2017 HALF-YEAR FINANCIAL REPORT

THE PARAGON GROUP OF COMPANIES PLC

paragon

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

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

The Group is also one of the UK's largest loan portfolio purchasers through Idem Capital, where it purchases, co-manages and services secured and unsecured consumer loan portfolios.

CONTENTS

CAUTIONARY STATEMENT

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

FINANCIAL HIGHLIGHTS

" I am delighted to report another strong performance for the period to March 2017, with Paragon delivering improving earnings, dividends and RoTE, the latter progressing towards our medium term target of 15%. Importantly this has all been achieved whilst continuing the process of strategically repositioning the Group as a more broadly based specialist banking business, benefitting from the structural changes emerging in the UK retail banking sector.

The Group has moved a long way in a relatively short period. The Bank is now delivering strong profits, the vast majority of the Group's new funding requirements and represents the foundation for growth going forward.

There has also been excellent progress in the Group's various lending activities with clear evidence emerging of the structural shift in the UK banking markets towards specialist lenders, whose strength and capabilities are built on a greater understanding of the markets and customers they serve, delivering more tailored products and supported by superior technology. The Group's buy-to-let pipeline has more than doubled across the period and points to lending volumes for the full year exceeding our original expectations. We are well positioned to exploit the opportunities that will emerge from the additional PRA underwriting rules due later this year. Whilst the buy-to-let market overall is forecast to be subdued, we are confident of growing our market share. Equally in the Group's other lending areas, particularly Asset Finance, strong growth has been achieved with further growth expected. We have also extended our range of products supporting wider areas of the mortgage, consumer and SME markets, whilst maintaining our long established and disciplined credit standards.

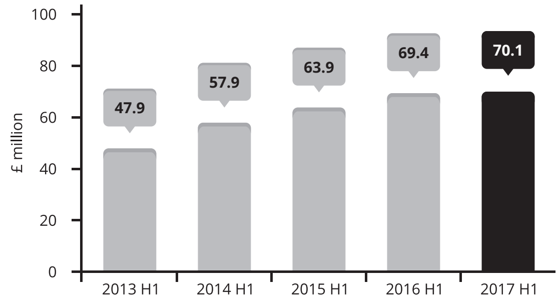
Although the current environment is benign, economic and political uncertainties do exist. Paragon's strategic progress in the growing specialist lending markets is being supported by a strong capital base, with a CET1 ratio of 15.9%, increasingly deep and diversified funding sources, an exemplary credit performance and through-the-cycle experience. We therefore approach the period ahead with confidence and optimism in being able to support customers with high service standards and deliver progressively improving returns to shareholders. "

Nigel S Terrington
Chief Executive

Underlying profits

£70.1 million

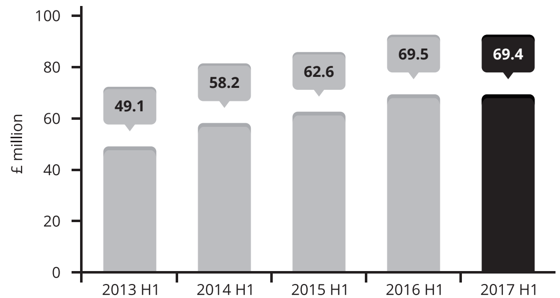
1.0% higher, compared with £69.4 million in H1 2016



Statutory profits

£69.4 million

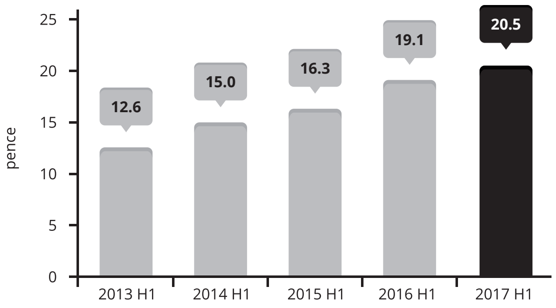
0.1% lower, compared with £69.5 million in H1 2016



Basic earnings per share

20.5 pence

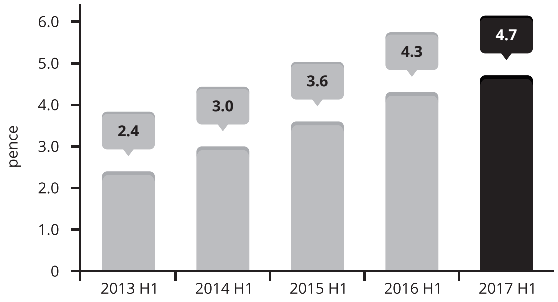
7.3% higher, compared with 19.1 pence in H1 2016



Dividend per share

4.7 pence

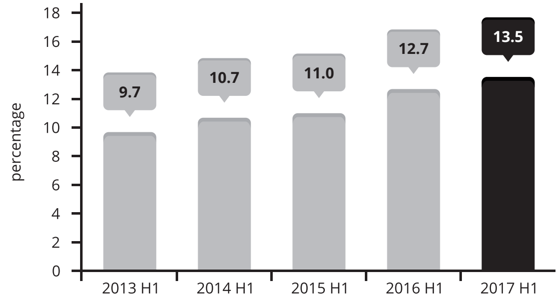
9.3% increase, compared with 4.3 pence in H1 2016



Return on tangible equity

13.5%

compared with 12.7% in H1 2016

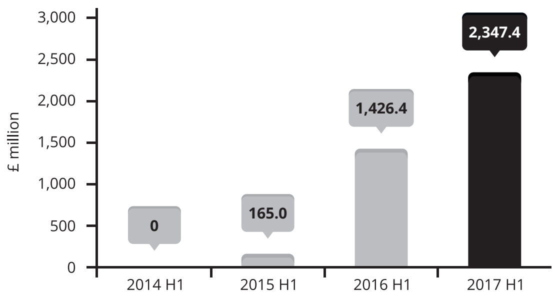


Savings deposits

Paragon Bank retail savings deposits over

£2.3 billion

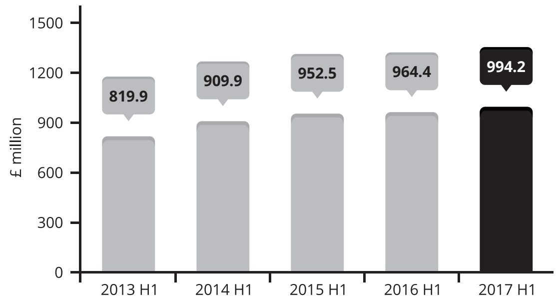
64.6% higher, compared with £1.4 billion at 31 March 2016



Shareholders' funds

£994.2 million

compared with £964.4 million at 31 March 2016



INTERIM MANAGEMENT REPORT

STRATEGY REVIEW

In recent years the Group has seen significant developments. Most notably the formation of Paragon Bank in 2014 and the Group's subsequent strategic transition from a non-bank monoline funded institution into a specialist banking group, operating across an increasing range of sectors and asset classes. This has resulted in the development of a strong and growing retail savings franchise, and the launch of six new product lines, supported by investment in key resources and infrastructure, at a time of increasing regulatory engagement in the banking markets. At the same time, the Group has sought to create a more appropriate balance between its debt and equity resources, whilst maintaining its focus on delivering robust and sustainable earnings. This continues to be supported by a strongly capitalised balance sheet and the experience and heritage of a business that has successfully operated across many cycles and with a clearly defined and defensive risk appetite.

Over this period of change, the Group has continued to deliver strong and stable performances. Over the last five years, the Group's key financial performance metrics have been as follows:

	2017 H1	2012 H1	Compound annual growth rate
Underlying profit	**£70.1m**	£43.8m	9.9%
Statutory profit	**£69.4m**	£44.8m	9.1%
EPS	**20.5p**	11.4p	12.5%
Interim dividend	**4.7p**	1.5p	25.7%
RoTE	**13.5%**	9.4%	-

Since 2012, a total of £272.8 million has been returned to shareholders through a combination of dividends and buy-backs.

The first half of 2017 has seen further progress in the Group's strategy, with underlying profits rising by 1.0% to £70.1 million during the period (2016 H1: £69.4 million) despite the carry costs associated with the Group's Tier 2 bond issue in September 2016 and lower interest rates in the lending markets. Profits on the statutory basis remained broadly similar at £69.4 million (2016 H1: £69.5 million). The combined effects of this growth and the Group's share buy-back programme have resulted in earnings per share ('EPS') growth of 7.3% to 20.5p from 19.1p in the first half of 2016 and a further improvement in return on tangible equity ('RoTE') to 13.5% (2016 H1: 12.7%) (note 6), moving closer to the medium-term target of 15%. The proposed dividend of 4.7 pence represents an increase of 9.3% over last year, in line with the Group's policy of maintaining coverage at three times.

The period has seen strong levels of new organic lending and portfolio purchase activity. Group-wide new advances and investments were £863.8 million compared to £1,158.3 million last year, taking net loan growth to £202.7 million over the last six months.

The last twelve months' origination flows in the Group's core buy-to-let mortgage market were heavily disrupted by the Government's introduction of a 3% Stamp Duty Land Tax surcharge on second home purchases, effectively accelerating business into the first half of the 2016 financial year. Prudential Regulation Authority ('PRA') underwriting rules, which came into effect on 1 January 2017, have also impacted on market activity. Whilst the various interventions have disrupted normal activity levels, the underlying longer-term impact of these changes will, we believe, favour specialist lenders whose capabilities are built on a greater understanding of the markets and customers they serve. The Group's pipeline has more than doubled between September 2016 and March 2017 and is expected to lead to buy-to-let lending volumes for the full year exceeding the Board's original expectations.

The Group's other lending activities have seen excellent progress. The asset finance division's lending increased by 84.7% on the amount for the five months since acquisition included in the first half of 2016, notwithstanding disruption during significant upgrade activity to its systems and infrastructure. Consumer finance lending on car loans and second charge mortgages increased by 13.1%.

Idem Capital's investments in the period have all been made on its own account. However, the combination of Idem Capital and Paragon Bank in acquiring high quality assets is a strong one and is an approach the Group will increasingly focus on going forward. Idem Capital refinanced a number of its loan books after the end of the period, improving returns made on the capital it employs and returning surplus funds to the Group. Activity in the portfolio purchase market was depressed during the summer of 2016, a result of the Brexit referendum, however, activity levels recovered during the autumn and the pipeline of portfolio purchase opportunities remains strong.

Despite the strong lending growth across an increasingly diversified product range, the credit quality across the Group's portfolios continues to maintain its exemplary standards of performance.

The scale of retail deposits in Paragon Bank increased by 25.3% over the six months, standing at £2,347.4 million at 31 March 2017 (30 September 2016: £1,873.9 million). Retail deposits now represent the Group's primary source of funding for new lending, with its traditional securitisation approach taking a more tactical role as and when conditions in that market are attractive. Further evidence of the Bank's growing scale and maturity is provided by its first draw-down under the Term Funding Scheme ('TFS'), with £275.0 million of liquidity accessed during the period. This complements the Group's access to liquidity under the Funding for Lending Scheme ('FLS'), which had reached £108.8 million by the end of the period and which will be maintained going forward, rather than refinanced with TFS funding. The Group plans to optimise its use of such facilities going forward.

The share buy-back programme has progressed well, with £127.0 million of the £150.0 million announced having been invested to date, enhancing shareholder returns. The remainder of this amount is expected to be applied in the second half of the financial year.

The Group's core equity tier 1 ratio ('CET1') remained stable at 15.9% across the period (30 September 2016: 15.9%) with the benefits of retentions and a reduction in the pension deficit offsetting the impacts of a growing balance sheet and the share buy-back programme. The Group has a medium term CET1 target of 13.0%. The total capital ratio was 18.8% (30 September 2016: 19.0%) including the Tier 2 Corporate Bond issued in September 2016. The existing £110.0 million subordinated bond due in April 2017 was repaid on maturity.

The Group's capital requirements are influenced by the risk weighting of its loan portfolios and other assets. The Group currently assesses risk weightings by reference to the Standardised Approach to Credit Risk ('SA'), and in its December 2015 consultation paper the Basel Committee on Banking Supervision ('BCBS') proposed a set of higher risk weights for buy-to-let loans. These proposals are still under review. The bulk of UK loan assets represent lending undertaken by banks using an Internal Ratings Basis ('IRB') for assessing risk weights. The IRB typically results in a lower risk weight for buy-to-let lending. The Group has commenced its move to an IRB application, where its long history and rich data is expected to deliver a further competitive advantage once IRB status is granted.

The Group's business model has been built over many years to deliver robust and sustainable earnings, using a highly prudent and defensive operating model. The increasing move into banking is designed to strengthen this strategy. There is clear evidence emerging of a structural shift in the UK banking markets towards specialist lenders, whose strength and capability are built on a greater understanding of the markets and customers they serve, delivering more tailored products and supported by superior technology. Whilst the UK economy appears to be performing robustly following the Brexit Referendum, we are conscious of the need to maintain high credit standards even in a period of apparent benign conditions and strong competition. We therefore believe that operating with a strong capital base, deep and diversified funding sources, an exemplary credit profile and through-the-cycle experience in markets with increasing opportunities for specialist lending distribution enables the Group to approach the period ahead with confidence and optimism.

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

Business review	Funding review	Financial review	Operational review
Lending, performance and markets	Retail deposits, wholesale funding and capital management	Results for the period	People, risk and regulation

LENDING REVIEW

The Group's operations are organised into three divisions, each with responsibility for delivering asset and profit growth at attractive returns. The Paragon Bank segment includes all the Group's retail deposit funded assets, some of which are of a similar nature to those in the Paragon Mortgages and Idem Capital segments.

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

	Advances and investments in the period			**Investments in loans at the period end**		
	Six months ended 31 March 2017	Six months ended 31 March 2016	Year ended 30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**£m**	£m	£m
Paragon Mortgages	**101.5**	479.5	599.5	**8,101.8**	9,105.3	8,768.0
Idem Capital	**95.4**	24.0	24.0	**331.7**	306.8	283.3
Paragon Bank	**666.9**	654.8	1,024.4	**2,506.7**	1,441.0	1,686.2
	863.8	1,158.3	1,647.9	**10,940.2**	10,853.1	10,737.5

Paragon Mortgages

Paragon Mortgages is one of the longest established lending brands in the buy-to-let mortgage market. Alongside its sister brand, Mortgage Trust, Paragon Mortgages maintains a significant presence for the Group in this important sector of the UK mortgage market.

Total loan assets of the Paragon Mortgages segment at 31 March 2017 were £8,101.8 million, 11.0% lower than the £9,105.3 million a year earlier following the sale of seasoned loan portfolios to Paragon Bank. £8,003.3 million of the segment's assets were buy-to-let mortgage assets (31 March 2016: £8,920.2 million).

Buy-to-let

Market overview

Market data continues to indicate strong and growing rental demand across most of the UK, whilst government policy towards the sector has become more settled since the middle of 2016 with the Housing White Paper adopting a more neutral tone between the Private Rented Sector ('PRS') and other forms of tenure. Nevertheless, we do not anticipate any unwinding of the tax changes announced in the Summer Budget of 2015 or any material changes in the approach taken by the PRA. The impact of the changes in fiscal policy around the PRS introduced under George Osborne are now clearer. In particular, the changes in tax relief available against finance costs have caused landlords to consider carefully how best to structure existing property holdings and new acquisitions. This has led to an increase in the number of portfolio landlords deciding to hold their properties through a limited company structure, a market segment where the Group has a considerable advantage over less experienced lenders.

The private rented sector remains the second largest form of residential tenure in England according to data in the annual Survey of English Housing for 2015-16, published in February 2017 by the Department of Communities and Local Government. This indicated that the private rented sector, comprising 20% of households, remains larger than the social rented sector (17%) with the level of owner-occupation stable. The Royal Institution of Chartered Surveyors reported, in its monthly survey of members for March 2017, that rental inflation was expected to increase because of lower levels of instructions from landlords for new lettings, which had fallen for six consecutive months against a background of sustained and increasing demand from tenants. They predict rental inflation to increase by an average of 4.4% per annum over the next five years.

The significant distortion resulting from the Stamp Duty Land Tax ('SDLT') changes which came into effect in April 2016 is apparent in the Council of Mortgage Lenders' ('CML') data for the six months ended 31 March 2017 indicating £17.8 billion of gross lending, a reduction of 29.9% over the comparable period in the previous year (2016 H1: £25.4 billion) where lending was enhanced as a result of the SDLT deadline. Total monthly lending volumes recovered slowly through 2016, from a low of £2.5 billion in April 2016 to levels of around £3.0 billion per month towards the end of the period. However, they remain relatively subdued compared to recent years, mostly due to lower levels of buy-to-let purchase transactions which represented 29.2% of total lending in the six months to March 2017 (2016 H1: 45.7%).

The Group operates as a specialist in this market, combining expertise in credit assessment and portfolio management with strong relationships in mortgage distribution and continued product development. In offering a comprehensive range of solutions to landlords, in particular to those with complex needs or a desire to hold their properties in a corporate entity, the business has demonstrated itself to be well placed to grow in a rapidly changing environment.

Group performance

Total Group buy-to-let completions decreased by 32.5% to £556.2 million for the period (2016 H1: £823.6 million) as a result of the acceleration of completions into March 2016 from later months, driven by the SDLT changes which came into force on 1 April 2016. Paragon Bank increased its proportion of new business flows and by 31 March 2017 the pipeline in the Bank represented over 90% of the Group's buy-to-let mortgage activity.

	Completions in period			**Pipeline at period end**		
	Six months ended 31 March 2017	Six months ended 31 March 2016	Year ended 30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**£m**	£m	£m
Paragon Mortgages	**101.5**	479.5	599.5	**57.4**	151.5	123.8
Idem Capital	**-**	-	-	**-**	-	-
Paragon Bank	**454.7**	344.1	561.5	**684.9**	199.1	197.3
	556.2	823.6	1,161.0	**742.3**	350.6	321.1

Lower levels of completions in the first quarter of the financial year reflected the lower pipeline that the business carried into the new financial year which was impacted by the distortions arising from the introduction of the SDLT changes in April 2016 and by the Group's introduction of higher lending criteria ahead of the wider market. However, the second quarter, as expected, saw the business positioned more competitively in the market as other lenders also tightened criteria to meet the deadline for the implementation of the PRA's requirements in January 2017. As a result, the Group's buy-to-let lending in the second quarter increased 100.3% on lending in the first quarter with the total for the period at £556.2 million. The continued strength of the Group's proposition in an increasingly specialist buy-to-let market saw the pipeline of new business increase to £742.3 million at the end of the period ensuring that the Group is well positioned for further growth in new lending in the second half of the financial year, with the Group targeting total advances of over £1.25 billion for the year.

Further expansion of the Group's mortgage capacity, supported by continued progress made by Paragon Bank in retail markets, facilitated lending growth in the period, including the development of increasingly popular longer term fixed rate products. These products offer landlords certainty of payment over a longer period in a potentially volatile environment whilst improving the retention profile of the mortgage portfolio.

The Group has been well positioned to benefit from the developments in the PRA's regulation of buy-to-let mortgage underwriting noted above. These regulations require that lenders undertake adequately robust assessments of borrower affordability including minimum standards for Interest Cover Ratio ('ICR') tests, and ensure that their underwriting processes reflect the more complex nature of portfolio landlord businesses. The first phase of regulation was introduced in January 2017 with the changes in respect of specialist case handling scheduled to be implemented later in the year. The Group has over 20 years' experience in the buy-to-let market where it has historically focussed on working with professional scale landlords. Over that time it has developed processes which align with those required by the PRA and these have been in place for many years. The Group was able, therefore, to ensure that it was optimally positioned ahead of the implementation date of the new regulations.

To fully align the Group with the requirements of the PRA, a further tightening of lending criteria was introduced in December 2016, supplementing the changes introduced in January 2016. These changes support a detailed analysis of the tax status and affordability profile of applicants to ensure that loans remain affordable at higher interest rates and once the full effect of the reduction in tax relief on finance costs are felt. In addition, the Group maintains its focus on the values and standards of the underlying properties and their suitability and sustainability as rental propositions.

The model adopted by the Group is significantly more sophisticated than the approach that is common in the market, providing a more granular output that aligns with the profile of individual customers. The clear response delivered by the Group has been welcomed by mortgage intermediaries and has been a key driver in the improved market share that the Group has seen in the period.

The Group's focus on the credit quality and financial capability of our customers, underpinned by its understanding of buy-to-let security values, continues to deliver market leading credit performance across historic and current lending. The quality of new lending remains high, with a good affordability profile, low average loan-to-value ratios and strong customer credit profiles.

The Group has expanded its capacity to deal with the more complex requirements of portfolio landlords. This has included the refocusing of staff resource in this area of lending, the development of more sophisticated online application processing for complex cases and the introduction of a dedicated service proposition for specialist intermediaries who operate in this market. The strategic objective of this approach has been to enhance the Group's capability in this part of the buy-to-let market, both in anticipation of the changes that are expected to result from the PRA's new regulations and to address a rapid increase in demand from incorporated landlords responding to the fiscal changes that came into effect in April 2017.

Complex cases include incorporated landlords and larger portfolios, but also those involving more specialist property types such as houses in multiple occupation ('HMOs'), multi-unit properties, local authority leases and student lets.

The Group's lending on more complex buy-to-let cases has increased over the year and represents over 64.7% of the pipeline at 31 March 2017, compared with 55.4% at 31 March 2016. Lending to incorporated landlords has been a significant element of this increase with applications from these customers increasing significantly over the period, representing 26.5% of the total number of pipeline cases at the period end.

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

	Outstanding balances		
	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Paragon Mortgages	**8,003.3**	8,920.2	8,601.0
Idem Capital	**13.7**	13.9	13.7
Paragon Bank	**1,683.0**	802.2	1,006.5
	9,700.0	9,736.3	9,621.2

At 31 March 2017, the Group's buy-to-let portfolio stood at £9,700.0 million, compared with £9,736.3 million a year earlier and £9,621.2 million at 30 September 2016. This is due to the increased advance levels, recovering from the depressed positon in the second half of 2016 as the impact of the market disruption around SDLT changes began to recede, and the Group's early tightening of criteria was increasingly followed by competitors.

During the period, certain buy-to-let loans were sold from the Paragon Mortgages segment to Paragon Bank, previously funded through warehouse facilities and securitisation. The Bank portfolio at the end of March 2017 includes £352.5 million of mortgages originally included in the Paragon Mortgages segment (September 2016: £99.2 million).

The annualised redemption rate on the overall buy-to-let book, although higher than the 9.2% reported for the first half of 2016, still remains low at 9.5%. This is despite the increasing numbers of post credit crisis accounts included in the portfolio, which would be expected to redeem more quickly than the extant book. The annualised redemption rate on these loans was 17.0% (2016 H1: 16.0%). This, as expected, is approaching the levels seen before the credit crisis as the book matures. The annualised redemption rate on pre-crisis lending, at 6.2%, has decreased from the 6.7% seen in the half year ended 31 March 2016 following the market disruption caused by SDLT changes which temporarily inflated rates. This performance indicates that the Group's landlord customers continue to display a long-term commitment to property investment.

The credit performance of the portfolio over the period continued to be exemplary, with the percentage of loans three months or more in arrears (note 5) standing at 0.09% at 31 March 2017 (31 March 2016: 0.14%, 30 September 2016: 0.11%). This remains considerably better than the CML's comparable market average of 0.49% at that date (31 March 2016: 0.56%, 30 September 2016: 0.55%).

Security values have also benefitted from the effect of increased house prices. The Nationwide House Price Index showed appreciation in residential property values of 0.6% over the six month period (31 March 2016: 3.1%). The indexed loan-to-value ratio of the buy-to-let portfolio at 31 March 2017 was 67.2%, the same level as at 30 September 2016 (note 7). The increase in average prices, however, is part of a more volatile picture, with marked variations at the local and regional level. The Group maintains a specialist team of in-house surveyors to maximise its understanding of particular markets, both from a valuation and a lettings standpoint. In a potentially less benign economic environment, this capability also enables the Group to closely monitor developments in the residential property market, regionally, nationally, and by type of property.

The number of properties with an appointed receiver of rent reduced by 13.0% to 873 at 31 March 2017 (31 March 2016: 1,004), and 97.1% of the properties available for letting in the receiver of rent portfolio were let at that date (31 March 2016: 96.9%).

Yields on the Group's buy-to-let lending balances, based on average monthly balances outstanding are set out below. These are analysed between the post credit crisis lending and the legacy assets, which enjoy the benefit of cheaper dedicated funding through securitisation structures.

	Average balance			Average yield		
	31 March 2017	31 March 2016	30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**%**	%	%
New lending	**3,121.0**	2,618.3	2,786.0	**4.65%**	4.77%	4.71%
Legacy assets	**6,489.4**	6,941.3	6,814.4	**2.02%**	2.27%	2.23%

Other assets

The Paragon Mortgages division also includes income generated from legacy loan books. These include owner-occupied mortgages, car loans, secured consumer loans and unsecured consumer loans. These assets form a very small part of the division's results, when compared to buy-to-let assets, and performed in line with the Board's expectations.

The values of these legacy portfolios are shown below.

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Owner-occupied mortgages	**16.9**	25.0	19.4
Secured consumer loans	**78.1**	155.7	143.8
Unsecured loans	**3.5**	4.4	3.8
	98.5	185.1	167.0

The monthly average balance of these assets in the period was £136.6 million (2016 H1: £194.6 million, 2016: £188.2 million) and the yield was 9.84% (2016 H1: 9.98%, 2016: 9.16%). The legacy secured consumer loan book, which forms the largest part of the balance, recorded arrears of 16.7% (30 September 2016: 16.1%), consistent with the industry average of 11.6% after allowing for the age and seasoning in the portfolio.

During the period a portfolio of secured consumer loans was sold to the Paragon Bank segment.

The Group has returned to lending in the owner-occupied mortgage, car finance and secured consumer loan markets through Paragon Bank. This activity is reported with that division's results.

Idem Capital

Idem Capital is one of the UK's principal consumer loan portfolio purchasers and is a servicer of loans for third parties and co-investment partners. It works together with Paragon Bank, on appropriate deals, and this increases the size and type of propositions it is able to consider. The Group's strategic focus going forward will increasingly be on such arrangements.

The UK portfolio loan purchase market provides significant investment opportunities, with financial institutions disposing of both secured and unsecured loan portfolios, either as business-as-usual sales or through deleveraging activity. Secondary portfolio sales are now common place, as investment funds seek to liquidate assets. A strong pipeline of potential portfolio purchase opportunities at the period end means that investment opportunities in the second half of the year are likely to be high. More than ten sale processes have already been announced, including the return to market for several entities that have been absent for some time. Idem Capital continues to be an active specialist panel member for the major UK based loan portfolio sellers and intermediaries and has strong links with the investment funds, ensuring access to all appropriate disposal processes.

Idem Capital invested £95.4 million in consumer finance loan portfolio acquisitions in the period to 31 March 2017 (31 March 2016: £208.8 million, including investments funded by Paragon Bank). Transactions in the market are irregular, both in timing and size, and whilst the investment value in the period fell below that delivered in the comparable period, acquisitions of unsecured assets have been strong.

The table below shows the Group's investments in purchased loan portfolios, sourced by Idem Capital, including those funded by Paragon Bank through retail deposits, at 31 March 2017.

	Outstanding balance			Current period net investment		
	31 March 2017	31 March 2016	30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**£m**	£m	£m
Idem Capital	**331.7**	306.8	283.3	**95.4**	24.0	24.0
Paragon Bank	**224.1**	286.7	250.6	**-**	184.8	184.8
	555.8	593.5	533.9	**95.4**	208.8	208.8

The outstanding value of the Group's portfolio purchase investments at 31 March 2017 totalled £555.8 million (31 March 2016: £593.5 million). Of this balance, 56.2% related to loans secured on property.

During the period, to optimise the returns generated by its portfolios and to further streamline its operational cost base, Idem Capital has undertaken two divestment transactions of non-paying assets, generating net sale proceeds of £16.4 million, which have been re-deployed into the period's investments.

At the end of March 2017, the 120 month gross estimated remaining collections ('ERC') for the Group's acquired assets stood at £762.4 million (31 March 2016: £823.2 million) whilst those for the Idem Capital division were at £505.3 million (31 March 2016: £509.6 million) (note 5). 120 month ERCs in Paragon Bank were £257.1 million (31 March 2016: £313.6 million). ERC is a standard measure of scale in the debt purchase industry, reflecting likely future cash flows from acquired portfolios over the next ten years, which reduces over time as balances are collected.

Asset performance continues to be strong. At 31 March 2017, cumulative cash receipts in the Idem Capital portfolios totalled 109.2% of the values predicted at the point the loans were acquired (31 March 2016: 108.2%, 30 September 2016: 109.0%).

Yields on the Group's acquired consumer finance balances, based on average monthly balances outstanding are set out below. These are analysed between secured and unsecured balances.

	Average balance			Average yield		
	31 March 2017	31 March 2016	30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**%**	%	%
Secured loans	**328.3**	234.9	291.7	**17.54%**	21.77%	18.22%
Unsecured assets	**242.5**	214.1	207.7	**14.64%**	18.15%	15.99%

The allocation of yields may vary between Idem Capital and Paragon Bank, dependent on their relative participation in transactions from time to time.

After taking into account portfolio run-off, acquired accounts under Idem Capital management, including those owned by Paragon Bank, reduced by 16.8% over the six month period. Total accounts under Idem Capital management (including third-party serviced assets) decreased by 29.7% in the half year, principally due to the disposals referred to above and the reduction in third party administration activity, which resulted from Idem Capital acquiring loan portfolios it had previously managed on their owners' behalf.

The number of purchased loan assets managed by Idem Capital is shown below.

	31 March 2017	31 March 2016	30 September 2016
	Number	Number	Number
Idem Capital owned	**231,788**	293,024	279,877
Paragon Bank owned	**11,976**	19,513	13,193
	243,764	312,537	293,070
Third party	**66**	60,016	53,742
Idem Capital managed	**243,830**	372,553	346,812

The division utilises the Group's highly developed loan servicing and collection capability both for its own purchases and for third party assets. The Group has invested heavily in its control and compliance oversight infrastructures, which together with its operational activities are regulated through Paragon Finance PLC. It is therefore well placed to continue to deliver robust operational and conduct standards for customers as required by the UK regulatory authorities, portfolio vendors and co-investment partners.

After the end of the period, Idem Capital successfully raised further external finance for its unsecured portfolios, optimising leverage against these portfolios on more favourable terms. This is discussed further in the funding report below.

Paragon Bank

Paragon Bank continues to provide the Group with diversification of both income streams and funding sources. It saw strong development in the period with total loan assets rising to £2,506.7 million (31 March 2016: £1,441.0 million), with its product lines expanding during the period with the launch of a pilot project in the specialised residential sector and, after the period end, with the launch of structured commercial lending.

Paragon Bank funds its new lending advances and pipeline principally through savings deposits, supported by drawings on Bank of England facilities. The Bank's funding position at 31 March 2017 is summarised below.

	Note	31 March 2017	31 March 2016	30 September 2016
		£m	£m	£m
Loans to customers	*14*	**2,506.7**	1,441.0	1,686.2
Retail deposits	*24*	**2,347.4**	1,426.4	1,873.9
Loan to deposit ratio		**106.8%**	101.0%	90.0%

The increase in the loan to deposit rates is a result of the Bank's increasing use of Bank of England facilities and is expected to increase further in the second half of the financial year.

The Bank has set targets for the year to exceed £200.0 million of advances on asset finance cases and £200.0 million on its other lending lines, excluding buy-to-let.

The scale now achieved by Paragon Bank reduces the inefficiencies seen during its start-up phase, when deposit levels were dictated by pipeline requirements as well as income generating asset balances. This more efficient funding profile enhances profitability and creates a more normal relationship between deposit levels and the size of the loan portfolio.

The Group provided capital of £78.1 million to Paragon Bank during the period (2016 H1: £153.0 million), including amounts required to support asset acquisitions, and its policy is to provide the Bank with sufficient capital to cover its planned requirements over each twelve month period.

In addition to Paragon Bank providing a diversified funding base for the Group, its second strategic objective is to diversify the Group's income flows. At 31 March 2017, the Bank financed £823.7 million of assets other than buy-to-let mortgages, representing 32.9% of its balance sheet loan assets (31 March 2016: £638.8 million, 44.3%). An analysis of the Bank's loan portfolio is summarised below.

	Outstanding balance			Current period advances and investments		
	31 March 2017	31 March 2016	30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**£m**	£m	£m
Buy-to-let	**1,683.0**	802.2	1,006.5	**454.7**	344.1	561.5
Residential mortgages	**0.4**	-	-	**0.4**	-	-
Car finance	**123.9**	73.4	95.2	**50.7**	41.2	79.8
Personal finance	**354.5**	325.9	304.8	**31.1**	210.8	229.7
Asset finance	**289.0**	224.9	250.4	**106.6**	57.7	144.3
Development finance	**31.2**	1.0	9.1	**23.4**	1.0	9.1
Other loans	**24.7**	13.6	20.2	**-**	-	-
	2,506.7	1,441.0	1,686.2	**666.9**	654.8	1,024.4

In addition to the external investments and advances shown above, the outstanding balances were increased in the period by the acquisition of buy-to-let mortgage and second charge mortgage loan balances from the Paragon Mortgages segment.

Following the launch of its pilot project in the residential mortgage sector, Paragon Bank continues to investigate further opportunities to broaden its range of products, both organically and by acquisition, where these match its risk appetite.

Yields on the Bank's principal categories of loan assets, based on average monthly balances outstanding are set out below, analysed between product lines.

	Average balance			Average yield		
	31 March 2017	31 March 2016	30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**%**	%	%
Buy-to-let mortgages	**1,391.3**	546.4	718.8	**4.41%**	4.39%	4.49%
Car finance	**107.4**	58.8	71.9	**4.28%**	5.44%	5.40%
Originated personal finance	**88.0**	26.3	36.1	**6.16%**	4.68%	4.87%
Acquired personal finance	**237.2**	-	234.3	**6.30%**	-	4.26%
Development finance	**19.9**	0.6	2.2	**9.25%**	8.61%	8.99%
Asset finance	**292.0**	234.5	247.8	**10.73%**	11.37%	10.46%

Buy-to-let

Paragon Bank continues to increase its buy-to-let lending, with £454.7 million of advances made (2016 H1: £344.1 million), representing 81.7% of the Group's total buy-to-let advances (2016 H1: 41.8%). At the end of the period its buy-to-let pipeline stood at £684.9 million (31 March 2016: £199.1 million). There have been no accounts over three months in arrears on business written by the Bank up to 31 March 2017 (2016 H1: none). The buy-to-let market is discussed in more detail under 'Paragon Mortgages' above. The products originated by the Bank are complementary to those offered by Paragon Mortgages.

In addition to newly originated assets, Paragon Bank acquired a portfolio of buy-to-let mortgage loans originated in the Paragon Mortgages segment and funded through warehouse facilities, bringing the Bank's total investment in buy-to-let assets originated in the Paragon Mortgages segment to £352.5 million.

The Bank is expected to continue to acquire previously securitised assets, where the use of deposit funding can achieve cost and capital optimisation benefits for the Group while conforming to the Bank's risk profile.

Residential lending

Having secured the necessary regulatory permissions, the Group initiated a pilot lending project in the specialist residential sector in January 2017. At this point lending is being restricted to limited distribution supported by three leading intermediaries with the development of the products, process and proposition being closely monitored along with the specialist systems developed to support the initiative. Early response from our intermediaries is encouraging with the close liaison between the intermediary and the mortgage underwriter particularly appreciated. The initiative is designed specifically to assist consumers who may experience difficulty in the wider mortgage market as a result of having more complex employment profiles. The Group advanced its first monies under this project at the end of the period.

Car finance

The UK car market has continued to grow during the period ended 31 March 2017. During March 2017, 562,000 new cars were registered (March 2016: 459,000) which was the highest number ever recorded for a month. Calendar year-to-date registrations were 820,000 which is a 6.2% increase on the comparable period in 2016 when 772,000 new cars were registered.

The UK car finance market has also experienced considerable growth, with total finance for the six months ended March 2017 reported by the Finance and Leasing Association ('FLA') up 8.2% at £21.0 billion (2016 H1: £19.4 billion), with similar percentage increases seen for both new and used car funding at £13.4 billion and £7.6 billion respectively (2016 H1: £12.7 billion and £6.7 billion).

Car finance volumes have continued to build, with total advances of £50.7 million in the half year (2016 H1: £41.2 million). Paragon Bank's car finance loan book was 30.1% higher than at the start of the period at £123.9 million. The quality of these loans remains high and the percentage of the Bank's car finance accounts which were more than two months in arrears at 31 March 2017 was 0.30% (31 March 2016: 0.09%).

The Bank's underwriting standards ensure that car finance loans enjoy significant security from the financed vehicle. At 31 March 2017, external valuations from CAP, the motor vehicle market analysts, were available for vehicles representing £101.4 million of the loan book (excluding light commercial vehicles, motorhomes or vehicles ten years past the last production date which are not included in the published data). After deducting the current carrying values, the net exposure on cases with negative equity in the security was £4.4 million or 4.3% of the balance.

It should be noted that all the Group's car finance business is in the form of hire purchase and similar agreements. It has no exposure to personal contract purchase products.

Personal finance

The second charge mortgage market has reduced over the period, with the FLA reporting new business volumes for the six months to March 2017 at £458 million (2016 H1: £479 million). However completions in March 2017, at £93 million were 8.1% higher than a year earlier (March 2016: £86 million). The number of new second charge mortgages rose more strongly by 14.5% to 2,017 over the same period (March 2016: 1,761). The average second charge mortgage advance in March was therefore £46,100, a year-on-year fall of 5.5% (March 2016: £48,800).

The personal finance balances shown below comprise second charge mortgage assets originated by Paragon Bank or purchased by it from third parties or other Group entities:

	Outstanding balance			**Current period advances and investments**		
	31 March 2017	31 March 2016	30 September 2016	**31 March 2017**	31 March 2016	30 September 2016
	£m	£m	£m	**£m**	£m	£m
Originations	**130.4**	39.2	54.2	**31.1**	26.0	44.9
Purchased debt	**224.1**	286.7	250.6	**-**	184.8	184.8
	354.5	325.9	304.8	**31.1**	210.8	229.7

Paragon Bank's advances in the half year were £31.1 million (31 March 2016: £26.0 million), increasing the value of its originated loan book by 73.9% in the six months. The average loan size is just over £64,000 and the average loan to value ratio in the portfolio at 31 March 2017 was 68.1%. None of the Bank's originated second charge mortgage accounts were in arrears at 31 March 2017 (31 March 2016: none, 30 September 2016: none).

The outstanding balance at 31 March 2017 also includes £52.3 million of assets originated in the Paragon Mortgages segment and previously financed in the Paragon Personal and Auto Finance (No. 3) PLC securitisation, which were acquired by the Bank in the period.

Portfolio purchase opportunities are sourced through the Group's Idem Capital loan purchase operation, where potential asset purchases fit with the Bank's risk appetite and business model. The use of Idem Capital's expertise and resources combined with funding through the Bank broadens the range of potential acquisitions for the Group. The UK portfolio purchase market is discussed further under 'Idem Capital' above.

Paragon Bank's purchased second charge mortgage assets were of high quality at the acquisition date and at 31 March 2017 only 5.06% of these accounts (30 September 2016: 5.04%) were two months or more in arrears, compared to an industry average of 11.6% reported by the FLA.

Development finance

The development finance balance represents the initial advances from the Bank's operation to provide funding for small scale property developments. The proposition launched during 2016 and has developed a strong network of relationships within the market that are expected to drive sustained growth, based on a robust credit assessment and risk proposition.

Paragon Bank's focus in this area is to provide access to finance for smaller builders who are not being supported by the clearing banks, but who have an important part to play in increasing the supply of new properties in the UK. The business delivers attractive returns and operates within the Bank's risk appetite. The operation made loans of £23.4 million in the six months (2016 H1: £1.0 million) and had an investment balance of £31.2 million at period end (30 September 2016: £9.1 million). The pipeline of the new business at the period end was £48.7 million (31 March 2016: £41.4 million).

Asset finance

The FLA reports the total market for asset finance for businesses at 31 March 2017 covered £73.1 billion of outstanding balances, an increase of 5.2% over the preceding twelve months (31 March 2016: £69.5 billion). Advances in that market in the year then ended were £21.4 billion, an increase of 7.0% on the £20.0 billion recorded in the previous year.

The integration of the asset finance business has progressed successfully since its acquisition in November 2015 and its share of that reported market is set to increase in the short term. The business proposition remains focused on the efficient and timely delivery of products and services within a robust governance framework by an experienced team of professionals.

Whilst the general business finance proposition provides a range of asset and invoice financing solutions for all business types, the specialist sectors that were serviced by the Five Arrows Group ahead of the acquisition have been maintained. The technology and construction sector teams have continued to develop their franchises whilst the contract hire and fleet management solutions team have demonstrated their ability to acquire and maintain business within the public and private sectors.

Investment within the business has been significant with an updated IT estate, including new application management software providing a robust platform that has enhanced the customer journey and underwriting process. A rationalisation of the operating locations has reduced costs and supports the development of a collaborative working environment across the business.

The front line and risk management teams have been strengthened with experienced individuals who support existing working practices with good practice from across the industry.

The ongoing investment and inevitable change within the business has been well received by the asset finance team, and this is reflected in the improved performance in the period to 31 March 2017.

The finance lease assets of the business at 31 March 2017 were £289.0 million (note 5), an increase of 15.4% over the six month period (30 September 2016: £250.4 million) as a result of new advances in the period of £106.6 million. The finance lease assets generated interest income of £11.6 million in the period.

The number of loan accounts more than two months in arrears at 31 March 2017 at 0.98% remained very low (31 March 2016: 1.23%) in line with the FLA figure for business finance leasing / hire purchase of 0.7% (31 March 2016: 0.6%).

The asset finance business generates operating lease income from a fleet of vehicles with a book value of £12.6 million at the end of the period (31 March 2016: £8.8m), with £2.9 million of new contracts initiated in the period. It also operates a spot hire fleet with a net book value of £7.7 million at the period end (31 March 2016: £4.5 million). Operating lease activities generated £2.1 million in the period, net of direct costs.

The Group's asset finance brokerage, Premier Asset Finance, acquired on 30 September 2016, performed well during the period, its first under the Group's ownership, generating £1.5 million of commission income. It forms a key part of the Group's strategy for growing its asset finance operation.

Other asset finance loan assets

The other loan assets included in the asset finance operation are set out below.

	Outstanding balance		
	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Commercial mortgages	**2.9**	3.4	2.9
Factoring and discounting	**20.9**	9.8	16.9
Other loans	**0.9**	0.4	0.4
	24.7	13.6	20.2

The factoring business supports customers of the asset finance business as well as servicing its own customer base and is well positioned to trade successfully and to expand to new customers. The invoice factoring and discounting operations generated income of £1.0 million in the period (31 March 2016: £2.0 million). The other loan balances above represent legacy portfolios of the acquired business.

Factoring balances are agreed on a revolving basis and therefore it is not appropriate to quote an advances figure alongside those for other loan types.

FUNDING REVIEW

The Group's funding strategy of increasing diversification has continued during the period, with a further shift to funding from the retail deposit markets and central bank monetary facilities. The Group's present medium term strategic funding objective is focussed predominantly on retail deposits, with the use of securitisation on a tactical basis if market conditions are favourable. Retail deposits are a deep and liquid market and over time have exhibited lower levels of volatility compared with the securitisation market. This funding mix therefore represents a more stable funding base for the Group over the longer term.

More widely, credit markets have continued to strengthen during the period, with the economy proving robust despite the uncertainty over Brexit. Expectations of a rise in base rates receded following Bank of England guidance in February 2017, notwithstanding a pick-up in inflation, and gilt yields approached all-time lows across all maturities.

The Group's funding at 31 March 2017 is summarised as follows.

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Paragon Mortgages (securitised and warehouse funding)	**8,835.0**	9,818.0	9,812.8
Idem Capital (non-recourse asset backed funding)	**105.2**	107.3	136.8
Paragon Bank (retail deposit balances)	**2,347.4**	1,426.4	1,873.9
Paragon Bank (central bank monetary facilities)	**345.0**	-	-
Business specific funding	**11,632.6**	11,351.7	11,823.5
Corporate borrowings	**554.5**	405.0	553.0
	12,187.1	11,756.7	12,376.5

In addition, the FLS is used to provide £108.8 million of liquidity (31 March 2016: £nil, 30 September 2016: £108.8 million).

Retail funding

The UK savings market continues to be deep and liquid, with household balances (including cash ISAs) reported by the Bank of England in excess of £1 trillion, and total balances at 31 March 2017 of £1,107.7 billion (30 September 2016: £1,106.1 billion). This strong supply has helped to maintain the recent trend for low savings rates with the average annual interest on two-year fixed interest bonds, reported by the Bank of England, having declined from 1.00% in September 2016 to 0.80% in March 2017.

Retail deposits are at the core of the Group's funding strategy, being a reliable, cost-effective and scalable source of finance. As a consequence, the volume of the Bank's retail deposits at 31 March 2017 had reached £2,347.4 million (31 March 2016: £1,426.4 million, 30 September 2016: £1,873.9 million).

During the period the Bank launched its first cash ISA products. These formed 18% of the Bank's savings deposits at 31 March 2017.

The Bank's savings proposition provides customers with a range of transparent deposit options, offering value for money. This also provides the Bank with a stable funding platform, with a focus on attracting term funding to manage interest rate risk while managing the inflow of funds to match lending requirements.

The Group's straightforward approach and consistently competitive products have been recognised in the industry and by our customers and Paragon Bank was named as 'Best Savings Provider for Existing Customers' in the 2017 Savings Champion Awards and was commended in the 'Best Online Savings Provider' category at the Consumer Moneyfacts Awards in January 2017.

The Group conducts customer satisfaction surveys amongst those opening new savings accounts. In the six months ended 31 March 2017, 1,592 customers responded with 93% rating the overall savings process as 'good' or 'very good', while 86% stated that they would 'probably' or 'definitely' take a second product with the Bank.

Savings balances at the period end are analysed below.

	Average interest rate		Average initial balance		Proportion of deposits	
	31 March 2017	30 September 2016	**31 March 2017**	30 September 2016	**31 March 2017**	30 September 2016
	%	%	**£000**	£000	**%**	%
Fixed rate deposits	**1.98%**	2.11%	**26**	28	**64.5%**	71.0%
Variable rate deposits	**1.22%**	1.65%	**19**	15	**35.5%**	29.0%
All balances	**1.72%**	1.98%	**24**	25	**100.0%**	100.0%

The average initial term of fixed rate deposits at 31 March 2017 was 28 months (30 September 2016: 26 months).

Securitisation funding

Buy-to-let mortgage originations outside of Paragon Bank are initially funded through three revolving warehouse facilities which totalled £550.0 million at 31 March 2017 (30 September 2016: £850.0 million, 31 March 2016: £850.0 million). As a result of the Group's increasing focus on retail deposit funding, one facility, for £300.0 million, was closed in the period and is currently in rundown. Further rationalisation of warehouse capacity is expected as facilities fall due for renewal.

The use of retail deposit funding has meant that the Group has not accessed the securitisation markets in the period. The market has strengthened significantly since September 2016, although volumes have been subdued due to the major participants switching funding to central bank facilities. The lack of supply has resulted in a rapid compression in margins, with levels approaching lows since the 2008 financial crisis. The Group continues to view the securitisation market's ability to match fund long term assets as attractive and expects to access the market opportunistically in the future.

During the period the mortgage assets held by Paragon Mortgages (No. 18) PLC and the consumer finance assets held by Paragon Personal and Auto Finance (No. 3) PLC were sold to Paragon Bank and are now financed with retail deposits. A further securitisation, Paragon Mortgages (No. 19) PLC was called after the period end and the notes will be repaid in the second half of the financial year.

Funding for purchased assets

Idem Capital has continued with its funding strategy of financing smaller scale acquisitions from the Group's equity while keeping under review the opportunities to introduce external funding when asset volumes make that economically appropriate.

Idem Capital's external funding is provided through a special purpose vehicle company ('SPV') which entered into an agreement to issue sterling floating rate notes to Citibank NA. This agreement was initially for £117.3 million and was subsequently extended, with a further £69.8 million drawn after the period end.

At 31 March 2017 the funding of the Group's debt purchase assets was distributed as shown below.

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Purchased assets by funding source			
External funding	**239.7**	195.6	269.1
Retail funding	**224.1**	286.7	250.6
Group resources	**92.0**	111.2	14.2
	555.8	593.5	533.9

This demonstrates increased flexibility in the Group's funding for its debt purchase activities, broadening its sources of finance and demonstrating its ability to access third party funding on a more regular basis. The participation of Paragon Bank in transactions offers greater flexibility in terms of deal size and asset class, where increasingly the focus will move to more strongly performing portfolios.

Central bank monetary facilities

In the previous year Paragon Bank first accessed the facilities within the Sterling Monetary Framework ('SMF'). The Group drew down £108.8 million under the FLS to support lending to SMEs which remained in place at the period end. This access created a platform for further funding using Bank of England facilities, which the Group has made further use of in the period.

Paragon Bank accessed the Bank of England's Indexed Long-Term Repo scheme ('ILTR') during January together with the TFS. These facilities provide flexible, low-cost collateralised funding designed to reinforce the transmission of low base rates to households and businesses. Drawings on the TFS as at 31 March 2017 were £275.0 million while £70.0 million was drawn under ILTR. Paragon Bank expects to continue to increase its drawings under the TFS, optimising its use of such facilities, until the final drawdown window in February 2018. The TFS funding will support new lending and not be used to refinance the existing FLS drawings.

Increasing access to the TFS and other central bank facilities requires more loans to be pre-positioned with the Bank of England to act as collateral for these drawings. In consequence both the loan to deposit ratio and the liquidity ratio within Paragon Bank are expected to increase in the near term.

Corporate funding

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

Following the period end, on 20 April 2017, the Group's £110.0 million Corporate Bond issued in 2005 matured and was repaid in full.

The Group is rated by Fitch Ratings, which has ascribed it a BBB- rating and confirmed that rating with a stable outlook on 13 April 2017. The BB+ rating on the Group's £150 million Tier 2 Bond was also confirmed at the same time. With a strategy to increase holding company leverage levels over time, the rating will support long dated corporate debt issuance in both scale and pricing terms.

Further information on all the above borrowings is given in note 25.

Capital Management

The Group continues to be strongly cash generative with free cash balances of £257.4 million at 31 March 2017 (30 September 2016: £366.5 million) (note 18) after investing cash in developing business streams across each of its three divisions. £110.0 million of this balance was used to repay corporate bond debt after the period end. The Company sees opportunities going forward to deploy capital to support organic growth and invest in portfolio purchases and potentially in M&A opportunities.

Dividend and dividend policy

In pursuance of its dividend policy and in view of the strong position of the Group and its confidence in the prospects for the business, the Board proposes an interim dividend of 4.7p per share (2016 H1: 4.3p) payable to shareholders on the register on 7 July 2017. This represents an increase of 9.3% from 2016. The Company's dividend policy is to maintain a dividend cover ratio of three times.

Regulatory capital

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

PRA supervision of the Group imposes consolidated capital adequacy rules upon it. The Group maintains extremely strong capital and leverage ratios, with a CET1 ratio of 15.9% at 31 March 2017 (30 September 2016: 15.9%) and a UK leverage ratio at 6.5% (30 September 2016: 6.3%) (note 4d), leaving the Group's capital at 31 March 2017 comfortably in excess of the regulatory requirement. The movements in the CET1 ratio and leverage percentage during the period reflect the impacts of profit for the period, the Group's share buy-back programme and the actuarial gain on the most recent valuation of the Group's defined benefit pension plan. In the medium term the Group targets a CET1 ratio of 13.0%.

The Group notes the consultation paper issued by the BCBS on 15 December 2015 regarding the proposed amendments to the Standardised Approach ('SA') for assessing the capital adequacy of institutions. The most material proposal relates to a potential increase in the risk weightings applicable to buy-to-let lending assets. The Group considers that the proposed risk weightings do not properly reflect the strong credit performance of the asset class in the UK and has engaged with both the PRA and the BCBS as part of the consultation process. The BCBS has also issued a consultation paper in March 2016, proposing revisions to the Internal Ratings Basis ('IRB') for assessing capital, which is based on firms' own internal calculations and subject to supervisory approval. The proposals may serve to limit the comparative advantage available to IRB users over SA users through the use of floors.

During the period the PRA published two further consultations. The first attempts to address the issue of the SA requiring much higher capital levels, for certain asset classes, than IRB methods, thereby potentially distorting the market. The PRA proposes that it should take account of any such over provision in assessing capital adequacy in other areas. The second consultation is intended to make IRB accreditation more accessible to smaller UK deposit takers.

Notwithstanding the outcome of these consultations, the Group has a wealth of data and excellent credit metrics to support the use of an IRB approach for assessing the appropriate buy-to-let risk weightings. Other UK institutions that currently use the IRB approach for their buy-to-let portfolios achieve materially lower risk weightings than the 35% required by the present SA, with benchmark figures published by the PRA in February 2017 typically being in the low to mid-teen percentages for assets in the most common LTV bands.

In addition to the potential risk weighting advantages from adopting the IRB approach, the Group sees broader business benefits from adopting the disciplines required by IRB as a core part of its risk management structure.

The Group will be closely monitoring developments in each of these consultations as they progress and has continued to progress its project to prepare an application to the PRA to adopt the IRB in future, which will build on the Group's existing core competencies in credit risk and data handling and should lead to further enhancements in the internal risk governance framework.

Gearing and share buy-backs

Given the strong capital base and low leverage in the Company's balance sheet, the Board has determined that the Group should seek to utilise greater levels of debt to support growth and reduce its over-reliance on equity capital, improving returns for shareholders. In pursuit of this strategy the Group issued £150.0 million of Tier 2 Corporate Bonds in 2016 and will continue to review the opportunities available to it to access the sterling senior unsecured debt market and the UK retail bond market to add further incremental long-dated debt to the Group balance sheet.

In November 2014 the Company announced a share buy-back programme, initially for up to £50.0 million and extended in 2015 and 2016 to £150.0 million, to be reviewed periodically to take account of anticipated investment opportunities and the balance of the Group's debt and equity capital resources. During the period the Company bought back a further 6.6 million of its ordinary shares at a cost of £27.0 million, which are held in treasury (note 22). This programme will continue during the second half of the year with these shares also being initially held in treasury. Treasury shares may subsequently be cancelled.

The Company currently has the necessary shareholder approval to undertake such share buy-backs under an authority granted at its 2017 Annual General Meeting, when a special resolution seeking authority for the Company to purchase up to 28.0 million of its own shares (10% of the issued share capital excluding treasury shares) was approved by shareholders.

The share buy-back programme, together with the issue of debt, has reduced the amount of the Group's central funding represented by equity at 31 March 2017 to 76.7% from 79.0% twelve months earlier (note 4c), with this trend expected to continue.

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

FINANCIAL REVIEW

The six months ended 31 March 2017 saw the Group's underlying profit (appendix B) increase by 1.0% to £70.1 million (2016 H1: £69.4 million) while on the statutory basis profit before tax remained broadly similar at £69.4 million (31 March 2016: £69.5 million). Earnings per share increased by 7.3% to 20.5p (31 March 2016: 19.1p).

Results for the Period

Consolidated Results

For the six months ended 31 March 2017

	2017 H1 £m	2016 H1 £m
Interest receivable	203.8	203.4
Interest payable and similar charges	(90.3)	(93.6)
Net interest income	113.5	109.8
Other operating income	10.2	12.5
Total operating income	123.7	122.3
Operating expenses	(50.4)	(49.4)
Provisions for losses	(3.2)	(3.5)
	70.1	69.4
Fair value net (losses) / gains	(0.7)	0.1
Operating profit being profit on ordinary activities before taxation	69.4	69.5
Tax charge on profit on ordinary activities	(13.0)	(13.6)
Profit on ordinary activities after taxation	**56.4**	**55.9**
Basic earnings per share	20.5p	19.1p
Diluted earnings per share	19.9p	18.8p
Dividend – rate per share for the period	4.7p	4.3p

Total operating income increased by 1.1% to £123.7 million (2016 H1: £122.3 million).

Within this, net interest income in the period increased to £113.5 million from £109.8 million for the six months ended 31 March 2016. The increase principally reflects the growth in the size of the average loan book, which rose by 3.6% to £10,838.9 million (31 March 2016: £10,457.8 million) (note C).

Annualised net interest margins ('NIM') remained stable in the six months to 31 March 2017 at 2.11%, the same as that achieved in the corresponding period last year (note C), despite the additional £5.4 million interest cost of the Tier 2 Bond issued in September 2016. NIM is expected to remain broadly flat in 2017, absorbing the Tier 2 costs. Excluding the effect of the Tier 2 bond interest, NIM is expect to improve by between 10 and 15 basis points for the financial year.

Other operating income was £10.2 million for the six months, compared with £12.5 million in the comparable period in 2016. The reduction principally results from lower levels of servicing in Idem Capital, with formerly administered third party assets being acquired by the Group, partly offset by £1.5 million of commission income from the Premier Asset Finance business acquired in September 2016.

Operating expenses for the period increased by 2.0% to £50.4 million from £49.4 million for the six months ended 31 March 2016. The cost base for the year is expected to be in the £100.0 million to £105.0 million range.

The cost:income ratio, at 40.7% (note A) was broadly similar to that in the comparable period in the preceding year (40.4%), despite the increased size and complexity of the business and the investment made in launching new product lines. The Board remains focused on controlling operating costs through the application of rigorous budgeting and monitoring procedures, and expects the cost:income ratio for the asset finance business to improve as it is integrated into the Group and starts to see the benefits of income growth from its expanded operations. The Board is targeting a medium term cost:income ratio of 30% to 35%.

The charge of £3.2 million for loan impairment has remained stable at the levels seen in the first half of the previous year (2016 H1: £3.5 million). As an annualised percentage of average loans to customers the impairment charge has remained, at 0.06%, similar to that for the six months ended 31 March 2016 (0.07%) (note C). The Group has seen favourable trends in arrears performance over the period, both in terms of new cases reducing and customers correcting past arrears, whilst increasing property values have served to reduce overall exposure to losses on enforcement of security. The loan books continue to be carefully managed and the credit performance of the buy-to-let book remains exemplary.

Yield curve movements during the period resulted in hedging instrument fair value net losses of £0.7 million (2016 H1: £0.1 million net gain), which do not affect cash flow. The fair value movements of hedged assets or liabilities are expected to trend to zero over time, as such this item represents a timing difference. The Group remains economically and appropriately hedged.

Tax has been charged at an effective rate of 18.7%, compared with 19.6% for the corresponding period last year; the reduction principally arising from the reduction in the rate of UK Corporation Tax applying to the Group in the period from 19.0% to 18.5% and the inclusion of disallowable acquisition costs in the 2016 result.

Profits after taxation of £56.4 million (2016 H1: £55.9 million) have been transferred to shareholders' funds, which totalled £994.2 million at the period end (31 March 2016: £964.4 million), representing a tangible net asset value of £3.27 per share (31 March 2016: £3.09) and an underlying net asset value of £3.65 per share (31 March 2016: £3.40) (note D).

The information on related party transactions required by DTR 4.2.8(1) of the Disclosure and Transparency Rules is given in note 30.

Segmental Results

The Group analyses its results between three segments, which are the principal divisions for which performance is monitored:

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

The underlying operating profits of these divisions are detailed fully in note 6 and are summarised below.

	Six months to 31 March 2017	Six months to 31 March 2016
	£m	£m
Underlying profit / (loss)		
Paragon Mortgages	**33.6**	44.7
Idem Capital	**22.3**	25.5
Paragon Bank	**14.2**	(0.8)
	70.1	69.4

Paragon Mortgages

Trading activity during the year in the Paragon Mortgages division was very strong, however much of the new business generated by the division was funded by Paragon Bank and is included in that segment. The segment contributed £33.6 million to underlying Group profit (2016 H1: £44.7 million), the reduced profit level resulting from lower levels of new lending on its own account, given the Group's greater focus on retail funding, together with the sale of seasoned assets to Paragon Bank in the period. The segment also had higher allocated funding costs following the Group's Tier 2 bond issue in September 2016.

Idem Capital

The Idem Capital division's portfolios performed strongly in the period to 31 March 2017 and, while the division benefitted from new investments made during the year and firm cost control, the transfer of previously acquired assets to the Paragon Bank division towards the end of the comparative period resulted in Idem Capital's underlying profit contribution reducing to £22.3 million (2016 H1: £25.5 million).

Paragon Bank

The increasing maturity of Paragon Bank, the acquisition of the asset finance business in the previous year and the purchase of assets from the Paragon Mortgages segment have resulted in this segment achieving an underlying profit of £14.2 million (2016 H1: loss of £0.8 million). This includes £7.2 million of profit arising in the asset finance business. The loss recorded in the period ended 31 March 2016 included acquisition costs of £2.5 million. Paragon Bank has invested heavily both in the development of the risk and compliance structure required for regulatory purposes and to provide the foundations for organic growth across its product lines. As these product lines grow the Bank will naturally increase the utilisation of the present fixed cost base improving its overall cost effectiveness.

Assets and Liabilities

The Group's balance sheet is summarised in the table below.

Summary Balance Sheet

31 March 2017

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Intangible assets	**104.6**	87.0	105.5
Investment in customer loans	**10,940.2**	10,853.1	10,737.5
Derivative financial assets	**1,044.0**	939.9	1,366.4
Free cash	**257.4**	152.7	366.5
Other cash	**916.2**	742.6	871.1
Other assets	**68.9**	70.8	71.4
Total assets	**13,331.3**	12,846.1	13,518.4
Equity	**994.2**	964.4	969.5
Retail deposits	**2,347.4**	1,426.4	1,873.9
Borrowings	**9,839.7**	10,303.3	10,502.6
Pension deficit	**38.4**	24.0	58.4
Other liabilities	**111.6**	128.0	114.0
Total equity and liabilities	**13,331.3**	12,846.1	13,518.4

The Group's loan assets include:

- First mortgage assets, with new originations and legacy assets in Paragon Mortgages, new originations in Paragon Bank and purchased assets in Idem Capital

- Second mortgages, with new originations in Paragon Bank, legacy assets in Paragon Mortgages and purchased assets in Idem Capital

- Car finance loans, with new originations in Paragon Bank and legacy assets in Paragon Mortgages

- Asset finance loans, included in the Paragon Bank segment

- Other unsecured consumer lending with purchased assets in Idem Capital and legacy assets in Paragon Mortgages

An analysis of the Group's financial assets by type is shown in note 14. Movements in the Group's loan asset balances are discussed in the lending review section.

Movements in derivative financial assets arise principally as a result of the effect of changes in exchange rates on instruments forming cash flow hedges for the Group's floating rate notes. These movements do not impact on the Group's results.

Cash flows from the Group's securitisation vehicle companies and the acquired portfolios remain strong. These, together with debt raisings, financed further investments in loan portfolios, the capital requirements of Paragon Bank and credit enhancement for mortgage originations. Cash was also utilised in the share buy-back programme, which commenced during December 2014 and where £127.7 million (including costs) had been deployed by 31 March 2017. Free cash balances were £257.4 million at 31 March 2017 (31 March 2016: £152.7 million) ahead of the repayment of the Group's £110.0 million Corporate Bond in April 2017.

Movements in the Group's funding are discussed in the funding review section.

The triennial revaluation of the Group's defined benefit pension plan as at 31 March 2016 was agreed in principle with the Trustee during the period. As a result, an experience gain has been accounted for and mortality assumptions updated, leading to the deficit under International Accounting Standard ('IAS') 19 reducing to £38.4 million (30 September 2016: £58.4 million). This resulted in an actuarial gain in other comprehensive income of £20.7 million before tax (2016 H1: £2.7 million loss). However gilt yields remain at low levels with a corresponding impact on the discounting factor used in the IAS19 valuation of the liability.

OPERATIONS REVIEW

Management and People

The Group has always recognised that its people are key to its future growth and development. The training and development of employees together with a rigorous recruitment and selection process are a key part of the Group's organic growth strategy and underpin the strong progress made.

During the period the Group exceeded 1,300 employees as its operations expanded to add specialist skills in both customer facing roles and central professional services areas to further develop its future growth plans.

The Living Wage is an important part of the Group's values and people strategy and the Group supports the principle, espoused by the Living Wage Foundation, that it is good for business, good for the individual and good for society. The Group's pay levels meet the requirements of the National Living Wage and it received formal accreditation from the UK Living Wage Foundation in June 2016.

Diversity has also been a focus for the Group and in January 2017 the first set of internal targets under the Women in Finance Charter were published. These include a target of 35% female representation in senior management roles by January 2022, increasing from 26% at the time the targets were set. The Group Finance Director is the executive sponsor and progress against the targets will be monitored by the Executive Committee. A full list of the Group's diversity targets can be found on the 'Corporate Responsibility' section of the Group's website, and progress against these targets will be reported in the Group's Strategic Report at the year end.

The Group conducts annual diversity awareness training for managers and additional communication events are planned in the coming months. A voluntary and anonymous diversity survey has been completed recently with a response rate of 78%, significantly above industry average. Actions to promote equal opportunities within recruitment, learning and career development will continue to be an important element of the people strategy.

The Group is well advanced in its preparations to complete its Gender Pay Gap reporting by the required deadline. The first results, based on the April 2017 pay date, will be published in this year's Annual Report and Accounts.

The Group prides itself on the high retention rate in its workforce. Its annual employee attrition rate of 5.4% is below the national average and 31% of its people have been with Paragon for more than ten years, with 8% having achieved over 20 years' service. We believe this is due to providing quality development opportunities and creating a place at which people want to work, which has in turn meant that knowledge and experience have been retained in each of our specialist areas. The Group has managed an efficient operation over the past six months, increasing employee numbers by 0.4% over the period. We believe the Group's people are well positioned to support its future growth strategy.

During the period work has continued to embed the internal mentoring programme, accredited by the Chartered Management Institute, helping to support succession planning strategy and develop future leaders. Further work has continued with local secondary schools, colleges and universities, with industrial placements and apprenticeships becoming a feature for some of the Group's specialist areas.

Plans are in place to begin to draw down on the Apprenticeship Levy with formal apprenticeship programmes currently being identified across our different business lines and specialist areas. Regulatory training programmes have been launched to ensure employees remain competent to deliver good customer outcomes and there are usually over 100 people completing professional qualifications at any one time across the Group.

The health and wellbeing of the Group's employees is an important element of its people strategy. During the period the Group continued to offer lifestyle assessments and new discounted gym memberships, while promoting its employee assistance programme with external occupational health support. In addition, mental health awareness sessions were delivered to line managers across the Group.

The Group's statement under the Modern Slavery Act 2015 was published on its website in March 2017 and relevant policies have been appropriately updated. All employees are currently completing an e-learning module on this subject to raise awareness and understanding.

During the period the Board, initially through the Nomination Committee, has continued to give in-depth consideration to the increasing demands made of non-executive directors, particularly in the financial services sector and how it might ensure the Board has sufficient capacity to meet those requirements. In particular it is considering how best additional retail and SME banking experience could be added to the independent element of the Board.

The Group's succession planning strategy continues to be an important area of focus, with key roles in the Group identified from a leadership and specialist perspective. Immediate successors are in place for these roles for the short term to provide business continuity and longer term succession plans are being developed for those with career aspirations and strong potential. This area will remain a priority for the Board, with the assistance of the Nomination Committee, during the remainder of the year.

Risk

In the last six months, the Group has continued to develop its ability to manage all categories of risk. This has included enhancing its risk appetite statements, introducing a new operational risk management system and investing in new skilled resource in areas such as cyber security and capital risk management. This ongoing investment in people and systems is intended to ensure that the Risk and Compliance function has sufficient capability and capacity to provide effective oversight of the Group's expanding activities.

The Group's risk governance framework is based upon a formal three lines of defence model. Within this framework the Credit, Asset and Liability and Operational Risk and Compliance Committees, formed of senior management, report to the board level Risk and Compliance Committee. This committee comprises the Chairman and the independent non-executive directors of the Company.

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

- The **first line of defence**, comprising executive directors, managers and employees, holds primary responsibility for designing, operating and monitoring risk management and control processes

- The **second line of defence** is provided by the Risk and Compliance division, together with executive risk committees (as noted above) which report to the Risk and Compliance Committee

- The **third line of defence** is provided by the Group Internal Audit function and the Audit Committee which are responsible for reviewing the effectiveness of the first and second lines of defence

Significant elements of the risk environment faced by the Group during the last six months include:

- Continuing uncertainty regarding the impact on the UK economy and capital markets of the decision to leave the European Union. This uncertainty is likely to be heightened by the UK Government's decision to hold a General Election in June 2017

- Transitional risks arising from the ongoing integration of recent business acquisitions into the Group

- Continuing high levels of cyber-security risk given the increasing frequency and sophistication of cyber-attacks on the financial services sector

- Potential impact of changes in the regulatory and fiscal environment for buy-to-let mortgages in the UK

- Impact of new proposals on capital regulation from the BCBS

- The need to ensure compliance with a number of significant impending key regulatory and legal changes including the Fourth Money Laundering Directive and General Data Protection Regulation

The Group is carefully monitoring and responding to these risks as they develop and considers itself well placed to mitigate their impact.

A summary of the principal risks and uncertainties faced by the Group is given on page 30.

Regulation

The Group is subject to consolidated supervision by the PRA as it contains an authorised bank. In addition, a number of the Group's subsidiaries covering a large part of its operations are authorised and regulated by the FCA. As a result, the impact on the Group of the current rate of change within the regulatory environment, driven by domestic and European policy, is significant. This has been particularly evident in relation to prudential risk as additional aspects of the Basel III supervisory regime are rolled out and the BCBS consults on further changes.

The governance and control structure within the Group has therefore been developed to ensure that the impacts of all new regulatory requirements on the business are clearly understood and that appropriate preparations are made before these requirements are implemented. Regular reports on key regulatory developments are received at both executive and board risk committees, assessing the potential implications for the Group, along with necessary actions to be undertaken.

Following its review of the buy-to-let market during 2015, the PRA published its Supervisory Statement 'Underwriting standards for buy-to-let mortgage contracts' in September 2016. The statement, which was broadly in line with the proposals contained within the original Consultation Paper, is designed to enhance underwriting standards in the specialist buy-to-let market.

As described in the lending review, the Group's historically conservative approach to the underwriting of buy-to-let lending is entirely consistent with the PRA's objective of ensuring that lenders conduct such business in a prudent manner, avoiding inappropriate lending and the potential for excessive credit losses.

Phase one of the PRA statement – which came into force in January 2017 – introduced changes to ICRs and interest rate stress tests, ensuring lenders undertake appropriate checks on applications to ensure that repayments are not only affordable at the outset, but also for the foreseeable future. The phase two changes, which are to be implemented by September 2017, include requirements to submit formal regulatory returns for buy-to-let lending, the segmentation of 'Portfolio Landlords', those with four or more buy-to-let properties, and further enhancements to the affordability model. The internal policy, procedural and system changes required to meet the requirements of phase one were all introduced well ahead of the regulatory deadline at the turn of the year. A project is currently in progress to ensure the Group meets the remaining PRA requirements and is on track to be completed in good time for the implementation date. These further changes are not expected to have a material impact on the operations of the business.

The FCA has introduced new measures to capture financial crime data in order to enhance their understanding of aspects such as fraud and money laundering. As a result, the Group will be required to file its first report at the end of the current financial year in September 2017 and processes are already in place to capture this data, and enable its accurate reporting.

In March 2017, further requirements relating to the Senior Managers and Certification regime took effect. The implementation of the 'full' Certification regime, along with the rolling out of the Conduct Rules, now apply to all Bank employees, apart from those undertaking purely ancillary functions. All procedures required by the new regime in respect of Senior Managers and Certification Regime staff have been completed, and training modules rolled out for all remaining Bank employees to whom the Conduct Rules now apply. The Group is conscious of the extension of the regime to other financial services firms with effect from 2018, and is taking appropriate steps to ensure it can comply with the requirements.

The Government published its draft Money Laundering Regulations during March 2017. The new regulations, which come into force on 26 June 2017, will see changes to the approach to customer due diligence, seek ways to prevent new means of terrorist financing, and improve the transparency of beneficial ownership of companies and trusts. This will bring the UK's Anti-Money Laundering and Counter Financing for Terrorism regime in line with the latest international standards. The Group had previously reviewed the original Fourth Money Laundering Directive proposals and implemented a formal programme of work to address any changes required to operational procedures. The changes proposed by the latest regulations are not expected to have a significant impact on the Group's existing project plan.

The General Data Protection Regulation will pass into English law on 25 May 2018, irrespective of developments in relation to the UK's withdrawal from the European Union. This represents the most significant revision of data protection law for some 20 years. A project is taking place, drawing on external specialist advice as required, to ensure all areas of the Group will comply with the legislation from May 2018.

Overall, the Group considers that it is well placed to address all these regulatory changes.

CONCLUSION

The Group has delivered another strong performance for the six months ended 31 March 2017, delivering improving earnings, dividends and RoTE, the latter progressing towards our medium-term target of 15%. Importantly, this has all been achieved whilst continuing the process of strategically repositioning the Group as a more broadly based specialist banking business, benefitting from the structural changes emerging in the UK retail banking sector.

The Group has moved a long way in a relatively short period and is transitioning towards a more broadly based UK specialist banking business. The Bank is now delivering strong profits, the vast majority of the Group's new funding requirements and represents the foundation for growth going forward.

There has been excellent progress in the Group's various lending activities with clear evidence emerging of the structural shift in the UK banking markets towards specialist lenders, whose strength and capabilities are built on a greater understanding of the markets and customers they serve, delivering more tailored products and supported by superior technology. The Group's buy-to-let pipeline has more than doubled across the period and points to lending volumes for the full year exceeding our original expectations. Further, the Group is well positioned to exploit the opportunities that will emerge from the additional PRA underwriting rules due later this year. Whilst the buy-to-let market, overall, is forecast to be subdued, we are confident of growing our market share. Equally in the Group's other lending areas, particularly asset finance, strong growth has been achieved, with further growth expected. We have also extended our range of products supporting wider areas of the mortgage, consumer and SME markets, whilst maintaining our long established and disciplined credit standards.

Although the current environment is benign, economic and political uncertainties do exist. The Group's strategic progress in the growing specialist lending markets is being supported by a strong capital base, with a CET1 ratio of 15.9%, increasingly deep and diversified funding sources, an exemplary credit performance and through-the-cycle experience.

With the buy-to-let pipeline having more than doubled this year, and all other areas of the Group experiencing buoyant growth, we approach the period ahead with confidence and optimism in being able to meet our expectations.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. In the opinion of the directors these have not changed materially from those described in section A2.2 of the last annual report and accounts of the Company for the year ended 30 September 2016. These are summarised opposite.

The Group has considered and responded to all of these risks, mitigating the exposure as far as is practicable to ensure that its risk profile remains within the Board's stated risk appetite.

Category	Risk	Description
Business	Economic	The UK's triggering of Article 50 of the Treaty on European Union in March 2017 has the potential to create greater economic uncertainty in the near term. This could impact demand for loans, customers' ability to re-pay outstanding balances and security values. In the next six months, this uncertainty will be heightened by the UK government's decision to hold a General Election in early June 2017.
	Concentration	The Group's business plans could be particularly affected by any downturn in the performance of the UK private rented sector and / or further regulatory intervention to control buy-to-let lending.
	Transition	Failure to integrate acquired businesses safely and effectively could adversely affect the Group's business plans and damage its reputation.
Credit	Customer	Failure to target and underwrite lending effectively could result in customers becoming less able to service debt, exposing the Group to credit losses.
	Counterparty	Failure of an institution holding the Group's cash deposits or providing hedging facilities for risk mitigation could expose the Group to loss or liquidity issues.
Conduct	Fair outcomes	Failure to deliver appropriate customer outcomes could impact on the Group's reputation and its financial performance.
Operational	People	Failure to attract or retain appropriately skilled key employees at all levels could impact upon the Group's ability to deliver its business plans.
	Systems	The inability of the Group's systems to support its business operations effectively and / or guard against cyber security risks could result in reputational and financial losses.
	Regulation	Given the highly regulated sectors in which the Group operates, compliance failures or failures to respond effectively to new and emerging regulatory developments could result in reputational damage and financial loss.
Liquidity and Capital	Funding	Increased volatility in wholesale markets could reduce the Group's funding and liquidity options, restricting its ability to lend.
	Capital	Proposals by the BCBS to change capital requirements for lending secured on residential property could have adverse financial implications for the Group.
Market	Interest rates	Reduction in margins between market lending and borrowing rates or mismatches in the Group balance sheet could impact profits.
Pension Obligation	Pensions	The obligation to support the Group's defined benefit pension plan might deplete resources.

DIRECTORS' RESPONSIBILITES

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

- the condensed financial statements have been prepared in accordance with International Accounting Standard 34 – 'Interim Financial Reporting', issued by the IASB and as adopted and endorsed by the European Union

- the Interim Management Report includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year)

- the Interim Management Report includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the UK Listing Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so)

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

Pandora Sharp
Company Secretary

23 May 2017

Board of Directors

Robert G Dench
Nigel S Terrington
Richard J Woodman
John A Heron
Fiona J Clutterbuck
Alan K Fletcher
Peter J N Hartill
Hugo R Tudor

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 March 2017 (Unaudited)

	Note	**Six months to 31 March 2017 £m**	Six months to 31 March 2016 £m	Year to 30 September 2016 £m
Interest receivable	*7*	**203.8**	203.4	411.4
Interest payable and similar charges	*8*	**(90.3)**	(93.6)	(188.2)
Net interest income		**113.5**	109.8	223.2
Other leasing income		**7.6**	5.6	13.0
Related costs		**(5.5)**	(2.5)	(10.0)
Net leasing income		**2.1**	3.1	3.0
Other income	*9*	**8.1**	9.4	17.8
Other operating income		**10.2**	12.5	20.8
Total operating income		**123.7**	122.3	244.0
Operating expenses		**(50.4)**	(49.4)	(92.5)
Provisions for losses		**(3.2)**	(3.5)	(7.7)
Operating profit before fair value items		**70.1**	69.4	143.8
Fair value net (losses) / gains	*10*	**(0.7)**	0.1	(0.6)
Operating profit being profit on ordinary activities before taxation		**69.4**	69.5	143.2
Tax charge on profit on ordinary activities	*11*	**(13.0)**	(13.6)	(27.2)
Profit on ordinary activities after taxation		**56.4**	55.9	116.0

	Note	**Six months to 31 March 2017**	Six months to 31 March 2016	Year to 30 September 2016
Basic earnings per share	*12*	**20.5p**	19.1p	40.5p
Diluted earnings per share	*12*	**19.9p**	18.8p	39.7p
Dividend – rate per share for the period	*21*	**4.7p**	4.3p	13.5p

The results for the periods shown above relate entirely to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2017 (Unaudited)

	Note	**Six months to 31 March 2017**	Six months to 31 March 2016	Year to 30 September 2016
	Note	**£m**	£m	£m
Profit for the period		**56.4**	55.9	116.0
Other comprehensive income / (expenditure)				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gain / (loss) on pension plan	*26*	**20.7**	(2.7)	(37.2)
Tax thereon		**(3.9)**	0.5	6.8
		16.8	(2.2)	(30.4)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedge (losses) / gains taken to equity		**(0.6)**	1.5	5.0
Tax thereon		**0.1**	(0.3)	(1.0)
		(0.5)	1.2	4.0
Other comprehensive income / (expenditure) for the period net of tax		**16.3**	(1.0)	(26.4)
Total comprehensive income for the period		**72.7**	54.9	89.6

CONSOLIDATED BALANCE SHEET

31 March 2017 (Unaudited)

	Note	31 March 2017	31 March 2016	30 September 2016	30 September 2015
		£m	£m	£m	£m
Assets employed					
Non-current assets					
Intangible assets	*13*	**104.6**	87.0	105.4	7.7
Property, plant and equipment		**43.0**	36.7	39.2	22.1
Financial assets	*14*	**11,991.7**	11,800.3	12,116.4	10,745.8
		12,139.3	11,924.0	12,261.0	10,775.6
Current assets					
Other receivables		**18.4**	9.5	12.7	6.2
Short term investments	*17*	**-**	17.3	7.1	41.1
Cash and cash equivalents	*18*	**1,173.6**	895.3	1,237.6	1,056.0
		1,192.0	922.1	1,257.4	1,103.3
Total assets		**13,331.3**	12,846.1	13,518.4	11,878.9
Financed by					
Equity shareholders' funds					
Called-up share capital	*19*	**296.5**	309.6	295.9	309.3
Reserves	*20*	**783.4**	793.4	736.1	760.2
Share capital and reserves		**1,079.9**	1,103.0	1,032.0	1,069.5
Own shares	*22*	**(85.7)**	(138.6)	(62.5)	(100.0)
Total equity		**994.2**	964.4	969.5	969.5
Current liabilities					
Financial liabilities	*23*	**1,679.4**	809.5	1,128.3	339.6
Current tax liabilities		**15.3**	16.7	16.7	12.5
Other liabilities		**54.4**	63.3	56.3	43.0
		1,749.1	889.5	1,201.3	395.1
Non-current liabilities					
Financial liabilities	*23*	**10,521.2**	10,958.4	11,264.8	10,481.4
Retirement benefit obligations	*26*	**38.4**	24.0	58.4	21.5
Deferred tax		**5.3**	8.1	2.0	11.3
Other liabilities		**23.1**	1.7	22.4	0.1
		10,588.0	10,992.2	11,347.6	10,514.3
Total liabilities		**12,337.1**	11,881.7	12,548.9	10,909.4
		13,331.3	12,846.1	13,518.4	11,878.9

The condensed financial statements for the half year were approved by the Board of Directors on 23 May 2017.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2017 (Unaudited)

	Note	Six months to 31 March 2017	Six months to 31 March 2016	Year to 30 September 2016
		£m	£m	£m
Net cash flow generated by operating activities	*27*	**324.3**	243.1	865.2
Net cash generated / (utilised) by investing activities	*28*	**4.9**	(285.9)	(278.6)
Net cash (utilised) by financing activities	*29*	**(393.1)**	(118.2)	(405.5)
Net (decrease) / increase in cash and cash equivalents		**(63.9)**	(161.0)	181.1
Opening cash and cash equivalents		**1,236.4**	1,055.3	1,055.3
Closing cash and cash equivalents		**1,172.5**	894.3	1,236.4
Represented by balances within				
Cash and cash equivalents	*18*	**1,173.6**	895.3	1,237.6
Financial liabilities		**(1.1)**	(1.0)	(1.2)
		1,172.5	894.3	1,236.4

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 31 March 2017 (Unaudited)

Six months ended 31 March 2017

	Note	Share capital	Share premium	Capital redemption reserve	Merger reserve	Cash flow hedging reserve	Profit and loss account	Own shares	**Total equity**
	Note	£m	£m	£m	£m	£m	£m	£m	**£m**
Transactions arising from									
Profit for the period		-	-	-	-	-	56.4	-	**56.4**
Other comprehensive income		-	-	-	-	(0.5)	16.8	-	**16.3**
Total comprehensive income		-	-	-	-	(0.5)	73.2	-	**72.7**
Transactions with owners									
Dividends paid	*21*	-	-	-	-	-	(25.4)	-	**(25.4)**
Shares cancelled		-	-	-	-	-	-	-	**-**
Own shares purchased		-	-	-	-	-	-	(27.0)	**(27.0)**
Shares issued to ESOP		-	-	-	-	-	-	-	**-**
Exercise of share awards		0.6	0.9	-	-	-	(3.8)	3.8	**1.5**
Charge for share based remuneration		-	-	-	-	-	2.3	-	**2.3**
Tax on share based remuneration		-	-	-	-	-	0.6	-	**0.6**
Net movement in equity in the period		0.6	0.9	-	-	(0.5)	46.9	(23.2)	**24.7**
Opening equity		295.9	64.6	13.7	(70.2)	2.1	725.9	(62.5)	**969.5**
Closing Equity		**296.5**	**65.5**	**13.7**	**(70.2)**	**1.6**	**772.8**	**(85.7)**	**994.2**

Six months ended 31 March 2016

	Note	Share capital	Share premium	Capital redemption reserve	Merger reserve	Cash flow hedging reserve	Profit and loss account	Own shares	**Total equity**
		£m	£m	£m	£m	£m	£m	£m	**£m**
Transactions arising from									
Profit for the period		-	-	-	-	-	55.9	-	**55.9**
Other comprehensive income		-	-	-	-	1.2	(2.2)	-	**(1.0)**
Total comprehensive income		-	-	-	-	1.2	53.7	-	**54.9**
Transactions with owners									
Dividends paid	*21*	-	-	-	-	-	(21.7)	-	**(21.7)**
Shares cancelled		-	-	-	-	-	-	-	-
Own shares purchased		-	-	-	-	-	-	(39.9)	**(39.9)**
Shares issued to ESOP		0.3	-	-	-	-	-	(0.3)	**-**
Exercise of share awards		-	-	-	-	-	(1.6)	1.6	**-**
Charge for share based remuneration		-	-	-	-	-	2.1	-	**2.1**
Tax on share based remuneration		-	-	-	-	-	(0.5)	-	**(0.5)**
Net movement in equity in the period		0.3	-	-	-	1.2	32.0	(38.6)	**(5.1)**
Opening equity		309.3	64.6	-	(70.2)	(1.9)	767.7	(100.0)	**969.5**
Closing Equity		**309.6**	**64.6**	**-**	**(70.2)**	**(0.7)**	**799.7**	**(138.6)**	**964.4**

Year ended 30 September 2016

	Note	Share capital	Share premium	Capital redemption reserve	Merger reserve	Cash flow hedging reserve	Profit and loss account	Own shares	**Total equity**
		£m	£m	£m	£m	£m	£m	£m	**£m**
Transactions arising from									
Profit for the year		-	-	-	-	-	116.0	-	**116.0**
Other comprehensive income		-	-	-	-	4.0	(30.4)	-	**(26.4)**
Total comprehensive income		-	-	-	-	4.0	85.6	-	**89.6**
Transactions with owners									
Dividends paid	*21*	-	-	-	-	-	(33.9)	-	**(33.9)**
Shares cancelled		(13.7)	-	13.7	-	-	(94.0)	94.0	-
Own shares purchased		-	-	-	-	-	-	(59.9)	**(59.9)**
Shares issued to ESOP		0.3	-	-	-	-	-	(0.3)	**-**
Exercise of share awards		-	-	-	-	-	(3.7)	3.7	**-**
Charge for share based remuneration		-	-	-	-	-	4.4	-	**4.4**
Tax on share based remuneration		-	-	-	-	-	(0.2)	-	**(0.2)**
Net movement in equity in the year		(13.4)	-	13.7	-	4.0	(41.8)	37.5	**-**
Opening equity		309.3	64.6	-	(70.2)	(1.9)	767.7	(100.0)	**969.5**
Closing Equity		**295.9**	**64.6**	**13.7**	**(70.2)**	**2.1**	**725.9**	**(62.5)**	**969.5**

SELECTED NOTES TO THE ACCOUNTS

For the six months ended 31 March 2017 (Unaudited)

1. General Information

The condensed financial statements are prepared for The Paragon Group of Companies PLC and its subsidiary companies ('the Group') on a consolidated basis.

The condensed financial statements for the six months ended 31 March 2017 and for the six months ended 31 March 2016 have not been audited, as defined in section 434 of the Companies Act 2006.

The figures shown above for the years ended 30 September 2016 and 30 September 2015 are not statutory accounts. A copy of the statutory accounts for each year has been delivered to the Registrar of Companies. The auditors reported on those statutory accounts and their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain an adverse statement under sections 498 (2) or 498 (3) of the Companies Act 2006.

A copy of the half-yearly financial report will be posted to those shareholders who have requested to receive one and additional copies can be obtained from the Company Secretary, The Paragon Group of Companies PLC, 51 Homer Road, Solihull, West Midlands, B91 3QJ.

This half-yearly financial report is also available on the Group's website at www.paragon-group.co.uk.

2. Accounting Policies

The condensed financial statements are presented in accordance with the requirements of International Accounting Standard 34 – 'Interim Financial Reporting'.

The Group prepares its annual financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union. The condensed financial statements have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts of the Group for the year ended 30 September 2016, which are expected to be used in the preparation of the financial statements of the Group for the year ending 30 September 2017.

The critical accounting estimates and judgements affecting the condensed financial information are the same as those described in note 5 to the accounts of the Group for the year ended 30 September 2016.

New and revised reporting standards

No new or revised reporting standards significantly affecting the Group's accounting have been issued since the approval of the Group's financial statements for the year ended 30 September 2016.

The Group's IFRS 9 project, described in note 2 of those financial statements, continues to make progress towards the Group's implementation date for the standard of 1 October 2018. A more detailed report on progress will be given in the Annual Report and Accounts for the year ending 30 September 2017.

Going concern basis

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position, are described in the Interim Management Report on pages 6 to 29. The principal risks and uncertainties affecting the Group in the forthcoming six months are described on page 30.

Note 6 to the accounts for the year ended 30 September 2016 includes an analysis of the Group's working capital position and policies, while note 7 includes a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, interest rate and liquidity risk. Note 5 to those accounts discusses critical accounting estimates affecting the results and financial position disclosed therein. The position and policies described in these notes remain materially unchanged to the date of this half-yearly report, subject to the changes in funding described in note 25.

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

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

The Group's retail deposits of £2,347.4m (note 24), accepted through Paragon Bank, are repayable within five years, with 63.8% of this balance (£1,498.3m) payable within twelve months of the balance sheet date. The liquidity exposure represented by these deposits is closely monitored, a process supervised by the Asset and Liability Committees of the parent company and Paragon Bank. The Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 31 March 2017 Paragon Bank held £485.5m in liquid assets, shown in the balance sheet as cash (note 18). A further £108.8m of liquidity was provided by the Bank of England Funding for Lending Scheme, bringing the total to £594.3m.

Paragon Bank manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented as part of the Bank's approved Individual Liquidity Adequacy Assessment Process ('ILAAP'). The Bank maintains a liquidity framework that includes a short to medium term cash flow requirement analysis, a longer-term funding plan and access to the Bank of England's liquidity insurance facilities, where pre-positioned assets give access to an additional £123.0m of further drawings.

The Group's £110.0m corporate bond was repaid in April 2017, after the balance sheet date. The outstanding principal balance of the Group's retail bonds at 31 March 2017 was £297.5m, none of which is repayable before December 2020. The Tier 2 Bond issued by the Group in September 2016 matures in 2026.

The Group's cash analysis continues to show strong free cash balances, even after allowing for significant discretionary cash flows, and its securitisation investments produce significant cash flows.

The Group has demonstrated in the recent past its ability to raise retail bond debt and it has a history of raising new corporate debt when required. The Group's access to debt is also enhanced by its corporate BBB- rating, reaffirmed by Fitch Ratings in April 2017, and its status as an issuer is evidenced by the BB+ rating granted to its Tier-2 Bond issue in September 2016 and subsequently reaffirmed.

At 31 March 2017 the Group had free cash balances of £257.4m immediately available for use (note 18) and would still have had £146.5m available after setting aside cash for the corporate bond repayment.

As described in note 4 the Group's capital base is subject to consolidated supervision by the PRA. Its capital at 31 March 2017 was in excess of regulatory requirements and group forecasts show this continuing to be the case.

Accounting standards require the directors to assess the Group's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to those aspects of the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014 applicable to half-yearly reporting.

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

After performing this assessment, the directors concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the half-yearly report.

3. Fair Values of Financial Assets and Financial Liabilities

IFRS 7 – 'Financial Instruments: Disclosures' requires that where assets are measured at fair value these measurements should be classified using a fair value hierarchy reflecting the inputs used, and defines three levels.

- Level 1 measurements are unadjusted market prices
- Level 2 measurements are derived from observable data, such as market prices or rates
- Level 3 measurements rely on significant inputs which are not derived from observable data

As quoted prices are not available for level 2 and 3 measurements, the valuation is derived from cash flow models based, where possible, on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

The Group had no financial assets or liabilities in the period ended 31 March 2017 or the year ended 30 September 2016 valued using level 3 measurements.

The Group has not reclassified any of its measurements during the period.

The methods by which fair value is established for each class of financial assets and liabilities is set out below.

a) Assets and liabilities carried at fair value

Derivative financial assets and 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, being 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, 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. Management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors.

These valuations are based on market information and they are therefore classified as level 2 measurements. Details of these assets are given in note 16.

Short term investments

The short term investments described in note 17 are freely traded securities for which a market price quotation is available and are classified as level 1 measurements.

b) Assets and liabilities carried at amortised cost

Cash, bank loans and securitisation borrowings

The fair values of cash and cash equivalents, bank loans and overdrafts and asset backed loan notes, which are carried at amortised cost are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets mature within three months of the period end and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises.

While the Group's asset backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it and an adjustment is required. As these valuation exercises are not wholly market based they are considered to be level 2 measurements.

Corporate debt

The Group's retail and corporate bonds are listed on the London Stock Exchange and there is presently a reasonably liquid market in the instruments. It is therefore appropriate to consider that the market price of these borrowings constitutes a fair value. As this valuation is based on a market price, it is considered to be a level 1 measurement.

Retail deposits

To assess the likely fair value of the Group's retail deposit liabilities, the directors have considered the estimated cash flows expected to arise based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. Given the mixture of observable and non-observable inputs, these are considered to be level 2 measurements.

Loan assets

To assess the likely fair value of the Group's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. Given the mixture of observable and non-observable inputs these are considered to be level 2 measurements

The fair values for financial assets and liabilities held at amortised cost, other than those where carrying values are so low that any difference would be immaterial, determined in accordance with the methodologies set out above is summarised below:

	31 March 2017 Carrying amount £m	31 March 2017 Fair value £m	31 March 2016 Carrying amount £m	31 March 2016 Fair value £m	30 September 2016 Carrying amount £m	30 September 2016 Fair value £m
Financial assets						
Loans and receivables						
Loans to customers	**10,940.2**	**10,970.6**	10,853.1	10,867.0	10,737.5	10,754.4
Cash and cash equivalents	**1,173.6**	**1,173.6**	895.3	895.3	1,237.6	1,237.6
	12,113.8	**12,144.2**	11,748.4	11,762.3	11,975.1	11,992.0
Financial liabilities						
Other liabilities						
Asset backed loan notes	**7,491.9**	**7,491.9**	8,414.7	8,414.7	8,374.1	8,374.1
Corporate and retail bonds	**554.6**	**583.3**	405.0	401.7	554.3	573.3
Retail deposits	**2,347.4**	**2,354.7**	1,426.4	1,430.8	1,873.9	1,887.2
Bank loans	**1,448.2**	**1,448.2**	1,510.6	1,510.6	1,573.0	1,573.0
	11,842.1	**11,878.1**	11,756.7	11,757.8	12,375.3	12,407.6

4. Capital Management

The Group's objectives in managing capital are:

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

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

The Group is subject to regulatory capital rules imposed by the PRA on a consolidated basis as a group containing an authorised bank. This is discussed further below.

(a) Dividend policy

The Company's dividend policy, announced in 2012 has been to target a dividend cover ratio of between 3.0 and 3.5 times by the end of the financial year ended 30 September 2016. The target of 3.0 times was achieved in respect of the financial year ended 30 September 2016 and the Company has stated its intention to operate a progressive dividend policy, maintaining the 3.0 times cover ratio going forward. The Company considers that it has sufficient cash resources available to pay dividends at this level, and that it has abundant distributable reserves for this purpose.

(b) Return on tangible equity

RoTE is defined by the Group by comparing the profit after tax for the period, adjusted for amortisation charged on intangible assets, to the average of the opening and closing equity positions, excluding intangible assets and goodwill.

The Group's consolidated annualised RoTE for the six months ended 31 March 2017 is derived as follows:

	31 March 2017	31 March 2016	30 September 2016	30 September 2015
	£m	£m	£m	£m
Profit for the period	**56.4**	55.9	116.0	107.1
Amortisation of intangible assets	**0.8**	0.7	1.6	1.4
Adjusted profit	**57.2**	56.6	117.6	108.5
Divided by				
Opening equity	**969.5**	969.5	969.5	947.1
Opening intangible assets	**(105.4)**	(7.7)	(7.7)	(7.9)
Opening tangible equity	**864.1**	961.8	961.8	939.2
Closing equity	**994.2**	964.4	969.5	969.5
Closing intangible assets	**(104.6)**	(87.0)	(105.4)	(7.7)
Closing tangible equity	**889.6**	877.4	864.1	961.8
Average tangible equity	**876.8**	919.6	913.0	950.5
Return on tangible equity	**13.5%**	12.7%	12.9%	11.4%

(c) Gearing

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

The debt and equity amounts at 31 March 2017 were as follows:

		31 March 2017	31 March 2016	30 September 2016	30 September 2015
	Note	**£m**	£m	£m	£m
Debt					
Corporate bond		**260.0**	110.0	260.0	110.0
Retail bonds		**297.5**	297.5	297.5	297.5
Bank overdraft		**1.1**	1.0	1.2	0.7
Less: Applicable free cash	*18*	**(257.4)**	(152.7)	(366.5)	(199.9)
Net debt		**301.2**	255.8	192.2	208.3
Equity					
Total equity		**994.2**	964.4	969.5	969.5
Less: cash flow hedging reserve	*20*	**(1.6)**	0.7	(2.1)	1.9
Adjusted equity		**992.6**	965.1	967.4	971.4
Total working capital		**1,293.8**	1,220.9	1,159.6	1,179.7
Debt		**23.3%**	21.0%	16.6%	17.7%
Equity		**76.7%**	79.0%	83.4%	82.3%
Total working capital		**100.0%**	100.0%	100.0%	100.0%

(d) Regulatory capital

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

The Group's regulatory capital is monitored by the Board of Directors, its Risk and Compliance Committee and the Asset and Liability Committee, who ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

At 31 March 2017 the Group's regulatory capital of £1,021.9m (31 March 2016: £891.9m, 30 September 2016: £1,005.6m) was comfortably in excess of that required by the regulator. The Group had sufficient regulatory capital throughout the period.

The Group's regulatory capital differs from its equity as certain adjustments are required by the regulator. A reconciliation of the Group's equity to its unverified regulatory capital determined in accordance with CRD IV at 31 March 2017 is set out opposite.

	Note	**31 March 2017**	31 March 2016	30 September 2016	30 September 2015
		£m	£m	£m	£m
Total equity	§	**994.2**	964.4	969.5	969.5
Deductions					
Proposed dividend	21	**(12.8)**	(12.2)	(25.5)	(21.8)
Committed share buy-backs	‡	**(10.8)**	-	-	-
Intangible assets	13	**(104.6)**	(87.0)	(105.4)	(7.7)
Deferred tax adjustment	*	**-**	-	-	(0.3)
Common Equity Tier 1 ('CET1') capital		**866.0**	865.2	838.6	939.7
Other tier 1 capital		**-**	-	-	-
Total tier 1 capital		**866.0**	865.2	838.6	939.7
Corporate bond		**260.0**	110.0	260.0	110.0
Less: amortisation adjustment	†	**(108.8)**	(86.8)	(97.8)	(75.8)
		151.2	23.2	162.2	34.2
Collectively assessed credit impairment allowances		**4.7**	3.5	4.8	2.4
Total tier 2 capital		**155.9**	26.7	167.0	36.6
Total regulatory capital		**1,021.9**	891.9	1,005.6	976.3

§ Including results for the six months ended 31 March 2017 and therefore unverified for regulatory purposes.

‡ Buy-backs for which irrevocable purchase authority has been given to the Group's brokers under the share buy-back programme.

* Deferred tax assets in subsidiary companies are required to be deducted from regulatory capital. This balance is offset against the deferred tax liability in the consolidated accounts.

† When tier 2 capital instruments have less than five years to maturity the amount eligible as regulatory capital reduces by 20% per annum on a straight line basis. The Group's £110.0m Corporate Bond matured in April 2017 and therefore such an amortisation adjustment is required.

The total risk exposure calculated under the CRD IV framework, against which this capital is held, and the proportion of this exposure it represents, are calculated as shown below.

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Credit risk			
Balance sheet assets	**4,847.0**	4,860.9	4,728.4
Off balance sheet	**89.5**	65.7	51.5
Total credit risk	**4,936.5**	4,926.6	4,779.9
Operational risk	**445.7**	409.7	445.7
Market risk	**-**	-	-
Other	**59.4**	53.6	61.9
Total risk exposure	**5,441.6**	5,389.9	5,287.5
Solvency ratios	**%**	%	%
CET1	**15.9**	16.1	15.9
Total regulatory capital	**18.8**	16.5	19.0

This table not covered by the Independent Review Report

The CRD IV risk weightings for credit risk exposures are calculated using the Standardised Approach. Operational risk is calculated using the Basic Indicator Approach.

The table below shows the calculation of the UK leverage ratio, based on the consolidated balance sheet assets adjusted as shown below:

		31 March 2017	31 March 2016	30 September 2016
	Note	**£m**	£m	£m
Total balance sheet assets		**13,331.3**	12,846.1	13,518.4
Less: Derivative assets	*16*	**(1,044.0)**	(939.9)	(1,366.4)
Central bank deposits	*18*	**(408.5)**	(81.5)	(315.0)
On-balance sheet items		**11,878.8**	11,824.7	11,837.0
Less: Intangible assets	*13*	**(104.6)**	(87.0)	(105.4)
Total on balance sheet exposures		**11,774.2**	11,737.7	11,731.6
Derivative assets	*16*	**1,044.0**	939.9	1,366.4
Potential future exposure on derivatives		**217.7**	71.2	68.6
Total derivative exposures		**1,261.7**	1,011.1	1,435.0
Post offer pipeline at gross notional amount		**458.9**	292.9	273.8
Adjustment to convert to credit equivalent amounts		**(229.5)**	(146.4)	(136.9)
Off balance sheet items		**229.4**	146.5	136.9
Tier 1 capital		**866.0**	865.2	838.6
Total leverage exposure		**13,265.3**	12,895.3	13,303.5
UK leverage ratio		**6.5%**	6.7%	6.3%

This table not covered by the Independent Review Report

The regulatory capital disclosures in these financial statements relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the period.

This leverage ratio is prescribed by the PRA and differs from the Basel / CRR ratio due to the exclusion of central bank deposits from exposures.

5. Credit Risk

The Group's business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of acquiring or underwriting a new loan, where strict lending criteria are applied, and throughout the loan's life.

The Group's credit risk is primarily attributable to its loans to customers. There are no significant concentrations of credit risk to individual counterparties due to the large number of customers included in the portfolios.

The Group's loan assets at 31 March 2017, 31 March 2016 and 30 September 2016 are analysed as follows:

	31 March 2017		31 March 2016		30 September 2016	
	£m	%	£m	%	£m	%
Buy-to-let mortgages	9,700.0	88.7%	9,736.3	89.7%	9,621.2	89.6%
Owner occupied mortgages	17.2	0.2%	25.0	0.2%	19.4	0.2%
Total first mortgages	**9,717.2**	**88.9%**	9,761.3	89.9%	9,640.6	89.8%
Secured loans	509.2	4.6%	562.1	5.2%	526.8	4.9%
Loans secured on residential property	**10,226.4**	**93.5%**	10,323.4	95.1%	10,167.4	94.7%
Development finance	31.2	0.3%	1.0	-	9.1	0.1%
Commercial mortgages	2.9	-	3.4	-	2.9	-
Loans secured on property	**10,260.5**	**93.8%**	10,327.8	95.1%	10,179.4	94.8%
Car loans	124.0	1.1%	73.6	0.7%	95.3	0.9%
Retail finance loans	0.1	-	0.2	-	0.2	-
Other consumer loans	244.8	2.2%	216.4	2.0%	194.9	1.8%
Asset finance loans	289.0	2.7%	224.9	2.1%	250.4	2.3%
Factoring and discounting balances	20.9	0.2%	9.8	0.1%	16.9	0.2%
Other loans	0.9	-	0.4	-	0.4	-
Total loans to customers	**10,940.2**	**100.0%**	10,853.1	100.0%	10,737.5	100.0%

Other loans include unsecured loans either advanced by Group companies or acquired from their originators at a discount.

An analysis of the indexed loan to value ratio ('LTV') for those loan accounts secured on property by value at 31 March 2017 is set out below. For acquired accounts the effect of any discount on purchase is allowed for.

	31 March 2017		31 March 2016		30 September 2016	
	First Mortgages	Secured Loans	First Mortgages	Secured Loans	First Mortgages	Secured Loans
	%	%	%	%	%	%
Loan to value ratio						
Less than 70%	61.0	53.1	52.0	40.3	60.7	50.9
70% to 80%	23.1	17.7	28.2	18.6	23.4	17.8
80% to 90%	10.9	11.9	11.7	16.5	11.3	13.0
90% to 100%	2.7	8.3	5.4	11.9	2.2	8.9
Over 100%	2.3	9.0	2.7	12.7	2.4	9.4
	100.0	100.0	100.0	100.0	100.0	100.0
Average loan to value ratio	67.1	71.9	69.3	78.2	67.1	72.7
Buy-to-let	67.2		69.5		67.2	
Owner-occupied	27.5		28.9		27.5	

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an increase of 0.6% during the six months ended 31 March 2017 and an annual increase of 5.3% in the year ended 30 September 2016.

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 31 March 2017, 31 March 2016 and 30 September 2016, compared to the industry averages at those dates published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was:

	31 March 2017	31 March 2016	30 September 2016
	%	%	%
First mortgages			
Accounts more than three months in arrears			
Buy-to-Let accounts including receiver of rent cases	**0.09**	0.14	0.11
Buy-to-Let accounts excluding receiver of rent cases	**0.01**	0.02	0.02
Owner Occupied accounts	**3.00**	3.13	3.23
CML data for mortgage accounts more than three months in arrears			
Buy-to-Let accounts including receiver of rent cases	**0.49**	0.56	0.55
Buy-to-Let accounts excluding receiver of rent cases	**0.45**	0.51	0.50
Owner Occupied accounts	**1.00**	1.14	1.11
All mortgages	**0.91**	1.04	1.01
Second charge mortgage loans			
Accounts more than 2 months in arrears			
All accounts	**17.52**	17.01	17.15
Paragon Bank originations	**0.00**	0.00	0.00
Legacy cases	**16.67**	16.08	16.33
Purchased assets	**19.24**	18.45	17.86
FLA data for second mortgages	**11.60**	13.20	12.40
Car loans			
Accounts more than 2 months in arrears	**0.45**	0.43	0.30
FLA data for consumer hire purchase	**1.60**	1.50	1.40
Asset finance loans			
Accounts more than 2 months in arrears	**0.98**	1.23	0.82
FLA data for business lease / hire purchase loans	**0.70**	0.60	0.60
Other consumer loans			
Accounts more than 2 months in arrears	**95.69**	95.64	96.35

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 31 March 2016 or 30 September 2016 has been published by the FLA or CML, the comparative industry figures above have been amended.

Arrears information is not given for development finance or factoring activities as the structure of the products means that such a measure is not relevant.

The Group calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, including purchased Idem Capital assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by the CML in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will be higher for closed books such as the owner occupied mortgage book and the retail finance and unsecured loan books than for comparable active ones, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The figures shown above for secured loans and other loans include purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price.

The payment status of the carrying balances of the Group's live loan assets, before provision for impairment, at 31 March 2017, 31 March 2016 and at 30 September 2016 split between those accounts considered as performing and those included in the population for impairment testing, is shown below. Balances for immaterial asset classes are not shown. Asset finance loans below includes other related loan balances. Fully provided non-live accounts are excluded from the tables below.

Days past due is not a relevant measure for the development finance or invoice discounting businesses, due to their particular contractual arrangements.

First Mortgages

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Performing accounts (less than 3 months arrears)	**9,694.9**	9,733.2	9,528.1
Impairment population	**37.0**	50.1	47.3
	9,731.9	9,783.3	9,575.4

Condensed Financial Statements

Consumer and Asset Finance

	Secured loans	Car loans	Asset finance loans	Total
	£m	£m	£m	£m
31 March 2017				
Performing accounts (less than 2 months arrears)	433.2	124.0	293.4	850.6
Impairment population	81.0	0.8	4.9	86.7
	514.2	**124.8**	**298.3**	**937.3**
31 March 2016				
Performing accounts (less than 2 months arrears)	479.2	73.9	224.8	777.9
Impairment population	95.0	0.4	4.3	99.7
	574.2	74.3	229.1	877.6
30 September 2016				
Performing accounts (less than 2 months arrears)	448.3	95.7	253.1	797.1
Impairment population	87.0	0.4	5.0	92.4
	535.3	96.1	258.1	889.5

Other Loans

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Performing accounts (less than 1 month arrears)	**9.6**	6.0	4.4
Impairment population	**251.1**	227.4	206.9
	260.7	233.4	211.3

Arrears in the tables above are based on the contractual payment status of the customers concerned. Where assets have been purchased by the Idem Capital loan investment business, customers may already have been in arrears at the time of acquisition and an appropriate adjustment made to the consideration paid.

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

However, to aid comparability, the 84 and 120 month ERC values for the Group's purchased assets are set out below, analysed by the balance sheet line on which they appear. These are derived from the same models and assumptions used in the effective interest rate calculations.

	31 March 2017	31 March 2016	30 September 2016	30 September 2015
	£m	£m	£m	£m
Carrying value				
Loans to customers	**558.8**	593.5	533.9	432.9
Investments in structured entities	**-**	-	-	18.1
	558.8	593.5	533.9	451.0
84 month ERC				
Loans to customers	**670.8**	716.8	651.3	555.1
Investments in structured entities	**-**	-	-	25.7
	670.8	716.8	651.3	580.8
120 month ERC				
Loans to customers	**762.4**	823.2	740.7	647.3
Investments in structured entities	**-**	-	-	30.4
	762.4	823.2	740.7	677.7

The analysis of these balances between the Idem Capital and Paragon Bank segments is shown in note 14.

Amounts shown as loans to customers above include loans disclosed as first mortgages and other loans (note 14).

6. Segmental Results

The Group analyses its operations, both for internal management reporting and external financial reporting, on the basis of the entities within the Group generating its assets. The segments used are described below.

- Paragon Mortgages includes revenue, in the form of interest and ancillary income, from the Group's first mortgage operations, other than the buy-to-let lending of Paragon Bank, and from assets remaining in legacy portfolios

- Idem Capital includes revenue generated from assets purchased by the Group's debt investment business, Idem Capital Holdings Limited, other than those financed by Paragon Bank and from third party loan administration activity

- Paragon Bank includes revenue, in the form of interest and ancillary income, generated from the Group's regulated banking business, Paragon Bank PLC and its subsidiary companies

Each of these businesses invests in consumer finance or SME finance assets. An analysis of the Group's financial assets by type is shown in note 14.

Dedicated financing and administration costs of each of these businesses are allocated to the segment. Shared costs, and the financing costs of the Group's working capital invested, are allocated based on each segment's use of those resources.

No profit has been recognised in the segmental disclosures below in respect of transfers of loan assets between segments.

Financial information about these business segments, prepared on the same basis as used in the consolidated accounts of the Group, is shown opposite.

Six months ended 31 March 2017

	Paragon Mortgages	Idem Capital	Paragon Bank	Total
	£m	£m	£m	£m
Interest receivable	110.1	37.3	56.4	**203.8**
Interest payable	(61.3)	(4.9)	(24.1)	**(90.3)**
Net interest income	48.8	32.4	32.3	**113.5**
Other operating income	4.1	0.2	5.9	**10.2**
Total operating income	52.9	32.6	38.2	**123.7**
Operating expenses	(15.9)	(10.3)	(24.2)	**(50.4)**
Provisions for losses	(3.4)	-	0.2	**(3.2)**
	33.6	22.3	14.2	**70.1**
Fair value net gain / (loss)	0.2	-	(0.9)	**(0.7)**
Operating profit	33.8	22.3	13.3	**69.4**
Tax charge				**(13.0)**
Profit after taxation				**56.4**

Six months ended 31 March 2016

	Paragon Mortgages	Idem Capital	Paragon Bank	Total
	£m	£m	£m	£m
Interest receivable	135.3	42.8	25.3	203.4
Interest payable	(73.9)	(7.3)	(12.4)	(93.6)
Net interest income	61.4	35.5	12.9	109.8
Other operating income	3.9	3.2	5.4	12.5
Total operating income	65.3	38.7	18.3	122.3
Operating expenses	(17.5)	(13.2)	(18.7)	(49.4)
Provisions for losses	(3.1)	-	(0.4)	(3.5)
	44.7	25.5	(0.8)	69.4
Fair value net (loss) / gain	(0.1)	-	0.2	0.1
Operating profit / (loss)	44.6	25.5	(0.6)	69.5
Tax charge				(13.6)
Profit after taxation				**55.9**

Year ended 30 September 2016

	Paragon Mortgages	Idem Capital	Paragon Bank	Total
	£m	£m	£m	£m
Interest receivable	264.2	76.4	70.8	411.4
Interest payable	(144.5)	(11.9)	(31.8)	(188.2)
Net interest income	119.7	64.5	39.0	223.2
Other operating income	8.1	4.0	8.7	20.8
Total operating income	127.8	68.5	47.7	244.0
Operating expenses	(31.8)	(23.1)	(37.6)	(92.5)
Provisions for losses	(6.1)	-	(1.6)	(7.7)
	89.9	45.4	8.5	143.8
Fair value net (loss)	(0.4)	-	(0.2)	(0.6)
Operating profit	89.5	45.4	8.3	143.2
Tax charge				(27.2)
Profit after taxation				**116.0**

The assets of the segments listed above are:

	31 March 2017	31 March 2016	30 September 2016	30 September 2015
	£m	£m	£m	£m
Paragon Mortgages	**9,894.9**	10,844.1	11,044.9	10,622.9
Idem Capital	**359.3**	338.0	314.2	481.2
Paragon Bank	**3,077.1**	1,664.0	2,159.3	774.8
Total assets	**13,331.3**	12,846.1	13,518.4	11,878.9

Condensed Financial Statements

7. Interest Receivable

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Interest receivable in respect of			
First mortgages	**133.3**	137.1	277.1
Secured consumer loans	**34.2**	28.7	63.9
Other consumer loans	**18.8**	20.0	36.6
Development finance	**0.9**	-	0.2
Finance leases	**14.1**	10.0	22.6
Interest on loans to customers	**201.3**	195.8	400.4
Other interest receivable	**1.5**	3.2	5.6
Factoring income	**1.0**	2.0	3.0
Income from structured entities	**-**	2.4	2.4
Total interest on financial assets	**203.8**	203.4	411.4

8. Interest Payable and Similar Charges

	Note	**31 March 2017**	31 March 2016	30 September 2016
		£m	£m	£m
On retail deposits		**20.1**	12.3	29.5
On asset backed loan notes		**40.1**	54.4	103.4
On corporate bonds		**7.6**	2.1	4.8
On retail bonds		**9.2**	9.2	18.5
On central bank facilities		**0.3**	-	-
On bank loans and overdrafts		**11.6**	14.6	29.7
Total interest on financial liabilities		**88.9**	92.6	185.9
On pension scheme deficit	*26*	**0.7**	0.4	0.8
Discounting on contingent consideration		**0.1**	-	-
Other finance costs		**0.6**	0.6	1.5
		90.3	93.6	188.2

9. Other Income

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m
Loan account fee income	**4.3**	3.6	7.7
Insurance income	**-**	0.6	1.2
Third party servicing	**1.7**	4.6	7.4
Other income	**2.1**	0.6	1.5
	8.1	9.4	17.8

10. Fair Value Net (Losses) / Gains

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

11. Tax Charge on Profit on Ordinary Activities

Income tax for the six months ended 31 March 2017 is charged at an effective rate of 18.7% (six months ended 31 March 2016: 19.6%, year ended 30 September 2016: 19.0%), representing the best estimate of the annual effective rate of income tax expected for the full year, applied to the pre-tax income of the period.

The reduction in the period is principally attributable to the reduction in the UK Corporation Tax rate applicable to the Group from 20.0% in the year ended 30 September 2016 to 19.5% in the current year, and the inclusion in the result for 2016 of disallowable acquisition costs.

12. Earnings Per Share

Earnings per ordinary share is calculated as follows:

	31 March 2017	31 March 2016	30 September 2016
Profit for the period (£m)	**56.4**	55.9	116.0
Basic weighted average number of ordinary shares ranking for dividend during the period (m)	**275.4**	291.8	286.5
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (m)	**7.4**	5.5	5.5
Diluted weighted average number of ordinary shares ranking for dividend during the period (m)	**282.8**	297.3	292.0
Earnings per ordinary share			
- basic	**20.5p**	19.1p	40.5p
- diluted	**19.9p**	18.8p	39.7p

13. Intangible Assets

Intangible assets at net book value comprise:

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Goodwill	**98.0**	80.0	98.4	1.6
Computer software	**1.9**	1.9	2.1	1.6
Other intangibles	**4.7**	5.1	4.9	4.5
Total assets	**104.6**	87.0	105.4	7.7

The reduction in goodwill in the period is due to the finalisation of the acquisition accounts of Premier Asset Finance Limited, acquired by the Group on 30 September 2016.

Condensed Financial Statements

14. Financial Assets

	Note	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Loans to customers		**10,940.2**	10,853.1	10,737.5	10,062.4
Fair value adjustments from portfolio hedging		**7.5**	7.3	12.5	5.2
Investments in structured entities		**-**	-	-	18.1
Derivative financial assets	*16*	**1,044.0**	939.9	1,366.4	660.1
Total assets		**11,991.7**	11,800.3	12,116.4	10,745.8

During the period ended 31 March 2016, the structured entities in which the Group had invested sold their loan assets to the Group and the investments of the participants, including the Group, were repaid.

The Group's loans to customers and investments in structured entities at 31 March 2017, analysed between the segments described in note 7, were as follows:

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Paragon Mortgages				
First mortgage loans	**8,020.2**	8,945.2	8,620.4	9,046.7
Consumer loans	**81.6**	160.1	147.6	175.0
Asset finance	**-**	-	-	-
Other loans	**-**	-	-	-
Loans to customers	**8,101.8**	9,105.3	8,768.0	9,221.7
Investments in structured entities	**-**	-	-	-
Total investment in loans	**8,101.8**	9,105.3	8,768.0	9,221.7
Idem Capital				
First mortgage loans	**13.6**	13.9	13.7	14.5
Consumer loans	**318.1**	292.9	269.6	418.4
Asset finance	**-**	-	-	-
Other loans	**-**	-	-	-
Loans to customers	**331.7**	306.8	283.3	432.9
Investments in structured entities	**-**	-	-	18.1
Total investment in loans	**331.7**	306.8	283.3	451.0
Paragon Bank				
First mortgage loans	**1,714.6**	802.2	1,015.6	349.6
Consumer loans	**478.4**	399.3	400.0	58.2
Asset finance	**289.0**	224.9	250.4	-
Other loans	**24.7**	14.6	20.2	-
Loans to customers	**2,506.7**	1,441.0	1,686.2	407.8
Investments in structured entities	**-**	-	-	-
Total investment in loans	**2,506.7**	1,441.0	1,686.2	407.8
Total				
First mortgage loans	**9,748.4**	9,761.3	9,649.7	9,410.8
Consumer loans	**878.1**	852.3	817.2	651.6
Asset finance	**289.0**	224.9	250.4	-
Other loans	**24.7**	14.6	20.2	-
Loans to customers	**10,940.2**	10,853.1	10,737.5	10,062.4
Investments in structured entities	**-**	-	-	18.1
Total investment in loans	**10,940.2**	10,853.1	10,737.5	10,080.5

Of the assets shown above, the balances acquired through the Group's Idem Capital debt purchase operation were as follows:

	31 March 2017	31 March 2016	30 September 2016	30 September 2015
	£m	£m	£m	£m
Loans to customers				
Idem Capital	**331.7**	306.8	283.3	432.9
Paragon Bank	**224.1**	286.7	250.6	-
	555.8	593.5	533.9	432.9
Investments in structured entities				
Idem Capital	**-**	-	-	18.1
Paragon Bank	**-**	-	-	-
	-	-	-	18.1
Total purchased debt interests	**555.8**	593.5	533.9	451.0

15. Impairment Provisions on Loans to Customers

The following amounts in respect of impairment provisions, net of allowances for recoveries of written off assets, have been deducted from the appropriate assets in the balance sheet.

	First mortgages	**Other loans and receivables**	**Finance leases**	**Total**
	£m	**£m**	**£m**	**£m**
At 30 September 2016	88.8	22.6	1.2	**112.6**
Provided in the period	2.8	1.2	1.0	**5.0**
Amounts written off	(1.9)	(3.3)	(0.1)	**(5.3)**
At 31 March 2017	**89.7**	**20.5**	**2.1**	**112.3**

At 30 September 2015	86.0	24.4	0.6	111.0
Provided in the period	2.4	1.2	0.5	4.1
Amounts written off	(1.0)	(2.1)	-	(3.1)
At 31 March 2016	87.4	23.5	1.1	112.0

At 30 September 2015	86.0	24.4	0.6	111.0
Provided in the year	4.9	2.7	1.9	9.5
Amounts written off	(2.1)	(4.5)	(1.3)	(7.9)
At 30 September 2016	88.8	22.6	1.2	112.6

Of the above balances, the following provisions were held in respect of realised losses not charged off, which remain on the balance sheet and are provided for in full.

	First mortgages	**Other loans and receivables**	**Finance leases**	**Total**
	£m	**£m**	**£m**	**£m**
At 31 March 2017	**75.6**	**-**	**0.1**	**75.7**
At 31 March 2016	71.3	0.2	0.2	71.7
At 30 September 2016	72.4	0.1	0.1	72.6

Condensed Financial Statements

The amounts charged to the profit and loss account, net of recoveries of previously provided amounts are set out below.

	First mortgages	Other loans and receivables	Finance leases	Total
	£m	£m	£m	£m
Six months ended 31 March 2017				
Amounts provided in the period	2.8	1.2	1.0	**5.0**
Recovery of amounts previously provided	(0.1)	(0.3)	(1.4)	**(1.8)**
Net impairment for period	**2.7**	**0.9**	**(0.4)**	**3.2**
Six months ended 31 March 2016				
Amounts provided in the period	2.4	1.2	0.5	4.1
Recovery of amounts previously provided	-	(0.4)	(0.2)	(0.6)
Net impairment for period	2.4	0.8	0.3	3.5
Year ended 30 September 2016				
Amounts provided in the year	4.9	2.7	1.9	9.5
Recovery of amounts previously provided	(0.1)	(0.1)	(1.6)	(1.8)
Net impairment for year	4.8	2.6	0.3	7.7

Condensed Financial Statements

16. Derivative Financial Assets and Liabilites

	Note	**31 March 2017**	31 March 2016	30 September 2016	30 September 2015
	Note	**£m**	£m	£m	£m
Derivative financial assets	*14*	**1,044.0**	939.9	1,366.4	660.1
Derivative financial liabilities	*23*	**(12.1)**	(10.2)	(15.8)	(6.7)
		1,031.9	929.7	1,350.6	653.4
Of which:					
Foreign exchange basis swaps		**1,042.2**	938.4	1,364.8	659.8
Other derivatives		**(10.3)**	(8.7)	(14.2)	(6.4)
		1,031.9	929.7	1,350.6	653.4

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

17. Short Term Investments

This amount represented treasury bills and other liquid securities held as part of the liquidity requirement of Paragon Bank PLC. As such they were designated as 'Available for Sale', as defined by IAS 39 - 'Financial Instruments: Recognition and Measurement' and are consequently shown at market value. The Bank's liquidity requirements are currently met through central bank deposits and liquidity facilities and therefore it is no longer required to hold treasury bills.

18. Cash and Cash Equivalents

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Balances with central banks	**408.5**	81.5	315.0	286.0
Balances with other banks	**765.1**	813.8	922.6	770.0
	1,173.6	895.3	1,237.6	1,056.0

Only 'Free Cash' is unrestrictedly available for the Group's general purposes. Cash received in respect of loan assets is not immediately available, due to the terms of the warehouse facilities and the securitisations. Cash held in the Group's banking entity, Paragon Bank, and its subsidiaries is subject to regulatory rules covering liquidity and capital adequacy, and is shown as 'Bank Cash' below.

'Cash and Cash Equivalents' also includes balances held by the Trustees of the Paragon Employee Share Ownership Plan ('ESOP') which may only be used to invest in the shares of the Company, pursuant to the aims of that plan.

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

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Free cash	**257.4**	152.7	366.5	199.9
Securitisation cash	**428.3**	636.1	537.1	530.9
Bank cash	**485.5**	104.1	331.6	323.3
ESOP cash	**2.4**	2.4	2.4	1.9
	1,173.6	895.3	1,237.6	1,056.0

19. Called-Up Share Capital

	Six months to 31 March 2017 Number	Six months to 31 March 2016 Number	Year to 30 September 2016 Number
Ordinary shares of £1 each			
At 1 October 2016	**295,852,094**	309,349,316	309,349,316
Shares issued	**608,205**	213,425	218,872
Shares cancelled	**-**	-	(13,716,094)
At 31 March 2017	**296,460,299**	309,562,741	295,852,094

During the period the Company issued nil shares at par (six months ended 31 March 2016: 163,045; year ended 30 September 2016: 163,045) to the trustees of its ESOP Trust in order that they could fulfil their obligations under the Group's share based award arrangements. It also issued 608,205 shares (six months ended 31 March 2016: 50,380; year ended 30 September 2016: 55,827) to satisfy options granted under sharesave schemes for a consideration of £1,495,848 (six months ended 31 March 2016: £55,730; year ended 30 September 2016: £68,070).

20. Reserves

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Share premium account	**65.5**	64.6	64.6	64.6
Capital redemption reserve	**13.7**	-	13.7	-
Merger reserve	**(70.2)**	(70.2)	(70.2)	(70.2)
Cash flow hedging reserve	**1.6**	(0.7)	2.1	(1.9)
Profit and loss account	**772.8**	799.7	725.9	767.7
	783.4	793.4	736.1	760.2

21. Equity Dividend

Amounts recognised as distributions to equity shareholders in the period:

	Six months to 31 March 2017 £m	Six months to 31 March 2016 £m	Year to 30 September 2016 £m
Final dividend for the year ended 30 September 2016 of 9.2p per share	**25.4**	-	-
Final dividend for the year ended 30 September 2015 of 7.4p per share	**-**	21.7	21.7
Interim dividend for the year ended 30 September 2016 of 4.3p per share	**-**	-	12.2
	25.4	21.7	33.9

An interim dividend of 4.7p per share is proposed (2016: 4.3p per share), payable on 28 July 2017 with a record date of 7 July 2017. The amount expected to be absorbed by this dividend, based on the number of shares in issue at the balance sheet date is £12.8m (31 March 2016: £12.2m). The interim dividend will be recognised in the accounts when it is paid.

22. Own Shares

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m
Treasury shares			
At 1 October 2016	**46.2**	89.2	89.2
Shares purchased	**27.0**	33.8	51.0
Shares cancelled	**-**	-	(94.0)
At 31 March 2017	**73.2**	123.0	46.2
ESOP shares			
At 1 October 2016	**16.3**	10.8	10.8
Shares purchased	**-**	6.2	8.9
Shares subscribed for	**-**	0.2	0.3
Options exercised	**(3.8)**	(1.6)	(3.7)
At 31 March 2017	**12.5**	15.6	16.3
Total at 31 March 2017	**85.7**	138.6	62.5
Total at 1 October 2016	62.5	100.0	100.0
Number of shares held			
Treasury	**21,910,963**	22,941,909	15,348,714
ESOP	**2,229,107**	3,224,335	3,594,175
Total at 31 March 2017	**24,140,070**	26,166,244	18,942,889

23. Financial Liabilities

	Note	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Current liabilities					
Corporate bonds		**110.0**	-	110.0	-
Indexed long term repo scheme		**70.0**	-	-	-
Retail deposits	*24*	**1,498.3**	808.5	1,017.1	338.9
Bank loans and overdrafts		**1.1**	1.0	1.2	0.7
		1,679.4	809.5	1,128.3	339.6
Non-current liabilities					
Asset backed loan notes		**7,491.9**	8,414.7	8,374.1	8,274.6
Corporate bond		**149.1**	110.0	149.0	110.0
Term funding scheme		**275.0**	-	-	-
Retail bonds		**295.5**	295.0	295.3	294.9
Retail deposits	*24*	**849.1**	617.9	856.8	369.8
Fair value adjustments from portfolio hedging		**0.3**	-	0.8	-
Bank loans and overdrafts		**1,448.2**	1,510.6	1,573.0	1,425.4
Derivative financial liabilities	*16*	**12.1**	10.2	15.8	6.7
		10,521.2	10,958.4	11,264.8	10,481.4

Details of changes in the Group's borrowings since the year end are given in note 25 below.

24. Retail Deposits

The Group's retail deposits, held by Paragon Bank PLC, were received from customers in the United Kingdom and are denominated in sterling. The deposits comprise principally term deposits and 120 day notice accounts. The method of interest calculation on these deposits is analysed as follows:

	31 March 2017 £m	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Fixed rate	**1,514.8**	891.3	1,332.5	508.3
Variable rates	**832.6**	535.1	541.4	200.4
	2,347.4	1,426.4	1,873.9	708.7

The weighted average interest rate on retail deposits, analysed by charging method, was:

	31 March 2017 %	31 March 2016 %	30 September 2016 %	30 September 2015 %
Fixed rate	**1.99**	2.31	2.11	2.33
Variable rates	**1.22**	1.67	1.65	1.62

The contractual maturity of these deposits is analysed below.

	Note	**31 March 2017 £m**	31 March 2016 £m	30 September 2016 £m	30 September 2015 £m
Amounts repayable					
In less than three months		**115.6**	13.4	55.7	9.1
In more than three months but not more than one year		**823.6**	532.2	690.3	242.6
In more than one year, but not more than two years		**452.7**	381.5	572.9	181.7
In more than two years, but not more than five years		**396.4**	236.4	283.9	188.1
Total term deposits		**1,788.3**	1,163.5	1,602.8	621.5
Repayable on demand		**559.1**	262.9	271.1	87.2
		2,347.4	1,426.4	1,873.9	708.7
Total falling due in less than one year	23	**1,498.3**	808.5	1,017.1	338.9
Total falling due in more than one year	23	**849.1**	617.9	856.8	369.8
		2,347.4	1,426.4	1,873.9	708.7

25. Borrowings

All borrowings described in the Group Accounts for the year ended 30 September 2016 remained in place throughout the period, except as noted below.

During the period the Group accessed further facilities under the Bank of England's Sterling Monetary Framework.

Drawings under the Indexed Long Term Repo Scheme ('ILTR') have a maturity of six months and a rate of interest set in an auction process. The current average interest rate of the Group's drawings is 0.15% above bank base rate. The drawings are secured against a designated pool of Paragon Bank mortgage assets.

Drawings under the Term Funding Scheme have a maturity of four years and bear interest at bank base rate. The average remaining maturity of the Group's drawings is 47 months and the drawings are secured against a designated pool of Paragon Bank mortgage assets.

On 20 October 2015, a Group company, Idem Luxembourg (No. 8) entered into an agreement under which £117.3m of sterling floating rate notes have been issued to Citibank NA on a limited recourse basis. These notes bear interest at a rate of one month LIBOR plus 3.50% and are secured on financial assets. A further £69.8m of notes was issued under the facility after the end of the period. This issue was used to refinance existing Idem Capital unsecured loan assets.

Of the Group's borrowings at 30 September 2016, the mortgage backed floating rate notes issued by Paragon Mortgages (No. 18) PLC were repaid in December 2016 with its assets refinanced through warehouse facilities. The asset backed loan notes issued by Paragon Personal and Auto Finance (No. 3) PLC were repaid in January 2017, following the purchase of its loan assets by other group companies, principally Paragon Bank.

During the period, the warehouse facility in Paragon Fourth Funding was not renewed and hence is in rundown. This has reduced the Group's available warehouse capacity by £300.0m.

After the period end, a call notice on the Paragon Mortgages (No. 19) PLC securitisation was issued and therefore that borrowing will be repaid in the second half of the financial year. The Group's £110.0m corporate bond was repaid, in accordance with its terms of issue, in April 2017, after the period end.

Repayments made in respect of the Group's borrowings are shown in note 29.

26. Retirement Benefit Obligations

The defined benefit obligation at 31 March 2017 has been calculated on a year-to-date basis. The defined benefit obligation takes into account the preliminary results of the Plan's statutory funding valuation as at 31 March 2016, which results in a reduction in the value of the defined benefit obligation at 31 March 2017. Since the last IAS 19 actuarial valuation at 30 September 2016 there have also been movements in financial conditions, requiring an adjustment to the actuarial assumptions underlying the calculation of the defined benefit obligation at 31 March 2017. In particular, over the period since the 30 September 2016 actuarial valuation, the discount rate has increased by 0.2% per annum, whereas expectations of long term inflation have increased by 0.1% per annum.

The net effect of these changes has resulted in a decrease in the value of the defined benefit obligation at 31 March 2017. The impact of allowing for the preliminary results of the 31 March 2016 statutory funding valuation and the change in actuarial assumptions has been recognised as an actuarial gain in other comprehensive income.

The movements in the deficit on the defined benefit plan during the six month period ended 31 March 2017 are summarised below.

	Note	**Six months to 31 March 2017**	Six months to 31 March 2016	Year to 30 September 2016
		£m	£m	£m
Opening pension deficit		**58.4**	21.5	21.5
Service cost		**1.3**	0.8	1.7
Net funding cost	*8*	**0.7**	0.4	0.8
Administrative expenses		**0.2**	0.2	0.4
Employer contributions		**(1.5)**	(1.6)	(3.2)
Amounts posted to other comprehensive income				
Return on plan assets not included in interest		**(5.3)**	(2.0)	(7.7)
Experience (gain) on liabilities		**(4.3)**	-	-
Actuarial (gain) / loss from changes in financial assumptions		**(4.4)**	4.7	44.9
Actuarial (gain) from changes in demographic assumptions		**(6.7)**	-	-
Closing pension deficit		**38.4**	24.0	58.4

27. Net Cash Flow from Operating Activities

	Six months to 31 March 2017	Six months to 31 March 2016	Year to 30 September 2016
	£m	£m	£m
Profit before tax	**69.4**	69.5	143.2
Non-cash items included in profit, and other adjustments			
Depreciation of property, plant and equipment	**0.9**	2.2	1.9
Profit on disposal of property, plant and equipment	**(0.1)**	(0.7)	(0.1)
Amortisation of intangible assets	**0.8**	0.7	1.6
Foreign exchange movements on borrowings	**(322.0)**	277.2	699.9
Other non-cash movements on borrowings	**1.9**	7.3	14.3
Impairment losses on loans to customers	**3.2**	3.5	7.7
Charge for share based remuneration	**2.3**	2.1	4.4
Net (increase) / decrease in operating assets			
Operating lease assets	**(4.3)**	-	(5.4)
Loans to customers	**(205.9)**	(554.4)	(443.0)
Derivative financial instruments	**322.4**	(279.8)	(706.3)
Fair value of portfolio hedges	**5.0**	(2.1)	(7.3)
Other receivables	**(5.7)**	0.9	(2.1)
Net increase / (decrease) in operating liabilities			
Retail deposits	**473.5**	717.7	1,165.2
Derivative financial instruments	**(3.7)**	3.5	9.1
Fair value of portfolio hedges	**(0.5)**	-	0.8
Other liabilities	**1.4**	5.2	4.9
Cash generated by operations	**338.6**	252.8	888.8
Income taxes (paid)	**(14.3)**	(9.7)	(23.6)
Net cash flow generated by operating activities	**324.3**	243.1	865.2

28. Net Cash Flow used in Investing Activities

	Six months to 31 March 2017	Six months to 31 March 2016	Year to 30 September 2016
	£m	£m	£m
Proceeds from sales of property, plant and equipment	**0.4**	0.9	0.4
Purchases of property, plant and equipment	**(0.7)**	(4.6)	(1.5)
Purchases of intangible assets	**(0.3)**	(0.7)	(1.4)
Decrease in short term investments	**7.1**	23.8	34.0
Acquisition of subsidiary	**(1.6)**	(305.3)	(310.1)
Net cash generated / (utilised) by investing activities	**4.9**	(285.9)	(278.6)

29. Net Cash Flow from Financing Activities

		Six months to 31 March 2017	Six months to 31 March 2016	Year to 30 September 2016
	Note	**£m**	£m	£m
Shares issued	*19*	**1.5**	0.1	-
Dividends paid	*21*	**(25.4)**	(21.7)	(33.9)
Issue of asset backed floating rate notes		**-**	460.3	531.0
Repayment of asset backed floating rate notes		**(561.6)**	(601.3)	(1,137.2)
Issue of corporate bonds		**-**	-	149.0
Sterling monetary framework drawings		**345.0**	-	-
Movement on bank facilities		**(125.6)**	84.4	145.5
Purchase of shares	*22*	**(27.0)**	(40.0)	(59.9)
Net cash (utilised) by financing activities		**(393.1)**	(118.2)	(405.5)

30. Related Party Transactions

In the six months ended 31 March 2017, the Group has continued the related party relationships described in note 66 on page 291 of the Annual Report and Accounts of the Group for the financial year ended 30 September 2016. Related party transactions in the period comprise the compensation of the Group's key management personnel, transactions with the Group Pension Plan and fees paid to a non-executive director in respect of his appointment as a director of the Corporate Trustee of the Group Pension Plan. There have been no changes in these relationships which could have a material effect on the financial position or performance of the Group in the period.

Save for the transactions referred to above, there have been no related party transactions in the six months ended 31 March 2017.

31. 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. These rules were finalised in a policy statement issued in March 2017.

A balance of £1.1m is recognised in other liabilities 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 our current interpretation of both the Plevin judgement and the rules, while interpretations may develop as both the judgement and the rules are implemented. Therefore, it is possible that the maximum possible liability may be greater.

INDEPENDENT REVIEW REPORT

To the Paragon Group of Companies PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2017 which comprises the income statement, the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of movements in equity and related notes 1 to 31. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2017 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Andrew Walker
for and on behalf of KPMG LLP

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

23 May 2017

ADDITIONAL FINANCIAL INFORMATION

For the six months ended 31 March 2017

A. Cost:income Ratio

Cost: income is derived as follows.

	Six months to 31 March 2017	Six months to 31 March 2016	Year to 30 September 2016
Operating expenses (£m)	**50.4**	49.4	92.5
Total operating income (£m)	**123.7**	122.3	244.0
Cost ÷ Income	**40.7%**	40.4%	37.9%

B. Underlying Profit

Underlying profit is determined by excluding from the operating result fair value accounting adjustments arising from the Group's hedging arrangements.

	Note	**Six months to 31 March 2017 £m**	Six months to 31 March 2016 £m	Year to 30 September 2016 £m
Paragon Mortgages				
Profit before tax for the period	*6*	**33.8**	44.6	89.5
Exclude: Fair value (gains) / losses		**(0.2)**	0.1	0.4
		33.6	44.7	89.9
Idem Capital				
Profit before tax for the period	*6*	**22.3**	25.5	45.4
Exclude: Fair value losses / (gains)		**-**	-	-
		22.3	25.5	45.4
Paragon Bank				
Profit / (Loss) before tax for the period	*6*	**13.3**	(0.6)	8.3
Exclude: Fair value losses / (gains)		**0.9**	(0.2)	0.2
		14.2	(0.8)	8.5
Total				
Profit before tax for the period		**69.4**	69.5	143.2
Exclude: Fair value losses / (gains)		**0.7**	(0.1)	0.6
Underlying profit before tax		**70.1**	69.4	143.8

C. Income Statement Ratios

The average net interest margin is calculated as follows:

	Note	Six months to 31 March 2017 £m	Six months to 31 March 2016 £m	Year to 30 September 2016 £m
Opening loans to customers	*14*	**10,737.5**	10,062.4	10,062.4
Closing loans to customers	*14*	**10,940.2**	10,853.1	10,737.5
Average loans to customers		**10,838.9**	10,457.8	10,400.0
Net interest		**113.5**	109.8	223.2
Annualised net interest margin		**2.11%**	2.11%	2.15%
Impairment provision		**3.2**	3.5	7.7
Impairment as a percentage of average loan balance (annualised)		**0.06%**	0.07%	0.07%

D. Net Asset Value

	Note	Six months to 31 March 2017	Six months to 31 March 2016	Year to 30 September 2016
Total equity (£m)		**994.2**	964.4	969.5
Outstanding issued shares (m)	*19*	**296.5**	309.6	295.9
Treasury shares (m)	*22*	**(21.9)**	(22.9)	(15.3)
Shares held by ESOP schemes (m)	*22*	**(2.2)**	(3.2)	(3.6)
		272.4	283.5	277.0
Net asset value per £1 ordinary share		**£3.65**	£3.40	£3.50
Tangible equity (£m)	*4*	**889.6**	877.4	864.1
Tangible net asset value per £1 ordinary share		**£3.27**	£3.09	£3.12

CONTACTS

Registered and head office	51 Homer Road Solihull West Midlands B91 3QJ Telephone: 0121 712 2323	
Investor relations	investor.relations@paragon-group.co.uk	
London office	Tower 42 Level 12 25 Old Broad Street London EC2N 1HQ Telephone: 020 7786 8474	
Internet	www.paragon-group.co.uk	
Auditor	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	
Solicitors	Slaughter and May One Bunhill Row London EC1Y 8YY	
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ Telephone: 0370 707 1244	
Brokers	Jefferies Hoare Govett Vintners Place 68 Upper Thames Street London EC4V 3BJ	UBS Limited 5 Broadgate London EC2M 2QS
Remuneration consultants	Deloitte LLP Four Brindleyplace Birmingham B1 2HZ	
Consulting actuaries	Mercer Limited Four Brindleyplace Birmingham B1 2JQ	

paragon

This brochure is printed on Cover; 400gm2 Advocate Xtreme White, Text; 120gm2 Advocate Xtreme White, supplied exclusively by Premier Paper via Lion FPG.
Advocate Xtreme benefits from the highest levels of environmental certification, including FSC, EUTR and ISO14001 + FREE Carbon Neutrality via The CarbonNeutral Company.
Printed on 100% and 50% recycled paper, manufactured at a mill with ISO14001 Environmental Management Standard.

CERTIFIED CARBON NEUTRAL® paper
CarbonNeutral.com
DIP-SOR-447028/29

paragon

THE PARAGON GROUP OF COMPANIES PLC

51 Homer Road, Solihull, West Midlands B91 3QJ
Telephone: 0121 712 2323 | www.paragon-group.co.uk | Registered No. 2336032

GRP14227 (06/2017)