') adjustments	**50.9**	34.5
Other debits	**236.3**	238.4
Provision charge (note 33)	**(12.3)**	(15.2)
Repayments and redemptions	**(801.4)**	(587.1)
At 30 September 2014	**9,255.9**	8,801.5

'Other debits' includes primarily interest and fees charged to customers on loans outstanding.

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

33. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

The following amounts in respect of impairment provisions, net of allowances for recoveries of written off assets, have been deducted from the appropriate assets in the balance sheet.

	First Mortgages	Other loans and receivables	Finance leases	Total
	£m	£m	£m	£m
At 1 October 2012	76.4	31.8	0.6	108.8
Charge for the year (note 18)	6.8	8.3	0.1	15.2
Amounts written off	(1.4)	(9.4)	-	(10.8)
Amounts recovered	(0.1)	(1.7)	-	(1.8)
At 30 September 2013	81.7	29.0	0.7	111.4
Charge for the year (note 18)	8.0	4.2	0.1	12.3
Amounts written off	(2.6)	(5.0)	-	(7.6)
Amounts recovered	(0.1)	(1.2)	-	(1.3)
At 30 September 2014	**87.0**	**27.0**	**0.8**	**114.8**

34. FAIR VALUE ADJUSTMENTS FROM PORTFOLIO HEDGING

The Group applies fair value hedge accounting in respect of portfolios of loan assets where the appropriate criteria are met. In these circumstances the change in the fair value of the hedged items attributable to the hedged risk is shown under this heading.

35. INVESTMENT IN STRUCTURED ENTITIES

Investments in structured entities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by unrelated third parties to purchase pools of loan assets. All such investments are denominated in sterling, unlisted and are considered to be debt investments as defined by IFRS. The underlying loans are secured and unsecured consumer loans made to United Kingdom borrowers. The Group is under no obligation to make any further contribution to these entities.

The movements in the Group's investment in structured entities in the year ended 30 September 2014 and the year ended 30 September 2013 were:

	2014 £m	2013 £m
Cost		
At 1 October 2013	23.8	9.1
Additions	-	21.4
Effective Interest Rate ('EIR') income (note 10)	4.8	4.1
Payments received	(9.3)	(10.8)
At 30 September 2014	19.3	23.8

The fair values of investments in structured entities are considered to be not materially different to the amortised cost value at which they are disclosed.

The Group administers the assets of the SPV companies on behalf of the owners. Fee income derived from this activity of £6.6m (2013: £4.7m) is included within third party servicing fees (note 12) and £0.2m (2013: £0.7m) is included in other debtors (note 37) in respect of unpaid fees at the year end.

36. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

All of the Group's financial derivatives are held for economic hedging purposes, although not all may be designated for hedge accounting in accordance with the provisions of IAS 39. The analysis below therefore splits derivatives between those accounted for as hedges and those which, while representing an economic hedge, do not qualify for this treatment.

All of the financial derivatives shown are valued using methodologies where the principal inputs are directly or indirectly derived from market data and are therefore classified within level two of the fair value hierarchy laid down by IFRS 7.

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

Derivative financial assets and liabilities are included within Financial Assets (note 29) and Financial Liabilities (note 49) respectively.

	2014 Notional amount £m	2014 Assets £m	2014 Liabilities £m	2013 Notional amount £m	2013 Assets £m	2013 Liabilities £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	**357.3**	**0.1**	**(0.6)**	94.7	-	(0.2)
Cash flow hedges						
Cross currency basis swaps	**4,530.7**	**693.5**	**-**	4,712.3	889.6	-
	4,888.0	**693.6**	**(0.6)**	4,807.0	889.6	(0.2)
Other derivatives						
Interest rate swaps	**262.3**	**0.3**	**(0.5)**	269.6	0.4	(1.1)
Total recognised derivative assets / (liabilities)	**5,150.3**	**693.9**	**(1.1)**	5,076.6	890.0	(1.3)

At 30 September 2014 cash deposits of £87.3m had been pledged as collateral in respect of swaps shown above by the respective swap counterparties (2013: £120.4m) as described in note 7.

All fair value hedging items at 30 September 2013 and at 30 September 2014 relate to the hedging of the Group's loan assets on a portfolio basis.

37. OTHER RECEIVABLES

(a) The Group

	Note	2014 £m	2013 £m	2012 £m
Current assets				
Accrued interest income		**0.3**	0.2	0.2
Prepayments		**1.7**	2.1	1.7
Bank borrowings	51	**0.9**	1.7	2.7
Other debtors		**3.6**	3.6	2.7
		6.5	7.6	7.3

Accrued interest income and other debtors fall within the definition of financial assets given in IAS 32.

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

(b) The Company

	2014 £m	2013 £m	2012 £m
Current assets			
Amounts owed by Group companies	**103.9**	115.0	80.1
Accrued interest income	**-**	-	-
	103.9	115.0	80.1

Accrued interest income and other debtors fall within the definition of financial assets given in IAS 32.

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

38. SHORT TERM INVESTMENTS

This amount represents fixed rate securities issued by the UK government for which a liquid market exists and are held as part of the liquidity requirement of Paragon Bank PLC. As such they are designated as 'Available for Sale', as defined by IAS 39 - 'Financial Instruments: Recognition and Measurement' and are consequently shown at fair value which corresponds to their market value.

The total nominal value of the securities at 30 September 2014 was £37.5m (2013: £nil), the weighted average coupon was 3.88% (2013: nil%) and their carrying value was £39.4m (2013: £nil).

39. CASH AND CASH EQUIVALENTS

Only 'Free Cash' is unrestrictedly available for the Group's general purposes. Cash received in respect of loan assets is not immediately available, due to the terms of the warehouse facilities and the securitisations. Cash held in the Group's banking subsidiary is subject to regulatory rules covering liquidity and capital adequacy, and is shown as 'Bank Cash' below.

'Cash and Cash Equivalents' also includes balances held by the Trustees of the Paragon Employee Share Ownership Plans which may only be used to invest in the shares of the Company, pursuant to the aims of those plans.

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

	2014 £m	2013 £m	2012 £m
Free cash	177.3	170.8	127.7
Securitisation cash	609.0	414.1	374.9
Bank cash	60.6	-	-
ESOP cash	1.9	2.4	2.2
	848.8	587.3	504.8

The 'Cash and Cash Equivalents' amount of £166.5m (2013: £153.9m) shown in the Company balance sheet is included in free cash.

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

40. CALLED-UP SHARE CAPITAL

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

Movements in the issued share capital in the year were:

	2014 Number	2013 Number
Ordinary shares		
At 1 October 2013	306,213,215	301,841,614
Shares issued	1,095,068	4,371,601
At 30 September 2014	307,308,283	306,213,215

During the year the Company issued 1,060,000 shares at par (2013: 3,975,993) to the trustees of its ESOP Trusts in order that they could fulfil their obligations under the Group's share based award arrangements. It also issued 35,068 shares (2013: 395,608) to satisfy options granted under sharesave schemes for a consideration of £36,884 (2013: £398,281).

41. RESERVES

(a) The Group

	Note	2014 £m	2013 £m	2012 £m
Share premium account	42	64.1	64.1	64.1
Merger reserve	43	(70.2)	(70.2)	(70.2)
Cash flow hedging reserve	44	0.6	1.7	0.7
Profit and loss account	45	693.5	619.1	555.6
		688.0	614.7	550.2

(b) The Company

	Note	2014 £m	2013 £m	2012 £m
Share premium account	42	**64.1**	64.1	64.1
Merger reserve	43	**(23.7)**	(23.7)	(23.7)
Profit and loss account	45	**416.0**	382.7	333.4
		456.4	423.1	373.8

42. SHARE PREMIUM ACCOUNT

	The Group		The Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Balance at 1 October 2013	**64.1**	64.1	**64.1**	64.1
Balance at 30 September 2014	**64.1**	64.1	**64.1**	64.1

43. MERGER RESERVE

	The Group		The Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Balance at 1 October 2013	**(70.2)**	(70.2)	**(23.7)**	(23.7)
Balance at 30 September 2014	**(70.2)**	(70.2)	**(23.7)**	(23.7)

The merger reserve arose, due to the provisions of UK company law at the time, on a group restructuring on 12 May 1989 when the Company became the parent entity of the Group.

44. CASH FLOW HEDGING RESERVE

		The Group		The Company	
	Note	**2014 £m**	2013 £m	**2014 £m**	2013 £m
At 1 October 2013		**1.7**	0.7	**-**	-
Movement in fair value of hedging derivatives		**(1.4)**	1.2	**-**	-
Deferred tax thereon	23	**0.3**	(0.2)	**-**	-
At 30 September 2014		**0.6**	1.7	**-**	-

The cash flows to which these amounts relate result from the cross currency basis swaps described in note 7. The contractual life of these swaps, over which cash flows might take place and affect profit, extend over the next 30 years (2013: 31 years). However the cash flows in respect of these swaps will only continue for as long as the related notes remain outstanding, which is expected to be a much shorter period.

Foreign exchange gains of £194.5m on asset backed loan notes denominated in US dollars and euros (2013: losses of £88.8m) have been taken to the cash flow hedging reserve together with equal and opposite movements on the cross currency basis swaps used to hedge these liabilities.

45. PROFIT AND LOSS ACCOUNT

	Note	The Group 2014 £m	The Group 2013 (restated) £m	The Company 2014 £m	The Company 2013 £m
At 1 October 2013		**619.1**	555.6	**382.7**	333.4
Dividends paid	46	**(23.7)**	(20.7)	**(23.7)**	(20.7)
Share options exercised	47	**(1.9)**	(4.8)	**-**	-
Charge for share based remuneration	14	**3.2**	3.1	**3.2**	3.1
Tax on share based remuneration	23	**1.3**	3.4	**-**	-
Actuarial (loss) on retirement benefit obligation	53	**(1.7)**	(2.2)	**-**	-
Profit for the year		**97.2**	84.7	**53.8**	66.9
At 30 September 2014		**693.5**	619.1	**416.0**	382.7

46. EQUITY DIVIDEND

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

	2014 Per share	2013 Per share	2014 £m	2013 £m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2013	**4.8p**	4.5p	**14.6**	13.5
Interim dividend for the year ended 30 September 2014	**3.0p**	2.4p	**9.1**	7.2
	7.8p	6.9p	**23.7**	20.7

Amounts paid and proposed in respect of the year:

	2014 Per share	2013 Per share	2014 £m	2013 £m
Interim dividend for the year ended 30 September 2014	**3.0p**	2.4p	**9.1**	7.2
Proposed final dividend for the year ended 30 September 2014	**6.0p**	4.8p	**18.3**	14.6
	9.0p	7.2p	**27.4**	21.8

Dividends of £0.0m (2013: £0.0m) were paid by the Company in respect of shares held by ESOP trusts on which dividends had not been waived.

The proposed final dividend for the year ended 30 September 2014 will be paid on 16 February 2015, subject to approval at the Annual General Meeting, with a record date of 9 January 2015. The dividend will be recognised in the accounts when it is paid.

47. TRANSACTIONS IN SHARES

	The Group		The Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Awards from ESOP schemes				
Proceeds	**-**	0.6	**-**	-
Cost of shares transferred (note 48)	**(1.9)**	(5.4)	**-**	-
(Deficit) on exercise (note 45)	**(1.9)**	(4.8)	**-**	-
Shares issued				
Nominal value (note 40)	**1.1**	4.4	**1.1**	4.4
Premium on issue (note 42)	**-**	-	**-**	-
Proceeds of issue	**1.1**	4.4	**1.1**	4.4
(Deficit) / surplus on transactions in own shares	**(0.8)**	(0.4)	**1.1**	4.4

48. OWN SHARES

	The Group		The Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Treasury shares				
At 1 October 2013	**39.5**	39.5	**39.5**	39.5
Shares purchased	**-**	-	**-**	-
At 30 September 2014	**39.5**	39.5	**39.5**	39.5
ESOP shares				
At 1 October 2013	**8.1**	9.0	**-**	-
Shares purchased	**1.4**	0.5	**-**	-
Shares subscribed for (note 40)	**1.1**	4.0	**-**	-
Options exercised (note 47)	**(1.9)**	(5.4)	**-**	-
At 30 September 2014	**8.7**	8.1	**-**	-
Balance at 30 September 2014	**48.2**	47.6	**39.5**	39.5
Balance at 1 October 2013	**47.6**	48.5	**39.5**	39.5

At 30 September 2014 the number of the Company's own shares held in treasury was 668,900 (2013: 668,900). These shares had a nominal value of £668,900 (2013: £668,900). The dividends on these shares have been waived.

The ESOP shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon Performance Share Plan, Matching Share Plan and Deferred Bonus Plan. The trustees' costs are included in the operating expenses of the Group.

At 30 September 2014, the trusts held 1,487,013 ordinary shares (2013: 1,931,890) with a nominal value of £1,487,013 (2013: £1,931,890) and a market value of £5,085,584 (2013: £6,027,497). Options, or other share-based awards, were outstanding against 1,487,013 of these shares at 30 September 2014 (2013: 1,931,890). The dividends on 1,085,308 of these shares have been waived (2013: 1,530,185).

49. FINANCIAL LIABILITIES

(a) The Group

	Note	2014 £m	2013 £m	2012 £m
Current liabilities				
Finance lease liability	52	-	1.6	1.4
Retail deposits	50	53.3	-	-
Bank loans and overdrafts		1.1	1.4	0.6
		54.4	3.0	2.0
Non-current liabilities				
Asset backed loan notes		8,115.0	7,893.2	7,580.9
Corporate bond		110.0	110.0	110.0
Retail bonds		183.2	59.1	-
Finance lease liability	52	-	8.6	10.2
Retail deposits	50	6.8	-	-
Bank loans and overdrafts		1,397.9	1,311.2	1,453.3
Derivative financial instruments	36	1.1	1.3	4.6
		9,814.0	9,383.4	9,159.0

A maturity analysis of the above borrowings and further details of asset backed loan notes, bank loans, corporate and retail bonds are given in note 51.

(b) The Company

	Note	2014 £m	2013 £m	2012 £m
Current liabilities				
Finance lease liability	52	-	1.6	1.4
Non-current liabilities				
Corporate bond		110.0	110.0	110.0
Retail bonds		183.2	59.1	-
Finance lease liability	52	-	8.6	10.2
		293.2	177.7	120.2

A maturity analysis of the above borrowings and further details of corporate and retail bonds are given in note 51.

50. RETAIL DEPOSITS

The Group's retail deposits, held by Paragon Bank plc, were received from customers in the United Kingdom and are denominated in sterling. The deposits comprise principally one and two-year term deposits and 120 day notice accounts. The method of interest calculation on these deposits is analysed as follows:

	2014 £m	2013 £m	2012 £m
Fixed rate	39.8	-	-
Variable rates	20.3	-	-
	60.1	-	-

The weighted average interest rate on retail deposits at 30 September 2014, analysed by charging method, was:

	2014 %	2013 %	2012 %
Fixed rate	1.90	-	-
Variable rates	1.85	-	-

The contractual maturity of these deposits is analysed below.

	2014 £m	2013 £m	2012 £m
Amounts repayable			
In less than three months	-	-	-
In more than three months but not more than one year	52.8	-	-
In more than one year, but not more than two years	6.8	-	-
Total term deposits	59.6	-	-
Repayable on demand	0.5	-	-
	60.1	-	-
Total falling due in less than one year	53.3	-	-
Total falling due in more than one year	6.8	-	-
	60.1	-	-

The fair value of the deposits is not considered to be significantly different from their carrying value.

51. BORROWINGS

Set out below is the contractual maturity profile of the Group's borrowings at 30 September 2014 and 30 September 2013:

	Financial liabilities falling due:				
	In one year or less, or on demand	In more than one year, but not more than two years	In more than two years, but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
30 September 2014					
Bank overdrafts	**1.1**	**-**	**-**	**-**	**1.1**
Bank loans	**-**	**-**	**152.2**	**1,245.7**	**1,397.9**
Corporate bond	**-**	**-**	**110.0**	**-**	**110.0**
Retail bonds	**-**	**-**	**-**	**183.2**	**183.2**
Asset backed loan notes	**-**	**-**	**95.7**	**8,019.3**	**8,115.0**
	1.1	**-**	**357.9**	**9,448.2**	**9,807.2**
30 September 2013					
Bank overdrafts	1.4	-	-	-	1.4
Bank loans	-	-	14.0	1,297.2	1,311.2
Corporate bond	-	-	110.0	-	110.0
Retail bonds	-	-	-	59.1	59.1
Asset backed loan notes	-	-	-	7,893.2	7,893.2
	1.4	-	124.0	9,249.5	9,374.9

The fair values of borrowings are not considered to be significantly different to their carrying values and the effective interest rates are not materially different to the rates charged.

(a) Asset backed loan notes

The asset backed loan notes are secured on portfolios comprising variable and fixed rate mortgages or personal, retail and car loans. The maturity date of the notes matches the maturity date of the underlying assets (except noted below). The notes can be prepaid in part from time to time, but such prepayments are limited to the net capital received from borrowers in respect of the underlying assets. There is no requirement for the Group to make good any shortfall on the notes out of general funds. It is likely that a substantial proportion of these notes will be repaid within five years.

For its public issues, the Group has an additional option to repay all of the notes at an earlier date (the 'call date'), at their outstanding principal amount.

Interest is payable at a fixed margin above;

- the London Interbank Offered Rate ('LIBOR') on notes denominated in sterling;
- the Euro Interbank Offered Rate ('EURIBOR') on notes denominated in euros; and
- the London Interbank Offered Rate ('US Dollar LIBOR') on notes denominated in US dollars.

All payments in respect of the notes are required to be made in the currency in which they are denominated.

On 18 March 2014, a Group company, Paragon Mortgages (No. 19) PLC, issued £343.0m of sterling mortgage backed floating rate notes to external investors at par. £313.2m of the notes were class A notes, rated AAA by Standard and Poor's and Fitch and Aaa by Moody's, £15.8m were class B notes, rated AA by Standard and Poor's and Fitch and Aa2 by Moody's and £14.0m were class C notes rated A by Standard and Poor's, A+ by Fitch and A1 by Moody's. The interest margins above LIBOR on the notes were 0.85% on the A notes, 1.20% on the B notes and 1.60% on the C notes, an average of 0.90% and the proceeds were used to pay down existing warehouse debt and £66.6m of the £70.4m securitisation debt of First Flexible No. 4 PLC, which was satisfied in full in April 2014. The Group retained £7.0m of D notes and also invested £10.5m in the first loss fund, bringing its total investment to £17.5m, or 5.0% of the issued notes.

On 17 July 2014, a Group company, Paragon Mortgages (No. 20) PLC, issued £343.0m of sterling mortgage backed floating rate notes to external investors at par. £319.0m of the notes were class A notes, rated AAA by Fitch and Aaa by Moody's and £24.0m were class B notes, rated AA- by Fitch and Aa1 by Moody's. The interest margins above LIBOR on the notes were 0.68% on the A notes and 1.00% on the B notes, an average of 0.70% and the proceeds were used to pay down existing warehouse debt and the securitisation debt of Paragon Mortgages (No. 16) PLC, which was satisfied in full in October 2014, after the year end. A further £3.8m of purchased buy-to let assets, previously financed from Group resources, were also included in the transaction. The Group retained £7.0m of D notes and also invested £10.5m in the first loss fund, bringing its total investment to £17.5m, or 5.0% of the issued notes.

On 31 January 2014, a Group company, Idem Capital Securities (No. 1) s.à r.l. issued £130.6m of sterling floating rate notes to Bank of America Merrill Lynch International Limited on a limited recourse basis. These notes bear interest at a rate of one month LIBOR plus 3.00%. The initial Group investment in this company was £92.2m. The proceeds of the issue were used to part-fund the purchase of a portfolio of UK second charge residential mortgage loans, on which the borrowing is secured.

On 2 April 2014, a Group company, Idem First Finance Limited, entered into a £55.0m bank facility with Goldman Sachs Bank USA on a limited recourse basis. The initial Group investment in this company was £75.2m. The facility was used to refinance existing Idem Capital unsecured loan assets and is secured on those assets. This facility bears interest at a rate of one month LIBOR plus 3.75%.

After the year end, on 13 November 2014, a Group company, Paragon Mortgages (No. 21) PLC, issued £243.7m of sterling mortgage backed floating rate notes to external investors at par. £217.9m of the notes were class A notes, rated AAA by Standard and Poor's and Aaa by Moody's, £17.7m were class B notes, rated AA by Standard and Poor's and Aa2 by Moody's and £8.1m were class C notes rated A by Standard and Poor's and A1 by Moody's. The interest margins above LIBOR on the notes were 0.80% on the A notes, 1.40% on the B notes and 1.75% on the C notes, an average of 0.88% and the proceeds were used to pay down existing warehouse debt. The Group retained £6.3m of D notes and also invested £6.2m in the first loss fund, bringing its total investment to £12.5m, or 5.0% of the issued notes.

Notes in issue at 30 September 2014 and 30 September 2013, net of any held by the Group, were:

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
			2014	2013	**2014**	2013
Sterling notes			**£m**	£m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**78.6**	81.6	**0.42**	0.42
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**213.8**	220.3	**0.59**	0.59
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**132.2**	137.4	**0.38**	0.38
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**176.8**	179.8	**0.55**	0.56
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**83.7**	87.0	**0.29**	0.28
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**122.5**	126.4	**0.38**	0.38
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**141.6**	144.3	**0.35**	0.35
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**126.1**	129.4	**0.30**	0.30
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**169.3**	176.6	**0.29**	0.29
Paragon Mortgages (No. 16) PLC	15/04/39	15/10/14	**79.7**	120.5	**2.75**	2.75
Paragon Mortgages (No. 17) PLC	18/04/40	08/01/16	**176.3**	193.4	**1.47**	1.46
Paragon Mortgages (No. 18) PLC	15/03/41	15/12/16	**262.6**	267.5	**1.25**	1.25
Paragon Mortgages (No. 19) PLC	15/08/41	15/05/17	**334.8**	-	**0.90**	-
Paragon Mortgages (No. 20) PLC	15/11/41	15/08/18	**343.0**	-	**0.70**	-
First Flexible No. 4 PLC	01/07/36	01/07/08	**-**	72.5	**-**	1.11
First Flexible No. 5 PLC	01/06/34	01/07/09	**74.2**	78.3	**0.99**	0.99
First Flexible No. 6 PLC	01/12/35	01/03/08	**68.5**	71.6	**1.27**	1.27
First Flexible No. 7 PLC	15/09/33	15/03/11	**41.2**	56.2	**0.26**	0.25
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**52.0**	62.7	**0.95**	0.95
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	**78.0**	95.1	**1.13**	1.06
Idem Capital Securities (No. 1) s. à r. l. *	21/02/17	N/A	**98.1**	-	**3.00**	-
Idem First Finance Limited	05/04/21	N/A	**50.3**	-	**3.75**	-
US dollar notes			**$m**	$m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**227.2**	235.7	**0.74**	0.74
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**21.5**	22.4	**0.36**	0.36
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**140.0**	163.1	**0.09**	0.09
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**446.1**	468.1	**0.10**	0.10
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**1,005.9**	1,053.7	**0.24**	0.24
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**1,075.2**	1,113.7	**0.23**	0.23
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**1,225.0**	1,285.6	**0.20**	0.20
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**836.1**	876.1	**0.19**	0.19
First Flexible No. 6 PLC	01/12/35	01/03/08	**10.6**	11.1	**0.56**	0.56

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
			2014	2013	**2014**	2013
Euro notes			**€m**	€m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**231.0**	239.7	**0.66**	0.66
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**286.9**	295.6	**0.48**	0.48
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**205.1**	213.3	**0.56**	0.56
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**263.0**	264.6	**0.41**	0.41
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**269.4**	274.3	**0.53**	0.52
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**368.1**	374.6	**0.52**	0.51
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**348.1**	354.6	**0.40**	0.40
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**382.9**	390.7	**0.44**	0.43
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**276.0**	279.8	**0.68**	0.67
First Flexible No. 6 PLC	01/12/35	01/03/08	**38.8**	40.6	**1.05**	1.05
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**89.7**	108.1	**0.84**	0.84

*Although the maturity date of these notes may be less than the potential final redemption date of the underlying loans, repayment cannot be enforced except to the extent that cash can be realised from those assets at that time.

All of the notes listed above are rated and publicly listed, except for those issued by Idem Capital Securities s. à r. l. and Idem First Finance Limited, which were issued privately.

The notes outstanding at 30 September 2014 can be analysed as follows:

	2014			2013		
	Listed	**Not listed**	**Total**	Listed	Not listed	Total
	£m	**£m**	**£m**	£m	£m	£m
Secured on mortgage assets	**7,770.3**	**-**	**7,770.3**	7,641.9	-	7,641.9
Secured on other assets	**199.6**	**145.1**	**344.7**	251.3	-	251.3
	7,969.9	**145.1**	**8,115.0**	7,893.2	-	7,893.2

The details of the assets backing these securities are given in notes 30 and 31.

The Group publishes detailed information on the performance of all of its listed note issues on the Bond Investor Reporting section of its website at www.paragon-group.co.uk. A more detailed description of the securitisation structure under which these notes are issued is given in note 7.

(b) Bank borrowings

First Mortgage assets are typically securitised within twelve months of origination. Prior to securitisation new first mortgage loans are financed by a bank loan, referred to as a ‘warehouse facility’, which is drawn down on completion of the loans and repaid when the assets are securitised. More information on this process is given in note 7 and details of assets held within the warehouse facilities are given in note 30. Details of the Group’s bank borrowings are given below.

	2014			2013		
	Principal value	**Maximum available facility**	**Carrying value**	Principal value	Maximum available facility	Carrying value
	£m	**£m**	**£m**	£m	£m	£m
i) Paragon Second Funding	**1,245.7**	**1,245.7**	**1,245.7**	1,296.2	1,296.2	1,296.2
ii) Paragon Fourth Funding	**62.0**	**250.0**	**62.0**	15.0	250.0	14.0
iii) Paragon Fifth Funding	**92.0**	**200.0**	**90.2**	-	200.0	(1.7)
iv) Paragon Sixth Funding	**-**	**100.0**	**(0.9)**	-	-	-
v) Redraw facilities	**-**	**-**	**-**	1.0	49.2	1.0
	1,399.7	**1,795.7**	**1,397.0**	1,312.2	1,795.4	1,309.5

i) The Paragon Second Funding warehouse was available for further drawings until 29 February 2008 at which point it converted automatically to a term loan and no further drawings were allowed. This loan is a sterling facility provided to Paragon Second Funding Limited by a consortium of banks and is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance (No. 1) Limited and Paragon Personal Finance (No. 1) Limited. Its final repayment date is 28 February 2050 but it is likely that substantial repayments will be made within the next five years. Interest on this loan is payable monthly in sterling at 0.675% above LIBOR (2013: 0.675% above LIBOR). Repayments of this facility before the final repayment date are restricted to the amount of principal cash realised from the funded assets.

ii) On 27 September 2010 the Group entered into a £200.0m committed sterling facility provided to Paragon Fourth Funding Limited by Macquarie Bank plc to provide funding for new lending, which was increased to £250.0m in 2012. This facility is secured on all the assets of Paragon Fourth Funding Limited and is available for drawing for a period of two years and has a term of four years. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. Interest on this loan is payable monthly in sterling at 2.875% above LIBOR. During the year the facility was renewed on substantially the same terms with a reduced margin of 1.750% above LIBOR, with effect from 12 December 2014 for a further two year period, and has a renewal process that allows the Group to agree a new two year commitment period prior to the expiry of the existing commitment period. Repayments on this facility are limited to principal cash received from the funded assets.

iii) On 26 September 2012, the Group entered into a £200.0m committed sterling facility provided to Paragon Fifth Funding Limited by the wholesale division of Lloyds Bank, which was renewed in January 2014. This facility is secured on all the assets of Paragon Fifth Funding Limited and is structured with a three year term to permit drawings and re-drawings until June 2016. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. Interest on this loan was payable monthly in sterling at 2.75% above three month LIBOR until renewal, when the margin was reduced to 1.75%, but will increase to 2.25% from December 2015. The facility has a renewal process that allows the Group to agree a new commitment period prior to the expiry of the existing commitment period. As with the other warehouses, repayments on this facility are limited to principal cash received from the funded assets. At 30 September 2013 no amounts were drawn on this facility, although it had been used in the year then ended, therefore unamortised debit EIR adjustments are included in other receivables at that date (note 37).

iv) On 30 April 2014, a Group company, Paragon Sixth Funding Limited, entered into an additional £100.0m committed sterling facility with Natixis. This facility is secured on all the assets of Paragon Sixth Funding Limited and was available for a twelve month period, which was extended to 24 months when a refinancing target was met after the year end. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. This facility bears interest at a rate of one month LIBOR plus 1.40%. The facility has a renewal process that allows the Group to agree a new commitment period prior to the expiry of the existing commitment period. As with the other warehouses, repayments on this facility are limited to principal cash received from the funded assets. At 30 September 2014 no amounts had been drawn on this facility, therefore unamortised debit EIR adjustments are included in other receivables (note 37).

v) In addition, certain subsidiary SPV companies of the Group had entered into sterling revolving credit facilities to fund mortgage redraws, where the SPV would otherwise have insufficient principal cash to meet these obligations. These facilities were cancelled in the year. Interest on these loans was payable monthly or quarterly, on the same days as for the SPV's Note borrowings, in sterling at 0.30% above the LIBOR applicable to the Note borrowings. The drawings were repayable out of the principal cash received from the SPV assets in preference to all other creditors of the SPV with no further recourse to other Group companies. The facilities were each effectively secured on all of the assets of the SPV concerned.

The weighted average margin above LIBOR on bank borrowings at 30 September 2014 was 0.843% (2013: 0.700%).

(c) Corporate bond

On 20 April 2005 the Company issued £120.0m of 7% Callable Subordinated Notes at an issue price of 99.347% to provide long term capital for the Group. These bonds bore interest at a fixed rate of 7% per annum until 20 April 2012, after which interest was payable at a fixed rate of 3.729% per annum. The bonds are repayable on 20 April 2017. They are unsecured and subordinated to any other creditors of the Company. At 30 September 2014 £110.0m (2013: £110.0m, 2012: £110.0m) was included within the financial liabilities of the Company and the Group in respect of these bonds.

(d) Retail bonds

On 11 February 2013 the Company inaugurated a £1,000.0m Euro Medium Term Note Programme under which it may issue retail bonds, or other notes, within a twelve month period. The prospectus was updated, renewing the programme for a further twelve month period on 23 October 2014, after the year end.

The terms of issue for each tranche of notes are separately determined. These bonds are listed on the London Stock Exchange and have a fixed term, but are callable at the option of the Company. A summary of the retail bonds outstanding under this programme is given below.

Maturity date	Interest terms	Issue price	Currency	2014 £m	2013 £m
5 December 2020	6.000% p.a. fixed	par	GBP	**60.0**	60.0
30 January 2022	6.125% p.a. fixed	par	GBP	**125.0**	-
				185.0	60.0

The notes are unsubordinated unsecured liabilities of the Company and the amount included in Financial Liabilities in the accounts of the Group and the Company in respect of these bonds is £183.2m (2013: £59.1m).

52. OBLIGATIONS UNDER FINANCE LEASES

The finance lease obligations recorded in the accounts arise from a sale and leaseback transaction of one of the Group's office buildings in 1997 which falls to be treated as a finance lease under IAS 17 - 'Leases'. The lease was due to expire in 2019 and was subject to five yearly rent reviews, with guaranteed minimum rent increases.

During the year the freehold of the property was reacquired by the Company and the liability was extinguished (note 26).

The minimum lease payments payable under this lease were:

	2014 £m	2013 £m	2012 £m
Amounts payable			
Within one year	**-**	2.4	2.3
Within two to five years	**-**	9.6	9.6
After five years	**-**	0.6	3.0
	-	12.6	14.9
Less: future finance charges	**-**	(2.4)	(3.3)
Present value of lease obligations	**-**	10.2	11.6

The present value of these payments recognised in the financial statements was:

	2014 £m	2013 £m	2012 £m
Amounts payable			
Within one year	**-**	1.6	1.4
Within two to five years	**-**	8.0	7.4
After five years	**-**	0.6	2.8
	-	10.2	11.6

The fair value of the lease obligation was not considered to be materially different to the present value of the future obligations shown above. The interest rate implicit in the lease at 30 September 2013 was 7.99%.

53. RETIREMENT BENEFIT OBLIGATIONS

The Group has adopted IAS 19 (revised 2011) for the first time in the preparation of these accounts (note 2) and the disclosures set out below differ from those presented in previous years accounts due to the changed requirements of the new Standard.

(a) Defined benefit plan - Description

The Group operates a funded defined benefit pension scheme in the UK (the 'Plan'). The Plan assets are held in a separate fund, administered by a corporate trustee, to meet long-term pension liabilities to past and present employees. The Trustee of the Plan is required by law to act in the best interests of the Plan's beneficiaries and is responsible for the investment policy adopted in respect of the Plan's assets. The appointment of directors to the Trustee is determined by the Plan's trust documentation. The Group has a policy that one third of all directors of the Trustee should be nominated by active and pensioner members of the Plan.

Employees who are members of the Plan are entitled to receive a pension of 1/60 of their final basic annual salary for every year of eligible service (to a maximum of 2/3). Dependants of members of the Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service.

The principal actuarial risks to which the Plan is exposed are:

- Investment risk – The risk that income is generated on the Plan's investments at a rate lower than the rate at which the defined benefit liability is calculated, which would cause an increased deficit in the Plan. The trustee keeps the allocation of the Plan's investments under review to manage this risk on a long term basis.
- Interest risk – A decrease in bond yields will reduce the discount rate used in valuing the deficit and hence increase the Plan liability.
- Inflation risk – A rise in inflation will increase the benefits payable to Plan members, which would increase the defined benefit liability.
- Longevity risk – The value of the Plan deficit is calculated by reference to the best estimate of the mortality rate among Plan members both during and after employment. An increase in the life expectancy of the members would increase the deficit in the Plan.
- Salary risk – The valuation of the Plan assumes a level of future salary increases based on a premium over the expected rate of inflation. Should the salaries of Plan members increase at a higher rate then the deficit will be higher.

The risks relating to death in service payments are re-insured with an external insurance company.

As a result of the Plan 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 most recent full actuarial valuation of the Plan's liabilities, obtained by the Trustee, was carried out at 31 March 2013, by Mercer, an independent actuary. This showed that the value of the Plan's liabilities on a buy-out basis in accordance with section 224 of the Pensions Act 2004 was £144.5m, with a shortfall against the assets of £67.2m.

Following the 2013 actuarial valuation, the Trustee put in place a recovery plan. The Trustee's recovery plan aims to meet the statutory funding objective within six years and five months from the date of valuation, i.e. by 31 August 2019.

(b) Defined benefit plan – Financial impact

For accounting purposes the valuation at 31 March 2013 was updated to 30 September 2014 in accordance with the requirements of IAS 19 (revised) by Mercer.

The major categories of assets in the Plan at 30 September 2014, 30 September 2013 and 30 September 2012 and their fair values were:

	2014	2013	2012
	£m	£m	£m
Cash	**0.9**	0.4	0.8
Equity instruments	**56.4**	50.4	40.7
Debt instruments	**24.0**	22.1	21.7
Real estate	**7.4**	6.5	6.1
Total fair value of Plan assets	**88.7**	79.4	69.3
Present value of Plan liabilities	**(106.0)**	(95.1)	(83.2)
(Deficit) in the Plan	**(17.3)**	(15.7)	(13.9)

At 30 September 2014 the Plan assets were invested in a diversified portfolio that consisted primarily of equity and debt investments. The majority of the equities held by the Plan are in developed markets. All investments of the Plan have quoted market prices in an active market, and are thus considered to be Level 1 financial instruments as defined by IFRS 13.

The movement in the fair value of the Plan assets during the year was as follows:

	2014 £m	2013 (restated) £m
At 1 October 2013	79.4	69.3
Interest on Plan assets	3.7	3.2
Cash flows		
Contributions by Group	3.3	3.0
Contributions by Plan members	0.3	0.3
Benefits paid	(1.4)	(0.9)
Administration expenses paid	(0.6)	(0.4)
Remeasurement gain		
Return on Plan assets (excluding amounts included in interest)	4.0	4.9
At 30 September 2014	88.7	79.4

The actual return on Plan assets in the year ended 30 September 2014 was £7.6m (2013: £8.2m).

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

	2014 £m	2013 (restated) £m
At 1 October 2013	95.1	83.2
Current service cost	1.6	1.6
Interest expense	4.3	3.8
Cash flows		
Contributions by scheme members	0.3	0.3
Benefits paid	(1.4)	(0.9)
Remeasurement loss / (gain)		
Arising from demographic assumptions	-	(5.2)
Arising from financial assumptions	6.1	12.4
Arising from experience adjustments	-	(0.1)
At 30 September 2014	106.0	95.1

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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. The major weighted average assumptions used by the actuary were (in nominal terms):

	30 September 2014	30 September 2013	30 September 2012
In determining net pension cost for the year			
Discount rate	**4.50%**	4.60%	5.25%
Rate of compensation increase	**3.80%**	3.65%	4.10%
Rate of price inflation	**3.30%**	2.65%	3.10%
Rate of increase of pensions	**3.20%**	2.55%	3.00%
In determining benefit obligations			
Discount rate	**4.10%**	4.50%	4.60%
Rate of compensation increase	**3.65%**	3.80%	3.65%
Rate of price inflation	**3.15%**	3.30%	2.65%
Rate of increase of pensions	**3.05%**	3.20%	2.55%
Further life expectancy at age 60			
Male member aged 60	**29**	29	30
Female member aged 60	**31**	31	32
Male member aged 40	**32**	31	32
Female member aged 40	**34**	33	34

The amounts charged in the consolidated income statement in respect of the Plan are:

	Note	2014 £m	2013 (restated) £m
Current service cost	14	**1.6**	1.6
Administration expenses		**0.6**	0.4
Included within operating expenses		**2.2**	2.0
Funding cost of defined benefit obligation		**4.3**	3.8
Interest on plan assets		**(3.7)**	(3.2)
Net interest expense	11	**0.6**	0.6
Components of defined benefit costs recognised in profit or loss		**2.8**	2.6

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The amounts recognised in the consolidated statement of comprehensive income in respect of the Plan are:

	Note	2014 £m	2013 (restated) £m
Return on Plan assets (excluding amounts included in interest)		4.0	4.9
Actuarial (losses) / gains			
Arising from demographic assumptions		-	5.2
Arising from financial assumptions		(6.1)	(12.4)
Arising from experience adjustments		-	0.1
Total actuarial (loss)		(2.1)	(2.2)
Tax thereon	23	0.4	-
Net actuarial (loss)	45	(1.7)	(2.2)

The tax shown above for the period ended 30 September 2013 is disproportionate to the actuarial losses recorded in the period due to the effect on deferred tax of the changes in tax rate described in note 20.

(c) Defined benefit plan – Future cash flows

The sensitivity of the valuation of the defined benefit obligation to the principal assumptions disclosed above at 30 September 2014, calculating the obligation on the same basis as used in determining the IAS 19 value, is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities
Discount rate	0.1% p.a.	2.1% decrease
Rate of inflation *	0.1% p.a.	1.8% increase
Rate of salary growth	0.1% p.a.	0.4% increase
Rates of mortality	1 year of life expectancy	2.1% increase

* maintaining a 1% real increase in salary growth

The sensitivity analysis presented above may not be representative of an actual future change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation as some of the assumptions will be correlated. There has been no change in the method of preparing the analysis from that adopted in previous years.

In conjunction with the Trustee, the Group has continued to conduct asset-liability reviews of the Plan. These studies are used to assist the Trustee and the Group to determine the optimal long-term asset allocation with regard to the structure of liabilities within the Plan. The results of the studies are used to assist the Trustee in managing the volatility in the underlying investment performance and risk of a significant increase in the scheme deficit by providing information used to determine the investment strategy of the Plan. There have been no changes in the processes by which the Plan manages its risks from previous periods.

The target asset allocations for the year ending 30 September 2015 are 62% growth assets (primarily equities), 30% bonds and 8% real estate.

The rate of employee contributions to the Plan is 5% of pensionable salaries. Before 8 October 2013 the agreed rate of employer contributions was 26.6% of gross salaries for participating employees with an additional contribution of £1.5m per annum paid by monthly instalments. After 8 October 2013, following the finalisation of the March 2013 valuation, employer contributions rose to 27.0% of gross salaries for participating employees, the £1.5m per annum contribution remained in place and a further additional contribution of £0.4m per annum to cover administration and life cover was agreed.

The present best estimate of the contributions to be made to the Plan by the Group in the year ending 30 September 2015 is £3.3m.

The average duration of the benefit obligations in the Plan at the year end are shown in the table below:

	2014 Years	2013 Years
Category of member		
Active members	**24**	24
Deferred pensioners	**25**	25
Current pensioners	**15**	15
All members	**23**	23

(d) Defined contribution arrangements

The Group sponsors a defined contribution (Stakeholder) pension scheme, open to all employees who are not members of the Plan. The Group successfully completed the auto-enrolment process mandated by the UK Government in November 2013, using this scheme.

The assets of the scheme are not Group assets and are held separately from those of the Group, under the control of independent trustees. Contributions made by the Group to this scheme in the year ended 30 September 2014, which represent the total cost charged against income, were £0.5m (2013: £0.3m) (note 14).

54. DEFERRED TAX

(a) The Group

The movements in the net deferred tax liability are as follows:

	Note	**2014 £m**	2013 (restated) £m	2012 £m
Net liability at 1 October 2013		**9.9**	7.6	5.0
Income statement charge	20	**1.1**	1.8	3.7
(Credit) / charge to equity	23	**(0.9)**	0.5	(1.1)
Net liability at 30 September 2014		**10.1**	9.9	7.6

The net deferred tax liability for which provision has been made is analysed as follows:

	2014 £m	2013 £m	2012 £m
Accelerated tax depreciation	**(0.5)**	(0.7)	(0.8)
Retirement benefit obligations	**(3.5)**	(3.2)	(3.2)
Impairment and other provisions	**15.8**	14.6	16.5
Tax losses	**(0.5)**	(0.6)	(3.3)
Other timing differences	**(1.2)**	(0.2)	(1.6)
Net deferred tax liability	**10.1**	9.9	7.6

(b) The Company

The movements in the net deferred tax liability are as follows:

	2014 £m	2013 £m	2012 £m
Net liability at 1 October 2013	**1.8**	-	-
Income statement charge	**-**	1.8	-
Net liability at 30 September 2014	**1.8**	1.8	-

The net deferred tax liability for which provision has been made is analysed as follows:

	2014 £m	2013 £m	2012 £m
Other timing differences	**1.8**	1.8	-
Net deferred tax liability	**1.8**	1.8	-

55. CURRENT TAX LIABILITIES

(a) The Group

	2014 £m	2013 £m	2012 £m
UK Corporation Tax	**11.9**	5.9	13.3
	11.9	5.9	13.3

(b) The Company

	2014 £m	2013 £m	2012 £m
UK Corporation Tax	**2.3**	4.8	4.4
	2.3	4.8	4.4

56. OTHER LIABILITIES

(a) The Group

	2014 £m	2013 £m	2012 £m
Current liabilities			
Accrued interest	**23.1**	20.0	23.4
Deferred income	**0.1**	0.2	0.3
Other accruals	**16.0**	13.2	11.8
Other taxation and social security	**0.9**	2.8	1.2
	40.1	36.2	36.7
Non-current liabilities			
Deferred income	**0.2**	0.9	1.1
Other accruals	**-**	-	-
	0.2	0.9	1.1

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

(b) The Company

	2014 £m	2013 £m	2012 £m
Current liabilities			
Amounts owed to Group companies	**193.1**	74.2	69.2
Accrued interest	**3.4**	2.1	1.8
Deferred income	**-**	0.1	0.1
	196.5	76.4	71.1
Non-current liabilities			
Deferred income	**-**	0.6	0.7
	-	0.6	0.7

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

57. NET CASH FLOW FROM OPERATING ACTIVITIES

(a) The Group

	2014 £m	2013 (restated) £m
Profit before tax	122.8	104.8
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	1.6	2.1
Amortisation of intangible assets	1.3	1.2
Foreign exchange movement on borrowings	(194.5)	88.8
Other non-cash movements on borrowings	4.9	5.9
Impairment losses on loans to customers	12.3	15.2
Charge for share based remuneration	3.2	3.1
Net (increase) / decrease in operating assets:		
Loans to customers	(462.2)	(136.8)
Derivative financial instruments	196.1	(89.6)
Fair value of portfolio hedges	(0.5)	1.1
Other receivables	0.3	(1.3)
Net increase / (decrease) in operating liabilities:		
Retail deposits	60.1	-
Derivative financial instruments	(0.2)	(3.3)
Other liabilities	2.7	(1.1)
Cash (utilised) by operations	(252.1)	(9.9)
Income taxes (paid)	(17.4)	(22.0)
	(269.5)	(31.9)

(b) The Company

	2014 £m	2013 £m
Profit before tax	55.9	73.5
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	0.5	1.1
Non-cash movements on borrowings	0.2	0.1
Impairment losses on investments in subsidiaries	3.7	6.1
Charge for share based remuneration	3.2	3.1
Net decrease / (increase) in operating assets:		
Other receivables	11.1	(34.9)
Net increase in operating liabilities:		
Other liabilities	119.5	5.2
Cash generated by operations	194.1	54.2
Income taxes (paid)	(4.6)	(4.4)
	189.5	49.8

58. NET CASH FLOW FROM INVESTING ACTIVITIES

	The Group		The Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Purchases of property, plant and equipment	**(25.1)**	(1.0)	**(24.7)**	-
Purchases of intangible assets	**(0.7)**	(0.6)	**-**	-
(Increase) in short term investments	**(39.4)**	-	**-**	-
Movement in loans to subsidiary undertakings	**-**	-	**(129.7)**	(0.1)
Investment in subsidiary undertakings	**-**	-	**(123.8)**	(61.7)
Disposal of subsidiary undertakings	**-**	-	**-**	0.1
Net cash (utilised) by investing activities	**(65.2)**	(1.6)	**(278.2)**	(61.7)

59. NET CASH FLOW FROM FINANCING ACTIVITIES

	The Group		The Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Shares issued (note 40)	**-**	0.4	**1.1**	4.4
Dividends paid (note 46)	**(23.7)**	(20.7)	**(23.7)**	(20.7)
Issue of asset backed floating rate notes	**862.8**	459.1	**-**	-
Repayment of asset backed floating rate notes	**(450.2)**	(237.5)	**-**	-
Issue of retail bonds	**123.9**	59.0	**123.9**	59.0
Capital element of finance lease payments	**-**	(1.4)	**-**	(1.4)
Movement on bank facilities	**85.1**	(143.8)	**-**	-
Purchase of shares (note 48)	**(1.4)**	(0.5)	**-**	-
Sale of shares (note 47)	**-**	0.6	**-**	-
Net cash generated by financing activities	**596.5**	115.2	**101.3**	41.3

60. RECONCILIATION OF NET DEBT

This disclosure is provided in response to the work of the Financial Reporting Council's Financial Reporting Lab. The disclosure is provided for the Group only, as it is not considered that a separate disclosure for the Company would be useful to users.

	Opening debt £m	Debt issued £m	Other cash flows £m	Foreign exchange £m	Other non-cash changes £m	Closing debt £m
30 September 2014						
Asset backed loan notes	**7,893.2**	**862.8**	**(450.2)**	**(194.5)**	**3.7**	**8,115.0**
Bank borrowings	**1,311.2**	**-**	**85.1**	**-**	**1.6**	**1,397.9**
Bank borrowing debits	**(1.7)**	**-**	**-**	**-**	**0.8**	**(0.9)**
Corporate bond	**110.0**	**-**	**-**	**-**	**-**	**110.0**
Retail bonds	**59.1**	**123.9**	**-**	**-**	**0.2**	**183.2**
Bank overdrafts	**1.4**	**-**	**(0.3)**	**-**	**-**	**1.1**
Finance leases	**10.2**	**-**	**-**	**-**	**(10.2)**	**-**
Gross debt	**9,383.4**	**986.7**	**(365.4)**	**(194.5)**	**(3.9)**	**9,806.3**
Cash	**(587.3)**	**(986.7)**	**725.2**	**-**	**-**	**(848.8)**
Net debt	**8,796.1**	**-**	**359.8**	**(194.5)**	**(3.9)**	**8,957.5**
30 September 2013						
Asset backed loan notes	7,580.9	459.1	(237.5)	88.8	1.9	7,893.2
Bank borrowings	1,453.3	-	(143.8)	-	1.7	1,311.2
Bank borrowing debits	(2.7)	-	-	-	1.0	(1.7)
Corporate bond	110.0	-	-	-	-	110.0
Retail bonds	-	59.0	-	-	0.1	59.1
Bank overdrafts	0.6	-	0.8	-	-	1.4
Finance leases	11.6	-	(1.4)	-	-	10.2
Gross debt	9,153.7	518.1	(381.9)	88.8	4.7	9,383.4
Cash	(504.8)	(518.1)	435.6	-	-	(587.3)
Net debt	8,648.9	-	53.7	88.8	4.7	8,796.1

Other non-cash changes shown above represent effective interest rate adjustments relating to the spreading of initial costs of the facilities concerned, and in the case of the 'Finance leases' balance, the extinguishment of the liability as described in note 26.

61. OPERATING LEASE ARRANGEMENTS

	The Group		The Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Minimum lease payments under operating leases recognised in income for the year				
Office buildings	**1.6**	1.7	**-**	-
Motor vehicles	**0.3**	0.3	**-**	-
	1.9	2.0	**-**	-

At 30 September 2014 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Amounts falling due:				
Within one year	**1.9**	1.8	**-**	**-**
Between two and five years	**3.7**	4.6	**-**	-
After more than five years	**0.2**	-	**-**	-
	5.8	6.4	**-**	-

Operating lease payments represent rents payable by the Group in respect of certain of its office premises and lease payments on company vehicles and equipment. The average term of the current building leases is 11 years (2013: 10 years) with rents subject to review every five years, while the average term of the vehicle leases is 3 years (2013: 3 years).

62. RELATED PARTY TRANSACTIONS

(a) The Group

Mr A K Fletcher, an independent non-executive director of the Company, is a director of Paragon Pension Plan Trustees Limited, which acts as the corporate trustee of the Paragon Pension Plan ('the Plan'). Mr Fletcher was appointed a trustee of the Plan on 27 May 2010, and a director of Paragon Pension Trustees Limited on 7 November 2011. The Plan moved to corporate trusteeship in the first quarter of 2013 at which point all individuals ceased to be trustees of the Plan on their own account. In respect of this appointment he was paid £10,000 in the year ended 30 September 2014 by Paragon Finance plc, the sponsoring company of the plan (2013: £10,000).

The Plan is a related party of the Group. Transactions with the Plan are described in note 53.

The Group had no other transactions with related parties other than the key management compensation disclosed in note 15.

(b) The Company

During the year the parent company entered into transactions with its subsidiaries, which are related parties. Management services were provided to the Company by one of its subsidiaries and the Company granted awards under the share based payment arrangements described in note 16 to employees of subsidiary undertakings. The Company also issued shares to the trustees of its ESOP trusts, as described in note 40.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 27 and 28.

Outstanding current account balances with subsidiaries are shown in notes 37 and 56.

During the year the Company incurred interest costs of £7.6m in respect of borrowings from its subsidiaries (2013: £2.2m).

E Appendices to the annual report

E Appendices to the annual report

For the year ended 30 September 2014

A. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	2014 £m	2013 (restated) £m
Cost – operating expenses	63.4	58.9
Total operating income	197.9	177.6
Cost / Income	32.0%	33.2%

B. UNDERLYING PROFIT

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

	2014 £m	2013 (restated) £m
Paragon Mortgages		
Profit before tax for the period (note 8)	81.1	71.6
Less: Fair value losses / (gains)	(0.6)	(1.3)
	80.5	70.3
Idem Capital		
Profit before tax for the period (note 8)	48.1	34.5
Less: Fair value losses / (gains)	-	-
	48.1	34.5
Paragon Bank		
(Loss) before tax for the period (note 8)	(6.4)	(1.3)
Less: Fair value losses / (gains)	-	-
	(6.4)	(1.3)
Total		
Profit before tax for the period (note 8)	122.8	104.8
Less: Fair value losses / (gains)	(0.6)	(1.3)
	122.2	103.5

C. AVERAGE NET MARGIN

The average net interest margin is calculated as follows:

	Note	2014 £m	2013 (restated) £m
Opening loans to customers	32	8,801.5	8,694.6
Closing loans to customers	32	9,255.9	8,801.5
Average loans to customers		9,028.7	8,748.0
Net interest		179.4	161.0
Net interest margin		1.99%	1.84%
Impairment provision		12.3	15.2
Impairment as a percentage of average loan balance		0.14%	0.17%

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