Company Registration No: 01917566

PARAGON FINANCE PLC

Report and Financial Statements

Year ended 30 September 2016

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Finance PLC ('the Company') is the most material operating subsidiary of a group of companies controlled by The Paragon Group of Companies PLC (together 'the Group'). It is a wholly owned subsidiary of the parent company of the Group and during the year the Company operated in the United Kingdom. The principal activities of the Company are the provision of administration and other management services to other group companies and as an investor in special purpose vehicle companies issued by other members of the Group.

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

During the year the Company obtained permission from the Financial Conduct Authority (FCA), for regulatory permission relating to its consumer credit regime. The Company also holds the requisite permission from the FCA to administer both second and first charge residential mortgages. The company's registration in relation to the administration of consumer Buy to Let loans was also confirmed by the FCA.

As shown in the Company's profit and loss account on page 19, the Company's net interest income increased from £1,910,000 to £3,710,000. This was primarily due to a greater decrease on interest payable on loans from other group companies, compared with the decrease in the interest receivable on loans to other group companies. The subordinated loans increased by 1% (2015: 10% increase) principally due to new loans made to additional securitisations in the year, interest charged on the subordinated loans provided to other group companies and related parties increased. The provision on loans to other group companies was £425,000 (2015: £2,268,000) due to the effects of trading between group companies and a decrease in reserves of those companies. The provision on loans to related parties was £543,000 (2015: £2,070,000) due to the effects of trading between these entities and a decrease in reserves of those companies. The release of provision on investment in group companies was £1,538,000 (2015: provision of £2,569,000) due to the effects of trading between group companies and an increase in reserves of those companies. Therefore, in the current year there was a release of provision compared to a charge for the preceding year. Other operating income has increased from £95,799,000 to £103,604,000 due to an increase in the deferred consideration received. The net income from deferred consideration received and management costs recharged to other Group entities increased during the year to £83,116,000 from £74,118,000. As a result of the above operating profit before taxation has improved from £21,207,000 to £32,904,000, and the profit after tax has increased from £15,292,000 to £25,695,000.

The balance sheet on page 20 of the Financial Statements shows the Company's financial position at the year end. Net assets have decreased by 1% (2015: 9.7% increase) due to the net effect of the profit for the year and actuarial loss on the pension fund. Details of amounts owed from and to other group companies are shown in notes 23 and 27.

No interim dividend was paid during the year (2015: £nil). No final dividend is proposed (2015: £nil).

The Company has entered into derivative contracts in order to provide an economic hedge against its exposure to fixed rate loans to customers of other group companies. Although these instruments provide an economic hedge the prescriptive nature of the requirements of International Accounting Standard 39 – 'Financial Instruments: Recognition and Measurement' ('IAS 39') means that hedge accounting cannot always be achieved. This has led to the Company recognising a fair value net loss of £1,000 in the year (2015: £2,000) due to the ineffectiveness of the hedge relationship. This represents a timing difference and cumulative gains and losses recognised will tend to be zero over time.

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

OUTLOOK

As part of the Group's wider strategy to enter the first charge residential mortgage market, the Company, as the Group's principal servicing business, now holds the requisite permission from the FCA to administer both second and first charge residential mortgages. As the Group's activities in these areas expand the Company's administration activities will also grow, but no major changes in the nature of its activities are expected in the coming year.

STRATEGIC REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out on pages 3 to 15 and in note 5. A discussion of critical accounting estimates is set out in note 4.

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

ENVIRONMENT

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

EMPLOYEES' INVOLVEMENT

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

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

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

EMPLOYMENT OF DISABLED PERSONS

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

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

26 January 2017

CAUTIONARY STATEMENT

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

PRINCIPAL RISKS AND MITIGATION

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

A summary of those risks and uncertainties which could prevent the achievement of the Company's strategic objectives, how the Company seeks to mitigate those risks and the change in the perceived level of each risk in the last financial year are described below.

This summary should not be regarded as a complete statement of all potential risks and uncertainties faced by the Company but rather those which the Company believes have the potential to have a significant impact on its financial performance and future prospects.

To identify and control the risks to which it is exposed, the Group employs a risk management framework. As part of this framework, principal risks are identified and assessed within the key categories of Business Risk, Credit Risk, Conduct Risk, Operational Risk, Liquidity and Capital Risk, Market Risk, and Pension Obligation Risk.

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

Changes in risks are identified as shown below:

	Risk increasing		Risk decreasing		Risk stable

PRINCIPAL RISKS AND MITIGATION (Continued)

<table>
<tr><th colspan="3">Business Risk</th></tr>
<tr><td colspan="3">Economic Risk</td></tr>
<tr><th>Description</th><th colspan="2">Mitigation</th></tr>
<tr><td>The Group could be materially affected by a severe downturn in the UK economy given its income is wholly derived from activities within the UK. Adverse economic conditions could reduce demand for the Group's loan products, increase the number of customers that default on their loans and cause security asset values to fall.</td><td colspan="2">The Group operates as a specialist lender in chosen markets where its employees have significant levels of expertise.

Robust underwriting and monitoring processes are employed which reflect prudent credit policies designed to be maintained through economic cycles.

To support the validation of asset values for its core buy-to-let lending products, the Group maintains an in-house team of Chartered Surveyors with considerable experience and understanding of the sector.

The Group closely monitors economic developments in the UK and overseas, with support from leading independent macro-economic advisors. This ensures it is able to consider various economic scenarios within its formal business planning cycle.

In addition, the Group maintains a robust stress testing framework to assess its expected performance under a range of operating conditions. This provides the Board with an informed understanding and appreciation of the Group's capacity to withstand shocks of varying severities.</td></tr>
<tr><td>Change</td><td>Whilst UK economic performance has remained generally stable in the last financial year, the outlook has become considerably more uncertain given various recent global and domestic developments. These include the referendum decision to leave the European Union. Given this heightened level of economic and political uncertainty, the overall risk assessment is considered to have increased.</td><td></td></tr>
</table>

PRINCIPAL RISKS AND MITIGATION (Continued)

Concentration risk

Description	**Mitigation**
The Group is heavily reliant on lending to customers investing in the UK private rented sector. It is therefore exposed to any systemic deterioration in performance of the sector, which will be influenced by underlying factors such as house prices, supply of rental property, and demographic changes. The buy-to-let sector has been subject to a high level of fiscal and regulatory intervention in recent years, including changes affecting the tax position of landlords and the regulation of underwriting requirements. Where such changes make buy-to-let less attractive to potential customers or affect the viability of existing customers' businesses, the Group is exposed to adverse consequences.	The Group has a very deep understanding of the private rented sector built up over many years of successful operations in the buy-to-let market. This includes a long history of performance data through the economic cycle together with regular independently conducted research commissioned over a period of more than ten years. It seeks to use this expertise constructively by playing an active role in shaping the development of policy for the private rented sector both directly and through membership of the Council of Mortgage Lenders ('CML'), the IMLA and the National Landlords Association. Given its deep specialist knowledge of the sector and its historically prudent approach to underwriting, the Group is very well placed to cope with recent and emerging regulations relating to buy-to-let, and to continue to provide appropriate products to customers in the new environment. The Group also continues to exploit prudent opportunities to diversify the range of its activities and income streams. This is illustrated by the development of its Idem Capital debt acquisition business and the organic development and acquisitions within Paragon Bank.

Change	Whilst the Group has continued to diversify its areas of operation in the last financial year, it continues to have significant exposure to buy-to-let lending. Changes to the UK taxation regime for private landlords and greater regulatory intervention in the sector could reduce demand and availability of buy-to-let lending products	

PRINCIPAL RISKS AND MITIGATION (Continued)

<table>
<tr><th colspan="3">Credit Risk</th></tr>
<tr><td colspan="3">Customer Risk</td></tr>
<tr><th>Description</th><th colspan="2">Mitigation</th></tr>
<tr><td>As a lender, a failure to target and underwrite lending effectively could expose the Group to the risk of unexpected material losses in the event of customers being unable to repay their debts.

Recoverable amounts on loans may also be affected by adverse movements in security values such as house prices.</td><td colspan="2">The Group has comprehensive policies in place that set out detailed criteria which must be met before loans are approved. Credit policies incorporate limits for concentration risk arising from factors such as large exposures to particular counterparties, geographical areas or types of lending. Exceptions to these policies require approval by the Group's Credit Risk function, operating under a mandate from the Credit Committee.

The Credit Risk function provides regular reports to the Credit Committee and Risk and Compliance Committee on the performance of each of the Group's lending portfolios.

Originated loan assets are subject to individual underwriting approval with robust control and support provided by well-established decision tools, while purchased assets are subject to extensive pre-contract due diligence and rigorous ongoing analysis and monitoring.

The majority of the Group's loans by value are secured against residential property in England and Wales at conservative loan-to-value levels.

Rigorous and timely collections and arrears management processes are also in place. These processes benefit from specialist staff, especially for buy-to-let mortgages, where the Group's receiver of rent experience and use of in-house property specialists enhance recoveries.

As indicated previously, the Group maintains a robust stress testing framework to assess its expected performance under a range of operating conditions, including falls in asset values and increases in interest rates. This framework provides the Board with an informed understanding and appreciation of the Group's capacity to withstand shocks of varying severities.</td></tr>
<tr><td>Change</td><td>The Group's impairment rate has remained very low, reflecting the maintenance of robust, proven credit disciplines, generally favourable economic conditions and the credit quality of its borrowers. The potential for any credit deterioration following the referendum decision to leave the European Union is being monitored closely across all Group portfolios. Currently no deterioration has been seen in actual performance, nor underlying customer profile.

The Group's approach to the management of credit risk and the systems in place to mitigate that risk on both originated and purchased assets are described in note 7 to the accounts.</td><td>⇔</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATION (Continued)

Counterparty Risk

Description	Mitigation
The Group is exposed to the failure of counterparties with which it places deposits. In addition, it is exposed to the risk of loss in the event of the failure of a counterparty with which it has negotiated hedging agreements to mitigate interest rate and foreign exchange risk.	The Group has a strictly controlled number of approved treasury counterparties. In order to be approved, counterparties must meet specific credit rating criteria. Exposure to these counterparties is monitored daily by senior management within the Group's Treasury function with all trading performed within approved limits. The credit quality of all treasury counterparties and the Group's exposure to them is reported monthly to ALCO. Treasury counterparties are typically highly rated banks and, for all cash deposits and derivative positions held within the Group's securitisation structures, they must comply with criteria set out in the financing arrangements, which are monitored externally. Where a counterparty to the Group's cross currency basis swaps, which form its principal derivative exposures, fails to meet the required credit criteria they are obliged under the terms of the instruments to set aside a cash collateral deposit. Interest rate and foreign exchange derivatives are held solely for hedging purposes.

Change	The credit quality of the treasury counterparties, with whom the Group transacts has been maintained, taking into account collateral arrangements.	

Conduct Risk

Customer Fair Outcomes

Description	Mitigation
The Group is exposed to the risk that its financial performance and reputation could suffer significantly if it fails to deliver fair outcomes for customers.	The Group has policies and oversight procedures addressing the fair treatment of customers across all its portfolios. These include: • conduct risk; • complaint handling; • responsible lending; • forbearance; and • vulnerable customer treatment. Within its Consumer Lending area, a dedicated Quality and Control team monitors the activities of customer facing employees to validate the delivery of fair treatment for customers. This area also has a dedicated Customer Support team that manages any customers deemed to be vulnerable until such time as a suitable, sustainable exit strategy has been agreed. Controls in place include: • All inbound and outbound calls are recorded with a sample of calls and correspondence reviewed each month.

PRINCIPAL RISKS AND MITIGATION (Continued)

	• Forbearance agreements are reviewed in order to ensure these are not extended to the detriment of the customer's circumstances. • Embedded system controls restrict the which areas of the business can action the accounts of customers identified as vulnerable. • The volume of customers disclosing sensitive information and the nature of their vulnerability is closely monitored via management information. • Accounts are monitored where customers have been requested to provide evidence to support their health issues to ensure such requests are appropriate. • Customers in financial difficulty are actively encouraged to obtain appropriate free independent advice from reputable, approved organisations such as 'StepChange Debt Charity' and 'Payplan'. All employees are required to undertake conduct risk related training with those in consumer facing roles also receiving monthly focused training which is subject to performance testing. The Group maintains a centralised complaint handling function for consumer loans to ensure complaints are dealt with in a consistent and efficient manner. The ORCC has a remit which extends to overseeing the fair treatment of customers. The Committee receives reports each month from selected business areas relating to customer treatment and complaint handling. The Group's Compliance function has a formal monitoring plan which is heavily focused on conduct risk and the fair treatment of customers, particularly those in financial difficulty. The plan is reviewed by the Risk and Compliance Committee. Management actions to address any adverse reports are overseen at both the ORCC and the Risk and Compliance Committee. During the last year, various Group subsidiaries have made a number of successful applications for regulatory permissions in relation to Consumer and Mortgage lending. These applications have included reviews of key customer-related policies and procedures. Alongside the business-wide training noted above, this has served to enhance business areas' focus on customer outcomes. This has also been supported by strengthened second line review and reporting during the period.

Change	The increasingly regulated nature of the Group's operations and the continuing changes to the regulatory conduct landscape heightens the potential risk of financial losses or censure.	

PRINCIPAL RISKS AND MITIGATION (Continued)

Operational Risk

People Risk

Description	Mitigation
The Group is exposed to the risk that it is unable to recruit and retain skilled senior management and key personnel at all levels. Failure to maintain the necessary skill base within its workforce could have a material impact on the Group's ability to deliver its business plan and strategic objectives. This is a particularly risk in respect of key specialist and executive positions, where the institutional knowledge of the incumbents would be hard to replicate in the short term.	The Group manages and controls its key person dependency risk through effective succession planning, recruitment, development and retention strategies. These include: • Undertaking formal succession planning reviews covering all key roles; • Monitoring external remuneration and reward structures to ensure it remains competitive and is able to recruit and retain key personnel; • Offering a range of employee benefits in addition to base salaries including a defined contribution pension scheme, Sharesave Plan and an annual profit related performance scheme for most employees; • Having an effective performance appraisal system to identify and provide appropriate training and development opportunities for employees; and • Providing regular internal training for all employees and financial support to employees undertaking relevant external professional qualifications. The Group has been accredited under the 'Investors in People' scheme since 1997 and achieved Champion status in May 2014. This is awarded to a very small proportion of accredited organisations who are seen as pioneers in people management practices and role models in strategic leadership.

Change	During the last year, a generally improving employment market and buoyant demand for skilled financial services employees has undoubtedly resulted in increasing competition to recruit and retain employees. However, the Group remains confident in its ability to manage this risk successfully as evidenced by the results of an employee survey during the year which indicated an 86% engagement level. This level is above the average for the financial services sector. The development of formal succession planning for senior roles has also helped to mitigate the Group's key person exposure in respect of certain executive personnel.	

PRINCIPAL RISKS AND MITIGATION (Continued)

Systems Risk

Description	Mitigation
The Group is exposed to the risk that its IT infrastructure and systems are unable to support its operational needs and fail to offer adequate protection against the threat of cyber-crime. Failure in these systems, either in terms of capacity or security, could result in detriment to customers, regulatory censure and reputational damage, all of which could materially impact income and profitability. This also includes the risk that the Group's key outsourcing arrangements with third parties could expose it to material loss or reputational damage.	During the course of the year, the Group has strengthened its capabilities in relation to its information technology infrastructure management, including the appointment of an experienced external IT Director. The Group has a formally agreed IT Strategy which ensures that priority is given to those areas which are most critical to the delivery of the Group's strategy and business plan. These include the provision of management information to enable business heads to exercise effective control of key operational risks. The Group also employs a robust vendor management process to select and monitor third party IT suppliers. The Group maintains an ongoing programme of investment in IT infrastructure and systems. This includes investment in security solutions to counteract cyber security threats. There is also continued focus on the information security management system to ensure that controls, testing and user awareness is maintained and improved. The Group is currently certified to ISO 27001 (Information Security Management). As part of this, a significant investment was made to enhance the Group's controls regarding data loss during the last year. Change programmes are closely managed with robust control and testing processes to ensure that system developments meet operational requirements and are effectively implemented. In order to ensure it can deal effectively with unexpected operational disruptions, the Group has a well-established Business Continuity plan which is updated and tested regularly. The Group is currently certified to ISO 22301 (Business Continuity). The Group has added resource in the Risk and Internal Audit areas to ensure its second and third line review processes have the capability to properly address these issues. Before the Group outsources any key activities to a third party, it undertakes robust due diligence on them and ongoing performance and customer outcome monitoring thereafter. The Group only outsources activities under formal contractual arrangements which clearly set out the rights and obligations of both parties.

Change	Whilst the Group continues to maintain a robust and secure IT infrastructure that supports its operational needs, the level and sophistication of cyber-crime continues to increase, heightening the risk of an impact on its business model and strategic objectives.	

PRINCIPAL RISKS AND MITIGATION (Continued)

<table>
<tr><th colspan="3">Regulatory Risk</th></tr>
<tr><th colspan="2">Description</th><th>Mitigation</th></tr>
<tr><td colspan="2">The Group is exposed to the risk that its financial performance and reputation could suffer significantly if it fails to identify, interpret and comply with relevant regulatory and legal obligations.

The customers and market sectors to which the Group supplies products, and the capital markets from which it obtains much of its funding, have been subject to increasing legislative and regulatory intervention over recent years.

Many of the Group's own business activities are now also subject to direct and increasing levels of regulation. This is increasingly significant given the greater levels of business being undertaken through Paragon Bank.</td><td>The Group has Risk and Compliance and Legal teams who review key regulatory and legal developments to assess the impact on the Group's operations. These teams then work with business areas to provide advice on the implementation of appropriate measures to meet identified requirements. Expert third party advice is also sought where necessary.

Major regulatory or legal change initiatives are subject to formal change governance with progress reporting to the Risk and Compliance Committee.

The Compliance function has developed a formal monitoring plan which is reviewed by the ORCC and the Risk and Compliance Committee to ensure that regulatory requirements have been satisfactorily embedded.

Similarly, the Group's Financial Crime function provides independent oversight of business areas' adherence to anti-money laundering and financial crime requirements.

All employees are required to undertake regulatory training and testing to ensure appropriate levels of competence are maintained.

During the last year a number of group companies submitted successful applications for permissions under the FCA's Consumer Credit and Mortgage regimes.</td></tr>
<tr><td>Change</td><td>The increasingly regulated nature of the Group's operations heightens the potential risk of financial losses or censure as a result of a failure to comply with current regulations or to fail to respond effectively to new and emerging regulations</td><td></td></tr>
</table>

PRINCIPAL RISKS AND MITIGATION (Continued)

<table>
<tr><th colspan="3">Liquidity and Capital Risk</th></tr>
<tr><td colspan="3">Funding Risk</td></tr>
<tr><th>Description</th><th colspan="2">Mitigation</th></tr>
<tr><td>The Group is exposed to the risk that increases in the cost or reductions in the availability of funding could adversely impact its business model and strategic objectives. The Group relies on its access to various 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, this might result in the scaling back or cessation of some business lines.

Paragon Bank, relies on retail deposits and therefore changes in market liquidity could impact the ability of the business to maintain the level of liquidity required to sustain normal business activity. In addition, there is a risk that the Group could face sudden, unexpected and large cash outflows from customer withdrawals.</td><td colspan="2">Comprehensive Treasury Polices are in place for both the Group and the Bank to ensure sufficient liquid assets are maintained and that all financial obligations can be met as they fall due.

The Group has a dedicated Treasury function which is responsible for the day-to-day management of its overall liquidity and wholesale funding arrangements.

The Board, through the delegated authority provided to the ALCO, sets strict limits as to the level, composition and maturity of liquidity arrangements.

Compliance to the approved limits is monitored daily. Detailed management information is reported monthly to ALCO in order to ensure that the Group can maintain adequate liquidity even under stressed conditions.

The Group maintains a diversified range of both retail and wholesale medium and long term funding sources to cover future business requirements and liquidity to cover shorter term funding needs.

The Group uses securitisation to mitigate its exposure to liquidity risk on its borrowings, ensuring, as far as possible, that the maturities of assets and liabilities are matched.

The Company has a BBB- investment grade credit rating from Fitch to support maintenance of its access to funding markets.

Paragon Bank is authorised to accept deposits. As such it is subject to regulation by the PRA, which aims to ensure that sufficient liquid assets are held to mitigate the liquidity risk inherent in deposit taking.</td></tr>
<tr><td>Change</td><td>Whilst wholesale funding markets have tightened somewhat during the financial year, the Group remains well funded with sufficient liquidity to meet all its financial obligations as they fall due. It is also well placed to access further funding if required.</td><td>⇔</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATION (Continued)

Capital Risk	
Description	**Mitigation**
The major part of the Group's lending portfolio is secured on residential property. Proposals made by the BCBS regarding potential changes from 2021 to the minimum capital requirements for lending secured on such assets could have a material impact on the Group. If the BCBS proposals are implemented as currently outlined, the Group would be particularly affected by changes to risk weights for residential real estate exposures where repayment is materially dependant on cash flows generated by property, such as buy-to-let lending. In anticipation of these potential developments, the Group is already actively engaged in progressing mitigating actions.	In order to further enhance its existing robust credit management capabilities and to mitigate the risks of the proposed BCBS changes, the Group has taken a strategic decision to seek the necessary regulatory approval to implement an IRB approach for credit risk. In support of this, the Group has recently appointed an experienced Director of IRB to lead this initiative and plans are now progressing to map out the approval and implementation route. The programme of work will cover all relevant areas including data integrity, the development of compliant models, training & development, governance and use tests. It is anticipated that work already completed in relation to IFRS 9 changes will allow for accelerated development of initial IRB models.

Change	The Group's exposure to this risk has remained broadly consistent during the financial year with feedback on the BCBS proposals not expected until 2017. Further information on the Group's management of capital risk is given in note 6 to the accounts.	↔

PRINCIPAL RISKS AND MITIGATION (Continued)

Market Risk

Interest rate risk

Description	Mitigation
The Group is exposed to the risk that changes in interest rates may adversely affect its net income and profitability. In particular, the Group's profitability is determined by the difference between the interest rates at which it lends and those at which it borrows. Changes in market interest rates could therefore materially impact the Group's profits as a result of significant mismatches between its assets and liabilities.	Comprehensive Treasury Polices are in place to ensure that the risk posed by changes and mismatches in interest rates is effectively managed. The Group manages this risk outside the Bank by maintaining floating rate liabilities and matching these with floating rate assets, by hedging fixed rate assets and liabilities using interest rate swap or cap agreements and by maintaining a proportion of fixed rate liabilities. The Group has a dedicated Treasury function which is responsible for the day-to-day management and control of its exposure to interest rate risk. ALCO monitors the interest rate risk exposure on the Group's loan assets and asset backed loan notes on a monthly basis. This ensures compliance with the requirements of the trustees in respect of the Group's securitisations and the terms of other borrowings, as well as adherence to internal policies. Paragon Bank has its own Treasury Policy and ALCO which focuses on the risks within the Bank, including the retail deposit position. Notwithstanding this, the Group ALCO maintains oversight of market risk across the whole Group. Paragon Bank's retail deposits either bear variable interest rates or are fixed rate liabilities which are hedged in accordance with the Group's interest risk management strategy. The Group has no direct exposure to market interest rate risk.

Change	The Group's interest risk exposure profile, relative to its balance sheet and its approach to managing the risks inherent in it have remained broadly similar through the period and therefore associated risk levels remain generally stable compared to previous periods. Further information regarding the Group's management of interest rate risk is given in note 7 to the accounts.	⇔

PRINCIPAL RISKS AND MITIGATION (Continued)

Pension Obligation Risk

Pension Obligation Risk

Description	Mitigation
The Group operates both a defined benefit and defined contribution pension scheme in the UK. There is a risk that the Group's pension liabilities may be adversely affected by a range of factors including bond yields, inflation rates, interest rates, changes to pension regulations and demographic factors.	The defined benefit scheme was closed to new members with effect from February 2002. Since that time, new employees have been invited to join the Group's defined contribution pension scheme which carries no investment or mortality risk for the Group. The defined benefit scheme is formally valued independently by the Plan actuary every three years, most recently as at 31 March 2013. At that time the deficit, agreed by the Trustee was £15.0 million and a recovery plan was agreed between the Trustee and the Group, whereby the Group undertook to fund the deficit to meet the statutory funding objective by 31 August 2019. A new valuation process, as at 31 March 2016 has commenced, but has not yet been completed. The valuation of the deficit on an IAS 19 accounting basis by the Group's actuarial advisers at that date showed a deficit of £24.0 million. Once the valuation has been completed discussions will take place between the Trustee and the Group to agree a new deficit reduction plan.

Change	During the last year, changes in bond yields, equity prices, interest rates, mortality assumptions and inflation rates have all impacted on the Group's exposure in relation to its pension obligations.	

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Paragon Finance PLC, a company registered in England and Wales with registration no: 01917566, for the year ended 30 September 2016.

DIRECTORS

The directors who served during the year and subsequently were:

N S Terrington

J A Heron

R D Shelton

R J Woodman

K G Allen

P E Rowland

M S Hayes

AUDITOR

The directors have taken all reasonable steps to make themselves and the Company's auditor, KPMG LLP, aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the directors is aware, there is no relevant audit information of which the auditor is unaware.

A resolution for the re-appointment of KPMG LLP as the auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

INFORMATION PRESENTED IN OTHER SECTIONS

Certain information required to be included in a directors' report by the Companies Act 2006 and regulations made there under can be found in the other sections of the Annual Report, as described below. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 5 to the accounts.
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in the strategic report.
- Disclosure on any dividends paid during the year is included in the Strategic Report.

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

26 January 2017

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of their profit or loss for that period.

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

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

PSharp.

Pandora Sharp

Company Secretary

26 January 2017

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

We have audited the Financial Statements of Paragon Finance PLC for the year ended 30 September 2016 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of movements in equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

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

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements
In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

Andrew Walker (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH

26 January 2017

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £000	2015 £000
Interest receivable and similar income	6	33,907	33,707
Interest payable and similar charges	7	(30,197)	(31,797)
Net interest income		3,710	1,910
Other operating income	8	103,604	95,799
Total operating income		107,314	97,709
Operating expenses		(74,986)	(69,604)
Provisions for losses	11	577	(6,897)
		32,905	21,208
Fair value net loss	12	(1)	(2)
Operating profit, being profit on ordinary activities before taxation	13	32,904	21,207
Tax on profit on ordinary activities	14	(7,209)	(5,914)
Profit on ordinary activities after taxation	26	25,695	15,292

All activities derive from continuing operations.

Amounts shown above for 2015 have been restated for the change in accounting policy described in notes 2 and 3.

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £000	2015 £000
Profit for the year		25,695	15,292
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial loss on pension fund	28	(37,152)	(4,344)
Deferred tax on actuarial loss	15	6,846	890
Other comprehensive income for the year net of tax		(30,306)	(3,454)
Total comprehensive income for the year		(4,611)	11,838

BALANCE SHEET

30 SEPTEMBER 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Intangible assets	16	2,108		1,611	
Tangible assets	17	1,842		2,234	
Financial assets	18	5		13	
Investments – group companies	22	224,871		212,035	
			228,826		215,983
CURRENT ASSETS					
Debtors falling due within one year	23		289,581		262,068
			518,407		478,051
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called up share capital	25	53,447		53,447	
Profit and loss account	26	102,657		107,478	
			156,104		160,925
CREDITORS					
Amounts falling due within one year	27		303,859		295,571
RETIREMENT BENEFIT OBLIGATIONS	29		58,444		21,555
			518,407		478,051

These Financial Statements were approved by the Board of Directors on 26 January 2017.

Signed on behalf of the Board of Directors

K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2016

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Result for the year	-	25,695	25,695
Other comprehensive income	-	(30,306)	(30,306)
Total comprehensive income for the year	-	(4,611)	(4,611)
Transactions with owners			
Tax on share based remuneration (note 15)	-	(210)	(210)
Net movement in equity in the year	-	(4,821)	(4,821)
Opening equity	53,447	107,478	160,925
Closing equity	53,447	102,657	156,104

YEAR ENDED 30 SEPTEMBER 2015

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Result for the year	-	15,292	15,292
Other comprehensive income	-	(3,454)	(3,454)
Total comprehensive income for the year	-	11,838	11,838
Transactions with owners			
Tax on share based remuneration (note 15)	-	1,210	1,210
Net movement in equity in the year	-	13,048	13,048
Opening equity	53,447	94,430	147,877
Closing equity	53,447	107,478	160,925

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

1. GENERAL INFORMATION

Paragon Finance PLC ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 01917566. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

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

2. ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with applicable UK accounting standards. Disclosures have been made in accordance with Financial Reporting Standard 101 – 'Reduced Disclosure Framework' ('FRS 101').

As permitted by FRS 100 – 'Application of Financial Reporting Requirements' the Company has applied the measurement and recognition requirements of International Financial Reporting Standards as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of disclosure exemptions provided by FRS 101 has been taken.

On its transition to FRS 101 the Company has applied IFRS 1 whilst ensuring its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and performance of the Company is provided in note 3.

Accounting convention

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

Going concern

The Financial Statements have been prepared on a going concern basis. The directors have a reasonable expectation that the Company 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 Financial Statements.

Consolidated accounts

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

Operating leases

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

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 determined at the point of acquisition.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets

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

Depreciation

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

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

Loans to customers

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

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

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

The Company's policy is to hedge against any exposure to fixed rate loan assets (note 5).

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 (a 'loss event') 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 (net of sales costs) discounted at the original EIR.

Within its buy-to-let portfolio the Group utilises a receiver of rent process, whereby the receiver stands between the landlord and tenant and will determine an appropriate strategy for dealing with any delinquency. This strategy may involve the immediate sale of any underlying security or the short or long term letting of the property to cover arrears and principal shortfalls. Properties in receivership are either returned to their landlord owners or sold.

Loss events reflect both loans that display delinquency in contractual payments of principal or interest or, for buy-to-let loans in receivership but up to date at the balance sheet date, properties where the receiver adopts a sale strategy, where a shortfall may or may not arise.

In addition to loans where loss events are evident, loans are also 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. Collective impairment provisions are calculated for each key portfolio based on recent historical performance, with adjustments for expected changes in losses based on management's judgement.

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

Investments

The investment in the subsidiary companies is shown at cost less provision for impairment.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

Cash at bank

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

Current tax

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

Borrowings

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

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

Derivative financial instruments

Derivative instruments utilised by the Company comprise interest rate swaps. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Company in line with the Company's risk management policies (note 5).

The Company does not enter into speculative derivative contracts.

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

Hedging

For all hedges, the Company documents, at inception, the relationship between the hedging instruments and the hedged items, as well as its risk management strategy and objectives for undertaking the transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by 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) 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 profit and loss account at the same time as the hedged item affects the profit and loss account. Where a cash flow hedge relationship is terminated, or deemed ineffective, the amount taken to equity will remain there until the hedged transaction is recognised, or is no longer highly probable.

Amounts owed by or to group companies

The balances owed by or to other group companies are carried at the current amount outstanding less any provision.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

Retirement benefit obligations

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

Revenue

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

Fee and commission income

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

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.

Share based payments

In accordance with IFRS 2 – 'Share based payments' ('IFRS 2'), 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

Disclosures

In preparing these financial statements the Company has taken advantage of the exemptions from disclosure provided by FRS 101 in respect of:

- The requirement to produce a cash flow statement and related notes
- The requirement to provide comparative period reconciliations in respect of share capital and fixed assets
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management
- The effects of new, but not yet effective IFRSs
- Disclosures in respect of key management personnel
- Disclosures of transactions with a management entity which provides key management personnel services to the Company

As the consolidated financial statements of The Paragon Group of Companies PLC, the ultimate parent undertaking of the Company, include equivalent disclosures the Company has also taken advantage of these further exemptions provided by FRS 101:

- Certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company.
- Certain disclosures required by IFRS 13 – 'Fair Value Measurement'
- Certain disclosures required by IFRS 7 – 'Financial Instruments Disclosures'

The Company presently intends to continue to apply these exemptions in future periods.

NOTES TO THIE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

3. TRANSITION TO FRS 101

As stated in note 2 these are the first financial statements prepared by the Company in accordance with FRS 100 and FRS 101. The accounting policies used in drawing up the financial statements for the year ended 30 September 2016 are set out in note 2.

In preparing these accounts the Company has applied the transitional provisions set out in FRS 100 and therefore comparative information presented in these accounts is prepared on the new accounting basis.

The statement of comprehensive income, and movements in equity for the year ended 30 September 2015 and the balance sheet at that date presented in these accounts therefore differ from those previously presented under old UK GAAP.

This is a result of differences between the withdrawn UK Standards principally affecting the Company's accounting, FRS 17 – 'Retirement benefits' and FRS 20 - 'Share based payments' and their IFRS counterparts IAS 19 – 'Employee benefits' and IFRS 2 – 'share based payments'.

The reconciliations of equity at the transition date, 1 October 2014, and the most recent balance sheet, 30 September 2015, and of comprehensive income for the year ended 30 September 2015 on the old and new basis, which are required by paragraph 24 of IFRS 1, are set out below.

Reconciliation of equity

	30/09/2015 £000	01/10/2014 £000
Equity under previous UK GAAP	157,680	143,767
Tax on share based remuneration	3,245	4,110
Net movement in equity	3,245	4,110
Equity under FRS 101 (as adjusted)	160,925	147,877

Reconciliation of comprehensive income

	Equity under previous UK GAAP £000	Adjustment £000	Equity under FRS 101 (as adjusted) £000
Profit on ordinary activities after taxation	18,756	(3,464)	15,292
Actuarial (loss) on pension scheme	(6,091)	1,747	(4,344)
Tax thereon	1,248	(358)	890
Other comprehensive income	(4,843)	1,389	(3,454)
Total comprehensive income	13,913	(2,075)	11,838

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

4. CRITICAL ACCOUNTING ESTIMATES

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

Impairment losses on loans to customers

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

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

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

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

Effective interest rates

In order to determine the EIR applicable to loans and borrowings 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 EIR applied would therefore be compromised by any differences between actual repayment profiles and that predicted, which in turn would depend directly or indirectly on customer behaviour.

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 28. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

5. FINANCIAL RISK MANAGEMENT

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

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

Credit risk

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

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

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

The maximum credit risk at 30 September 2016 approximates to the carrying value of loans to customers (note 19) and subordinated loans (note 22). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios of other group companies.

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

Liquidity risk

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

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

Interest rate risk

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

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

Currency risk

The Company has no material exposure to foreign currency risk.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Use of derivative financial instruments

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

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken, and hence all of the Company's derivative financial instruments are for commercial hedging purposes. These are used to protect the Company from exposures principally arising from fixed rate lending or borrowing and borrowings denominated in foreign currencies. Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under IAS 39 either because natural accounting offsets are expected, or obtaining hedge accounting would be especially onerous.

Fair values of financial assets and financial liabilities

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a risk adjusted interest rate. The principal inputs to these valuation models are LIBOR benchmark interest rates for the currencies in which the instruments are denominated, sterling, euros and dollars. The cross currency basis swaps have a notional principal related to the outstanding currency borrowings and therefore the estimated rate of repayment of these notes also affects the valuation of the swaps. In order to determine the fair values the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counterparty. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors. Details of these assets are given in note 20.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £000	2015 £000
On loans to other group companies	32,682	33,092
On loan notes issued by related parties	1,224	605
Other	1	10
	33,907	33,707

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £000	2015 £000
On bank loans and overdrafts	18	55
On loans from other group companies	29,396	31,087
	29,414	31,142
Return on pension scheme liabilities	783	655
	30,197	31,797

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

8. OTHER OPERATING INCOME

	2016 £000	2015 £000
Loan account fee income	236	150
Insurance income	14	17
Administration fees	20,238	21,514
Deferred sale consideration	23,150	3,841
Costs recharged to other group companies	59,966	70,277
	103,604	95,799

Administration fees are in respect of income receivable from various special purpose vehicle companies within the group which own mortgage and loan assets administered by the Company. Further details are given in note 20.

9. DIRECTORS AND EMPLOYEES

a) Directors

Three of the directors during the period (2015: three) were also directors of the parent company, The Paragon Group of Companies PLC. Their remuneration from the Paragon Group is set out in the Directors' Remuneration Report of The Paragon Group of Companies PLC. No amounts in respect of their emoluments are included in the disclosures below.

	2016 £000	2015 £000
Directors' emoluments:		
Other emoluments	1,073	857
	1,073	857
Pension contributions paid in respect of directors	29	24
Emoluments of the highest paid director: Excluding pension contributions	342	353
Pension contributions	-	-
	342	353

Four of the directors during the year (2015: five) (three of whom are directors of the parent company (2015: three)) are members of the Paragon Group defined benefit pension scheme. At 30 September 2016 the accrued benefit under the pension scheme of the highest paid director was £73,040 (2015: £72,470). The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was three (2015: three). The number of the directors during the year in respect of whose service shares were received or receivable under the Group's long-term incentive schemes was seven (2015: eight) (three of whom are directors of the parent company (2015: three)). Four of these directors, including the highest paid director exercised awards during the year.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

9. DIRECTORS AND EMPLOYEES (CONTINUED)

b) Employees

The average number of persons (including directors) employed by the Company during the year was 929 (2015: 995). The costs incurred during the year in respect of these employees were:

	2016	2016	2015	2015
	£000	£000	£000	£000
Share based remuneration	4,050		4,363	
Other wages and salaries	33,081		32,265	
Total wages and salaries		37,131		36,628
National insurance on share based remuneration	(132)		1,083	
Other social security costs	2,914		2,718	
Total social security costs		2,782		3,801
Defined benefit pension cost	1,666		1,697	
Other pension costs	475		459	
Total pension costs		2,141		2,156
Total staff costs		42,054		42,585

Details of the pension schemes operated by the Company are given in note 28.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

10. SHARE BASED REMUNERATION

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

The effect of the share based payment arrangements on the Company's profit is shown in note 9.

(a) Share option schemes

The Group 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 2016 and the year ended 30 September 2015 is shown below.

	2016 Number	2016 Weighted average exercise price p	2015 Number	2015 Weighted average exercise price p
Options outstanding				
£1 ordinary shares				
At 1 October 2015	2,172,357	305.19	2,175,816	230.33
Granted in the year	2,001,234	249.44	1,274,203	345.68
In respect of employees transferring in	5,860	307.13	-	-
In respect of employees transferring out	(14,197)	291.59	(13,542)	276.32
Exercised in the year	(40,427)	107.48	(943,815)	137.09
Lapsed during the year	(1,282,449)	334.87	(320,305)	351.06
At 30 September 2016	2,842,378	255.33	2,172,357	305.19
Options exercisable	-	-	48,972	100.32

The weighted average remaining contractual life of options outstanding at 30 September 2016 was 30.22 months (2015: 30.8 months). The weighted average market price at exercise for share options exercised in the year was 334.01p (2015: 423.34p).

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

10. SHARE BASED REMUNERATION (CONTINUED)

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

Grant date	Period exercisable	Exercise price	Number 2016	Number 2015
Sharesave Schemes				
20/07/2010	01/09/2015 to 01/03/2016	100.32p	-	33,572
20/12/2011	01/02/2015 to 01/08/2015	142.56p	-	-
20/12/2011	01/02/2017 to 01/08/2017	142.56p	138,747	138,747
23/12/2013	01/02/2017 to 01/08/2017	276.32p	456,671	533,776
23/12/2013	01/02/2019 to 01/08/2019	276.32p	141,768	200,388
11/06/2015	01/08/2018 to 01/02/2019	345.68p	149,541	1,081,476
11/06/2015	01/08/2020 to 01/02/2021	345.68p	11,276	184,398
20/06/2016	01/08/2019 to 01/02/2020	249.44p	1,542,777	-
20/06/2016	01/08/2021 to 01/02/2022	249.44p	401,598	-
			2,842,378	2,172,357
			2,842,378	2,172,357

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 2016 and the year ended 30 September 2015, which were all made under the Sharesave scheme, are shown below.

Grant date	**20/06/16**	**20/06/16**	**11/06/15**	**11/06/15**
Number of awards granted	1,592,420	408,814	1,089,805	184,398
Market price at date of grant	297.10p	297.10p	439.00p	439.00p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	0.50	0.52	1.12	1.10
Inputs to valuation model				
Expected volatility	26.62%	29.47%	31.99%	31.99%
Expected life at grant date (years)	3.46	5.45	3.43	5.44
Risk-free interest rate	0.84%	0.98%	1.25%	1.25%
Expected dividend yield	3.94%	3.94%	2.19%	2.19%
Expected annual departures	5.00%	5.00%	5.00%	5.00%

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the six years preceding the grant date.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

10. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan

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

The conditional entitlements outstanding under this scheme at 30 September 2016 and 30 September 2015 were:

Grant date	Period exercisable	Number 2016	Number 2015
09/01/2007	09/01/2010 to 08/01/2017 †	569	880
28/03/2007	28/03/2010 to 27/03/2017 †	-	1,105
14/06/2007	14/06/2010 to 13/06/2017 †	743	2,023
26/09/2007	26/09/2010 to 25/09/2017 †	-	3,717
26/11/2007	26/11/2010 to 25/11/2017 †	3,287	5,573
21/05/2009	21/05/2012 to 20/05/2019 †	400,714	400,714
04/01/2010	04/01/2013 to 03/01/2020 †	79,334	84,817
17/12/2010	17/12/2013 to 16/12/2020 †	292,338	292,338
21/12/2011	21/12/2014 to 20/12/2021 †	624,259	658,103
28/02/2013	28/02/2016 to 27/02/2023 ‡	756,638	1,274,407
10/12/2013	10/12/2016 to 09/12/2023 ‡	1,133,944	1,136,679
18/12/2014	18/12/2017 to 17/12/2024 ‡	936,171	940,606
22/12/2015	22/12/2018 to 21/12/2025 ‡	1,145,626	-
		5,373,623	4,800,962

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

‡ 50% of these awards are subject to a Total Shareholder Return ('TSR') test and 50% are subject to an Earnings Per Share ('EPS') test. The TSR test compares the rank of the parent company's TSR against a comparator group of companies comprising the constituents of the FTSE-250. 25% of the TSR tested awards vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

The EPS test provides that 25% of EPS tested awards will vest where EPS growth of the Group is equal to the increase in the retail price index plus 3%, increasing on a straight line basis to full vesting for EPS growth equal to the increase in the retail price index plus 7% or more. In each case the testing period is the three financial years commencing with the year of grant.

The number of share options outstanding and the exercise price under each of the arrangements shown above which were outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

10. SHARE BASED REMUNERATION (CONTINUED)

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2016 and the year ended 30 September 2015 are shown below:

Grant date	**22/12/15**	**18/12/14**
Number of awards granted	1,198,765	948,805
Market price at date of grant	362.70p	409.60p
Fair value per share at date of grant	204.46p	317.76p
Inputs to valuation model		
Expected volatility	24.99%	26.62%
Risk-free interest rate	1.21%	1.18%
Expected dividend yield	3.03%	2.20%

For all of the above grants the contractual life and expected life at grant date is three years and no departures are expected.

For awards granted before 18 July 2008 the expected volatility of the share price used in determining the fair value was based on the annualised standard deviation of daily changes in price over the previous year from the grant date. The expected volatility for awards granted between this date and 30 September 2008 is calculated using the same method but using daily changes in price over the six years preceding the grant date. The expected volatility for awards granted after this date is calculated using the same method but using daily changes in price over the three years preceding the grant date.

(c) Deferred Bonus awards

Awards under these plans comprise a right to acquire ordinary shares in the parent company for nil or nominal payment and will vest on the third anniversary of their granting.

The conditional entitlements outstanding under these plans at 30 September 2016 and 30 September 2015 were:

Grant date	Period exercisable	Number 2016	Number 2015
23/11/2012	01/10/2015 to 22/11/2016	-	259,537
10/12/2013	10/12/2016 to 09/12/2023	174,519	174,519
18/12/2014	18/12/2017 to 17/12/2024	113,202	113,202
22/12/2015	22/12/2018 to 21/12/2025	134,524	-
		422,245	547,258

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

10. SHARE BASED REMUNERATION (CONTINUED)

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2016 and the year ended 30 September 2015 are shown below.

Grant date	**22/12/15**	**18/12/14**
Number of awards granted	134,524	113,202
Market price at date of grant	362.7p	409.6p
Fair value per share at date of grant	362.7p	409.6p
Inputs to valuation model		
Risk-free interest rate	1.21%	1.18%

(d) Matching Share Plan

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

The conditional entitlements outstanding under this scheme at 30 September 2016 and at 30 September 2015 were:

Grant Date	Transfer date	Number 2016	Number 2015
02/01/2008	02/01/2011 to 02/01/2018	9,969	9,969
		9,969	9,969

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 2016 or the year ended 30 September 2015.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

11. PROVISIONS FOR LOSSES

	2016 £000	2015 £000
(Release of provision) / impairment of financial assets		
First mortgage loans	(7)	(10)
Investments in group companies (note 22)	(1,538)	2,569
Loans to group companies	425	2,268
Loans to related parties	543	2,070
	(577)	6,897

12. FAIR VALUE NET LOSS

The fair value net loss of £1,000 (2015: £2,000) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The loss is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

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

	2016 £000	2015 £000
Operating profit is after charging:		
Depreciation	1,786	2,051
Auditor remuneration - audit services	51	53
Loss on disposal of fixed assets	24	-
Hire of plant and machinery	453	422
Hire of motor vehicles	341	320
Property rents	1,537	1,705

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

14. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2016 £000	2015 £000
Current tax:		
Corporation tax	7,390	5,861
Adjustment in respect of prior periods	149	(41)
Total current tax	7,539	5,820
Deferred tax (note 24):		
Origination and reversal of timing differences	(368)	87
Recognition of previously unrecognised tax losses	(138)	9
Rate change	176	(2)
Total deferred tax	(330)	94
	7,209	5,914

b) Factors affecting the tax charge for the year

	2016 £000	2015 £000
Profit before tax	32,904	21,207
UK corporation tax at 20% (2015: 20.5%) based on the profit for the year	6,581	4,347
Effects of:		
Tax exempt revenues	(288)	1,470
Accelerated capital allowances	110	(19)
Tax on share based remuneration	619	150
Prior year charge / credit	11	(32)
Change in rate of taxation on deferred tax balances	176	(2)
	7,209	5,914

During the year ended 30 September 2013 the UK Government enacted provisions reducing the rate of corporation tax from 21.0% to 20.0% from 1 April 2015.

During the year ended 30 September 2015 the Government announced provisions further reducing the rate of corporation tax to 19.0% with effect from 1 April 2017 and to 18.0% from 1 April 2020 which were substantially enacted during the year. The tax rate applying from 1 April 2020 was further reduced to 17% during the year.

Therefore, the standard rate of corporation tax applicable to the Company for the year ended 30 September 2016 was 20.0%, the rate in the year ended 30 September 2017 is expected to be 19.5%, the rate in the years ending 30 September 2018 and 30 September 2019 are expected to be 19.0%, the rate in the year ending 30 September 2020 is expected to be 18.0% and the rate in subsequent years is expected to be 17.0%. The expected impact on deferred tax balances of the changes to 19.0% and 17.0% was accounted for in the year ended 30 September 2016.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

15. TAX CREDITED TO EQUITY

	2016 £000	2015 £000
On actuarial loss on pension scheme (note 29)	6,846	890
Tax on items recognised in comprehensive income	6,846	890
On share based payment (note 26)	(210)	1,210
Total tax credited to equity	6,636	2,100
Of which		
Current tax	246	2,110
Deferred tax (note 24)	6,390	(10)
	6,636	2,100

16. INTANGIBLE ASSETS

	Computer software £000	Total £000
Cost		
At 1 October 2014	4,324	4,324
Additions	1,251	1,251
Disposals	(1)	(1)
At 30 September 2015	5,574	5,574
Additions	1,361	1,361
Disposals	-	-
At 30 September 2016	6,935	6,935
Accumulated amortisation		
At 1 October 2014	3,028	3,028
Charge for the year	886	886
On disposals	(1)	(1)
At 30 September 2015	3,913	3,913
Charge for the year	914	914
On disposals	-	-
At 30 September 2016	4,827	4,827
Net book value		
At 30 September 2016	2,108	2,108
At 30 September 2015	1,661	1,661

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

17. TANGIBLE FIXED ASSETS

	Short leasehold premises £000	Plant and machinery £000	Total £000
Cost			
At 1 October 2014	2,400	5,795	8,195
Additions	8	675	683
Disposals	-	(12)	(12)
At 30 September 2015	2,408	6,458	8,866
Additions	200	280	480
Disposals	(394)	(440)	(834)
At 30 September 2016	2,214	6,298	8,512
Accumulated depreciation			
At 1 October 2014	1,262	4,177	5,439
Charge for the year	276	888	1,164
On disposals	-	(11)	(11)
At 30 September 2015	1,538	5,054	6,592
Charge for the year	258	613	871
On disposals	(393)	(400)	(793)
At 30 September 2016	1,403	5,267	6,670
Net book value			
At 30 September 2016	811	1,031	1,842
At 30 September 2015	870	1,404	2,274

18. FINANCIAL ASSETS

	2016 £000	2015 £000
Loans to customers (note 19)	-	-
Derivative financial assets (note 20)	5	13
	5	13

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

19. LOANS TO CUSTOMERS

Loans to customers at 30 September 2016 and 30 September 2015, which are all denominated and payable in sterling, are first mortgages which are secured on residential property within the United Kingdom and which are categorised as loans and receivables as defined by IAS 39.

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

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

	2016 £000	2015 £000
Balance at 1 October 2015	-	-
Other movements	26	(26)
Repayments and redemptions	(26)	26
Balance at 30 September 2016	-	-

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

20. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

All of the Company's financial derivatives are held for economic hedging purposes, although not all may be designated for hedge accounting in accordance with the provisions of IAS 39. The analysis of the derivatives is shown below.

	2016 Notional amount £000	2016 Assets £000	2016 Liabilities £000	2015 Notional amount £000	2015 Assets £000	2015 Liabilities £000
Other derivatives						
Interest rate swaps	1,124	5	-	1,543	13	-
Total recognised derivative assets	1,124	5	-	1,543	13	-

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

21. SECURITISATIONS

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

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

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

22. INVESTMENTS - GROUP COMPANIES

	2016 £000	2015 £000
Valuation		
At 1 October 2015	212,035	176,889
Investment during the year	19,352	45,520
Provisions movement (note 11)	1,538	(2,569)
Repayment of loans	(8,054)	(7,805)
At 30 September 2016	224,871	212,035

The investments are loans to the Group companies which are not subsidiaries of the Company. The investments include subordinated loans amounting to £180,813,000 (2015: £176,730,000 and investments in Asset Class Notes amounting to £44,058,000 (2015: £35,305,000).

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

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

23. DEBTORS

	2016 £000	2015 £000
Amounts falling due within one year:		
Amounts due from group companies	253,839	227,383
Corporation tax	4,126	7,137
Deferred tax (note 24)	14,459	7,739
Other debtors	13,045	14,509
Prepayments and accrued income	4,112	5,300
	289,581	262,068

Included in the amount due from group companies is £251,583,000 (2015: £225,351,000) which is interest bearing.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

24. DEFERRED TAX

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

	2016 £000	2015 £000
Balance at 1 October 2015	7,739	7,843
Credit / (charge) to reserves (note 15)	6,390	(10)
Profit and loss (credit) / charge (note 14)	368	(87)
Prior year profit and loss (credit) / charge (note 14)	138	(9)
Rate change (note 14)	(176)	2
Balance at 30 September 2016	14,459	7,739

The net deferred tax asset recognised is analysed as follows:

	2016 £000	2015 £000
Accelerated tax depreciation	348	129
Retirement benefit obligations	11,104	4,311
Impairment and other provisions	3,007	3,299
Net deferred tax asset	14,459	7,739

25. CALLED UP SHARE CAPITAL

	2016 £000	2015 £000
Allotted:		
71,262,521 ordinary shares of 75p each	53,447	53,447

26. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2014	94,430
Profit for the financial year	15,292
Actuarial loss on pension fund net of tax (note 28)	(3,454)
Tax on share based remuneration (note 15)	1,210
At 30 September 2015	107,478
Profit for the financial year	25,695
Actuarial loss on pension fund net of tax (note 28)	(30,306)
Tax on share based remuneration (note 15)	(210)
At 30 September 2016	102,657

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

27. CREDITORS

	2016 £000	2015 £000
Amounts falling due within one year:		
Bank loan and overdrafts	468	426
Amounts due to parent undertaking	122,922	58,922
Amounts due to group companies	158,914	215,891
Other creditors	7,352	6,946
Conduct (note 29)	1,939	-
Accruals and deferred income	12,264	13,386
	303,859	295,571

The amounts due to parent undertaking is interest bearing and included in the amount due to group companies is £144,093,000 (2015: £201,071,000) which is interest bearing.

28. CONDUCT

Over recent years, in common with other financial services firms, the Group has followed guidance issued by the FCA in respect of redress to customers in respect of the misselling of payment protection insurance ('PPI'), though the sums involved have not been material.

In November 2014 the UK Supreme Court handed down its decision in Plevin v Paragon Personal Finance Limited ('Plevin'), which addressed potential liability in respect of PPI claims under section 140 of the Consumer Credit Act 1974, where commission charged to the customer was particularly high. On 2 October 2015 the FCA published a statement outlining proposed rules addressing the handling of PPI cases in the light of the Plevin decision and including a deadline beyond which no further new PPI claims would be required to be considered.

A balance of £1.9m is recognised in creditors (note 27) in respect of such claims and other section 140 related issues.

The Group has reviewed its current exposure to such matters in the light of the Court's judgement in Plevin and the FCA proposals and its current expectation is that it will suffer no material additional costs from such claims. However, this assessment is based on its current interpretation of both the Plevin judgement and the draft rules, which may be revised before they are expected to be finalised and brought into force. Interpretations may also develop as both the judgement and the rules are implemented. Therefore it is possible that the maximum possible liability may be greater. The FCA is expected to make an announcement on when this might be expected in the first quarter of 2017.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

29. RETIREMENT BENEFIT OBLIGATIONS

(a) Defined benefit plan - Description

The Group operates a funded defined benefit pension scheme in the UK (the 'Plan'). The Plan assets are held in a separate fund, administered by a corporate trustee, to meet long-term pension liabilities to past and present employees. The Trustee of the Plan is required by law to act in the best interests of the Plan's beneficiaries and is responsible for the investment policy adopted in respect of the Plan's assets. The appointment of directors to the Trustee is determined by the Plan's trust documentation. The Group has a policy that one third of all directors of the Trustee should be nominated by active and pensioner members of the Plan.

Employees who are members of the Plan are entitled to receive a pension of 1/60 of their final basic annual salary for every year of eligible service (to a maximum of 2/3). Dependants of members of the Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service.

The principal actuarial risks to which the Plan is exposed are:

- **Investment risk** – The risk that income is generated on the Plan's investments at a rate lower than the rate at which the defined benefit liability is calculated, which would cause an increased deficit in the Plan. The Trustee keeps the allocation of the Plan's investments under review to manage this risk on a long term basis.
- **Interest risk** – A decrease in bond yields will reduce the discount rate used in valuing the deficit and hence increase the Plan liability.
- **Inflation risk** – A rise in inflation will increase the benefits payable to Plan members, which would increase the Plan liability.
- Longevity risk – The value of the Plan deficit is calculated by reference to the best estimate of the mortality rate among Plan members both during and after employment. An increase in the life expectancy of the members would increase the deficit in the Plan.
- **Salary risk** – The valuation of the Plan assumes a level of future salary increases based on a premium over the expected rate of inflation. Should the salaries of Plan members increase at a higher rate then the deficit will be higher.

The risks relating to death in service payments are insured with an external insurance company.

As a result of the Plan having been closed to new entrants since February 2002, the service cost as a percentage of pensionable salaries is expected to increase as the average age of active members rises over time. However the membership is expected to reduce so that the service cost in monetary terms will gradually reduce.

The most recent full actuarial valuation of the Plan's liabilities, obtained by the Trustee, was carried out at 31 March 2013, by Mercer, an independent actuary. This showed that the value of the Plan's liabilities on a buy-out basis in accordance with section 224 of the Pensions Act 2004 was £144.5m, with a shortfall against the assets of £67.2m. A further actuarial valuation, as at 31 March 2016 is currently in progress.

Following the 2013 actuarial valuation, the Trustee put in place a recovery plan. The Trustee's recovery plan aims to meet the statutory funding objective within six years and five months from the date of valuation, that is by 31 August 2019.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

29. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Defined benefit plan – Financial impact

For accounting purposes the valuation at 31 March 2013 was updated to 30 September 2016 in accordance with the requirements of IAS 19 (revised) by Mercer.

The major categories of assets in the Plan at 30 September 2016 and 30 September 2015 and their fair values were:

	2016 £000	**2015** £000
Cash	9,673	360
Equity instruments	55,959	56,344
Debt instruments	29,521	25,706
Real estate	8,927	8,670
Total fair value of Plan assets	104,080	91,080
Present value of Plan liabilities	(162,524)	(112,635)
(Deficit) in the Plan	(58,444)	(21,555)

At 30 September 2016 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:

	2016 £000	**2015** £000
At 1 October 2015	91,080	88,666
Interest on Plan assets	3,585	3,647
Cash flows		
Contributions by the Group	3,171	3,190
Contributions by Plan members	245	247
Benefits paid	(1,276)	(2,168)
Administration expenses paid	(459)	(702)
Remeasurement gain / (loss)		
Return on Plan assets (excluding amounts included in interest)	7,734	(1,800)
At 30 September 2016	104,080	91,080

The actual return on scheme assets in the year ended 30 September 2016 was £11,319,000 (2015: £1,847,000)

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YEAR ENDED 30 SEPTEMBER 2016

29. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2016 £000	2015 £000
At 1 October 2015	112,635	106,013
Current service cost	1,666	1,697
Funding cost	4,368	4,302
Cash flows		
Contributions by scheme members	245	247
Benefits paid	(1,276)	(2,168)
Remeasurement loss		
Arising from demographic assumptions	-	-
Arising from financial assumptions	44,886	2,544
Arising from experience adjustments	-	-
At 30 September 2016	162,524	112,635

The liabilities of the Plan are measured by discounting the best estimate of future cash flows to be paid out by the Plan using the Projected Unit method. This amount is reflected in the liability in the balance sheet. The Projected Unit method is an accrued benefits valuation method in which the Plan liabilities are calculated based on service up until the valuation date allowing for future salary growth until the date of retirement, withdrawal or death, as appropriate. The future service rate is then calculated as the contribution rate required to fund the service accruing over the next year again allowing for future salary growth. The major weighted average assumptions used by the actuary were (in nominal terms):

	2016	2015
In determining net pension cost for the year		
Discount rate	3.90%	4.10%
Rate of compensation increase	3.55%	3.65%
Rate of price inflation	3.05%	3.15%
Rate of increase of pensions	3.00%	3.05%
In determining benefit obligations		
Discount rate	2.40%	3.90%
Rate of compensation increase	3.50%	3.55%
Rate of price inflation	3.00%	3.05%
Rate of increase of pensions	2.95%	3.00%
Further life expectancy at age 60		
Male member aged 60	29	29
Female member aged 60	31	31
Male member aged 40	32	32
Female member aged 40	34	34

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

29. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2016 £000	2015 £000
Current service cost	1,666	1,697
Administration expenses	459	702
Included within operating expenses	2,125	2,399
Funding cost of scheme liability	4,368	4,302
Interest on Plan assets	(3,585)	(3,647)
Net interest expense	783	655
Components of defined benefit costs recognised in profit and loss	2,908	3,054

The amounts recognised in the statement of comprehensive income in respect of the Plan are:

	2016 £000	2015 £000
Return on Plan assets (excluding amounts included in interest)	7,734	(1,800)
Actuarial (losses) / gains		
Arising from demographic assumptions	-	-
Arising from financial assumptions	(44,886)	(2,544)
Arising from experience adjustments	-	-
Total actuarial loss	(37,152)	(4,344)
Tax credit thereon (note 15)	6,846	890
Net actuarial loss	(30,306)	(3,454)

(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 2016, calculating the obligation on the same basis as used in determining the IAS 19 value, is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities
Discount rate	0.1% p.a.	2.3% decrease
Rate of inflation *	0.1% p.a.	2.3% increase
Rate of salary growth	0.1% p.a.	0.4% increase
Rates of mortality	1 year of life expectancy	2.8% increase

* maintaining a 0.5% real increase in salary growth

29. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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 2017 are 62% growth assets (primarily equities), 30% bonds and 8% real estate.

The rate of employee contributions to the Plan is 5.0% of pensionable salaries. Before 8 October 2013 the agreed rate of employer contributions was 26.6% of gross salaries for participating employees with an additional contribution of £1.5m per annum paid by monthly instalments. After 8 October 2013, following the finalisation of the March 2013 valuation, employer contributions rose to 27.0% of gross salaries for participating employees, the £1.5m per annum contribution remained in place and a further additional contribution of £0.4m per annum to cover administration and life cover was agreed.

The present best estimate of the contributions to be made to the Plan by the Group in the year ending 30 September 2016 is £3.2m. This is based on the current rates of contribution and may change following the completion of the ongoing 2016 triennial valuation.

The average duration of the benefit obligations in the Plan at the year end are shown in the table below:

	2016 Years	2015 Years
Category of member		
Active members	26	24
Deferred pensioners	26	25
Current pensioners	16	15
All members	24	23

(d) Defined contribution arrangements

The Company sponsors a defined contribution (Stakeholder) pension scheme, open to all employees who are not members of the Plan. The Company successfully completed the auto-enrolment process mandated by the UK Government in November 2013, using this scheme.

The assets of these schemes are not Company assets and are held separately from those of the Company, under the control of independent trustees. Contributions made by the Company to these schemes in the year ended 30 September 2016, which represent the total cost charged against income, were £0.5m (2015: £0.5m) (note 9).

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YEAR ENDED 30 SEPTEMBER 2016

30. FINANCIAL COMMITMENTS

At 30 September 2016 and 30 September 2015 the Company had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

	2016 £000	2015 £000
Plant and machinery		
Within one year	338	462
Between two and five years	131	378
	469	840
Land and buildings		
Within one year	1,292	1,530
Between two and five years	2,050	3,057
Over five years	-	186
	3,342	4,773
	3,811	5,613

Operating lease payments represent rents payable by the Company in respect of certain of its office premises and lease payments on company vehicles and equipment. The average term of the current building leases from inception or acquisition is 5 years (2015: 11 years) with rents subject to review every five years, while the average term of the vehicle leases and office equipment is 3 years (2015: 3 years).

31. RELATED PARTY TRANSACTIONS

On 27 May 2010, Mr A K Fletcher, an independent non-executive director of the Group, was appointed as a trustee of the Group Pension Plan, and during the first quarter of 2013 became a director of its Corporate Trustee when that was put in place. In respect of this appointment he was paid £10,000 (2015: £10,000) in the year ended 30 September 2016 by the Company, the sponsoring company of the Plan.

The Company has identified the following transactions which are required to be disclosed under the terms of IAS 24 - 'Related Party Disclosures' ('IAS 24').

Transactions with Arianty Holdings Limited ('AH')

At the balance sheet date the Company was owed £154,000 (2015: £137,000) by AH, a company under common control as defined by IAS 24, in relation to payments made on behalf of AH, which is included in other debtors.

Transactions with Arianty Services Limited ('AS')

At the balance sheet the Company was owed £23,000 (2015: £23,000) by AS, a company under common control as defined by IAS 24, in relation to payments made on behalf of AS, which is included in other debtors.

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

At the balance sheet date the Company was owed £113,000 (2015: £141,000) by FF5, a company under common control as defined by IAS 24, in relation to payments made on behalf of FF5, which is included in other debtors.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

31. RELATED PARTY TRANSACTIONS (CONTINUED)

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

At the balance sheet date the Company owed £3,014,000 (2015: £1,823,000) to PM18, a company under common control as defined by IAS 24, in relation to payments made by PM18 on its behalf, which is included in other creditors.

At the balance sheet date the Company held the subordinated loan for PM18 of £8,190,000 (2015: £8,190,000), which is included in investments. During the year the Company earned £375,000 (2015: £373,000) in subordinated loan interest. At the balance sheet date PM18 owed £16,000 (2015: £16,000) in relation to subordinated loan interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM18 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £57,000 (2015: £402,000), which is included in other creditors. During the year the Company earned £41,000 (2015: £90,000) in Fee letter interest and at the balance sheet date PM18 owed £1,000 (2015: £3,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

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

At the balance sheet date the Company was owed £920,000 (2015: £2,268,000) by PM19, a company under common control as defined by IAS 24, in relation to payments made on behalf of PM19, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM19 of £10,500,000 (2015: £10,500,000) and Class D notes issued by PM19 of £7,000,000 (2015: £7,000,000), which is included in investments. During the period the Company earned £480,000 (2015: £479,000) in subordinated loan interest and £176,000 (2015: £176,000) in Class D note interest. At the balance sheet date PM19 owed £59,000 (2015: £59,000) in relation to subordinated loan interest and £21,000 (2015: £22,000) relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM19 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £295,000 (2015: £737,000), which is included in other creditors. During the year the Company earned £66,000 (2015: £116,000) in Fee letter interest and at the balance sheet date PM19 owed £5,000 (2015: £11,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

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

At the balance sheet date the Company was owed £430,000 (2015: £1,324,000) by PM20, a company under common control as defined by IAS 24, in relation to payments made on behalf of PM20, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM20 of £10,500,000 (2015: £10,500,000) and Class D notes issued by PM20 of £7,000,000 (2015: £7,000,000), which is included in investments. During the year the Company earned £480,000 (2015: £484,000) in subordinated loan interest and £134,000 (2015: £134,000) in Class D note interest. At the balance sheet date PM20 owed £59,000 (2015: £59,000) in relation to subordinated loan interest and £16,000 (2015: £17,000) relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM20 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £644,000 (2015: £980,000), which is included in other creditors. During the year the Company earned £78,000 (2015: £120,000) in Fee letter interest and at the balance sheet date PM20 owed £8,000 (2015: £11,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

31. RELATED PARTY TRANSACTIONS (CONTINUED)

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

At the balance sheet date the Company was owed £1,083,000 (2015: £1,807,000) by PM21, a company under common control as defined by IAS 24, in relation to payments made on behalf of PM21, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM21 of £6,250,000 (2015: £6,250,000) and Class D notes issued by PM21 of £6,300,000 (2015: £6,300,000), which is included in investments. During the year the Company earned £287,000 (2015: £264,000) in subordinated loan interest and £169,000 (2015: £149,000) in Class D note interest. At the balance sheet date PM21 owed £12,000 (2015: £13,000) in relation to subordinated loan interest and £7,000 (2015: £7,000) relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM21 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £540,000 (2015: £780,000), which is included in other creditors. During the year the Company earned £84,000 (2015: £103,000) in Fee letter interest and at the balance sheet date PM21 owed £3,000 (2015: £4,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

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

At the balance sheet date the Company was owed £1,540,000 (2015: £2,401,000) by PM22, a company under common control as defined by IAS 24, in relation to payments made on behalf of PM22, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM22 of £7,502,000 (2015: £7,502,000) and Class D notes issued by PM22 of £7,500,000 (2015: £7,500,000), which is included in investments. During the year the Company earned £344,000 (2015: £192,000) in subordinated loan interest and £194,000 (2015: £100,000) in Class D note interest. At the balance sheet date PM22 owed £14,000 (2015: £15,000) in relation to subordinated loan interest and £8,000 (2015: £9,000) relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM22 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £776,000 (2015: £1,059,000), which is included in other creditors. During the year the Company earned £111,000 (2015: £69,000) in Fee letter interest and at the balance sheet date PM22 owed £4,000 (2015: £5,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

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

At the balance sheet date the Company was owed £2,271,000 (2015: £3,042,000) by PM23, a company under common control as defined by IAS 24, in relation to payments made on behalf of PM23, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM23 of £7,501,000 (2015: £8,561,000) and Class D notes issued by PM23 of £7,505,000 (2015: £7,505,000), which is included in investments. During the year the Company earned £352,000 (2015: £74,000) in subordinated loan interest and £235,000 (2015: £45,000) in Class D note interest. At the balance sheet date PM23 owed £73,000 (2015: £74,000) in relation to subordinated loan interest and £49,000 (2015: £45,000) relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM23 which is repaid over a four year period. At the balance sheet date the outstanding Fee Letter was £877,000 (2015: £1,154,000), which is included in other creditors. During the year the Company earned £118,000 (2015: £26,000) in Fee letter interest and at the balance sheet date PM23 owed £21,000 (2015: £26,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with Paragon Mortgages (No. 24) PLC ('PM24')

At the balance sheet date the Company was owed £3,179,000 by PM24, a company under common control as defined by IAS 24, in relation to payments made on behalf of PM24, which is included in other debtors.

At the balance sheet date the Company held the subordinated loan for PM24 of £9,606,000 and Class D notes issued by PM24 of £8,753,000, which is included in investments. During the period the Company earned £119,000 in subordinated loan interest and £316,000 in Class D note interest. At the balance sheet date PM24 owed £93,000 in relation to subordinated loan interest and £76,000 relating to Class D note interest, which are included in prepayments and accrued income.

The Company is the Fee Letter provider to PM24 which is repaid over a four-year period. At the balance sheet date the outstanding Fee Letter was £1,110,000, which is included in other creditors. During the year the Company earned £119,000 in Fee letter interest and at the balance sheet date PM24 owed £26,000 in relation to Fee Letter interest, which is included in prepayments and accrued income.

Transactions with Paragon Fifth Funding Limited ('P5F')

At the balance sheet date the Company was owed £220,000 (2015: £1,105,000) by P5F, a company under common control as defined by IAS 24, in relation to payments made on behalf of P5F, which is included in other debtors.

Transactions with Paragon Sixth Funding Limited ('P6F')

At the balance sheet date the Company was owed £17,000 (2015: £81,000) by P6F, a company under common control as defined by IAS 24, in relation to payments made on behalf of P6F, which is included in other debtors.

32. ULTIMATE PARENT COMPANY

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

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