

MORTGAGE TRUST LIMITED

Report and Financial Statements

Year ended 30 September 2018



STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Mortgage Trust Limited ('the Company') is a wholly owned subsidiary of Paragon Bank PLC, which is a wholly owned subsidiary of Paragon Banking Group PLC ('the Group'). The Company is a holding company coordinating the activities of its subsidiary companies. During the year the Company operated in the United Kingdom. There have been no significant changes in the Company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

As shown in the Company's profit and loss account on page 6, the Company's profit has decreased from £16,770,000 to £11,193,000. This was mainly due to a decrease in other operating income during the year which includes dividend income received from the Company's subsidiary.

The balance sheet on page 7 of the Financial Statements shows the Company's financial position at the year end. Net assets decreased due to the profit for the year bring less than the interim dividend being paid during the year. Details of amounts owed from and to other group companies are shown in notes 11 and 15.

The directors recommend no final dividend (2017: £nil) which, given the interim dividend of £1.04 pence per share (2017: £nil), means a total dividend for the year of £1.04 pence per share (2017: £nil).

The Group manages its operations on a centralised basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group's mortgage lending operation, which includes the Company, is discussed in the Group's Annual Report, which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

As the Company only acts as a holding company, its risks are derived from its subsidiary companies, a description of those risks, and the steps taken to mitigate these risks are given in note 3.

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

ENVIRONMENT

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

EMPLOYEES

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in its Annual Report, which does not form part of this Report.

Approved by the Board of Directors

and signed on behalf of the Board



K G Allen

Director

15 January 2019

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Mortgage Trust Limited, a company registered in England and Wales with registration no: 02048895, for the year ended 30 September 2018.

CORPORATE GOVERNANCE

The directors have been charged with governance in accordance with the transactional documentation detailing the mechanism and structure of the transaction. The structure of the Group is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

DIRECTORS

The directors throughout the year and subsequently were:

R D Shelton

R J Woodman.

K G Allen

AUDITOR

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

No notice from members under section 488 of the Companies Act 2006 having been received, the directors intend that the auditor, KPMG LLP, shall be deemed to be reappointed in accordance with section 487(2) of the Act.

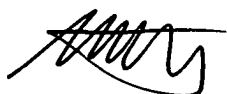
INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 3 to the accounts.
- Disclosure on any dividends paid during the year is included in the Strategic Report.

Approved by the Board of Directors

and signed on behalf of the Board



K G Allen

Director

15 January 2019

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

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

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

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

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

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

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



Pandora Sharp
Company Secretary
15 January 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORTGAGE TRUST LIMITED

Opinion

We have audited the Financial Statements of Mortgage Trust Limited for the year ended 30 September 2018 which comprise the profit and loss account, the balance sheet, the statement of movements in equity and the related notes 1 to 15, including the accounting policies in note 2.

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including Financial Reporting Standard 101 – 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORTGAGE TRUST LIMITED (CONTINUED)

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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



Matthew Rowell (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

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

15 January 2019

MORTGAGE TRUST LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 30 SEPTEMBER 2018**

	Note	2018 £000	2017 £000
Interest receivable	4	-	135
Interest payable and similar charges	5	(996)	(2,284)
Net interest expense		<u>(996)</u>	<u>(2,149)</u>
Other operating income		12,000	18,500
Operating profit, being profit on ordinary activities before taxation	7	<u>11,004</u>	<u>16,351</u>
Tax on profit on ordinary activities	8	189	419
Profit on ordinary activities after taxation	13	<u><u>11,193</u></u>	<u><u>16,770</u></u>

All activities derive from continuing operations.

There are no recognised gains or losses other than the profit for the current and preceding years, and consequently a separate statement of comprehensive income has not been presented.

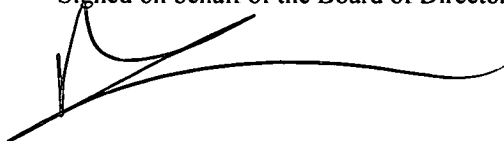
BALANCE SHEET

30 SEPTEMBER 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Investments in subsidiaries	9		131,678		131,678
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called up share capital	11	26,015		26,015	
Share premium account	12	65,250		65,250	
Profit and loss account	13	1,755		17,562	
			93,020		108,827
CREDITORS					
Amounts falling due within one year	14		38,658		22,851
			131,678		131,678

These Financial Statements were approved by the Board of Directors on 15 January 2019.

Signed on behalf of the Board of Directors



R D Shelton
Director

MORTGAGE TRUST LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2018

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>				
Profit for the year	-	-	11,193	11,193
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	11,193	11,193
<i>Transactions with owners</i>				
Issue of shares	-	-	-	-
Dividends	-	-	(27,000)	(27,000)
Net movement in equity in the year	-	-	(15,807)	(15,807)
Opening equity	26,015	65,250	17,562	108,827
Closing equity	26,015	65,250	1,755	93,020

YEAR ENDED 30 SEPTEMBER 2017

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>				
Profit for the year	-	-	16,770	16,770
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	16,770	16,770
<i>Transactions with owners</i>				
Issue of shares	10,765	-	-	10,765
Dividends	-	-	-	-
Net movement in equity in the year	10,765	-	16,770	27,535
Opening equity	15,250	65,250	792	81,292
Closing equity	26,015	65,250	17,562	108,827

NOTES TO THE ACCOUNTS**YEAR ENDED 30 SEPTEMBER 2018****1. GENERAL INFORMATION**

Mortgage Trust Limited ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 02048895. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

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

2. ACCOUNTING POLICIES

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

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

Accounting convention

The Financial Statements are prepared under the historical cost convention.

Going concern

The Financial Statements have been prepared on a going concern basis. The directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Investment in subsidiaries

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

Current taxation

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

Consolidated accounts

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

Amounts owed by or to group companies

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

NOTES TO THE ACCOUNTS**YEAR ENDED 30 SEPTEMBER 2018****2. ACCOUNTING POLICIES (CONTINUED)****Disclosures**

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

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

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

- Certain disclosures required by IFRS 13 – ‘Fair Value Measurement’
- Certain disclosures required by IFRS 7 – ‘Financial Instruments Disclosures’

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

3. FINANCIAL RISK MANAGEMENT

As the Company only acts as a holding company, its risks are derived from its subsidiary companies, as described below:

The Company’s subsidiaries operations are financed principally by group loans and, to a lesser extent, by a mixture of share capital. In addition, various financial instruments, for example debtors and accruals, arise directly from the Company’s subsidiaries operations.

It is, and has been throughout the year under review, the Company’s subsidiaries policy that no trading in financial instruments shall be undertaken.

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

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

Mortgage Trust Services PLC, a fellow group company, administers the mortgages, and the collections process is the same as that utilised for all companies in the group.

The maximum credit risk at 30 September 2018 approximates to the carrying value of loans to customers, deferred purchase consideration and subordinated loans. There are no significant concentrations of credit risk due to the large number of customers included in the portfolios of other group companies.

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

Liquidity risk

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

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

Interest rate risk

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

Currency risk

The Company's subsidiaries have no material exposure to foreign currency risk.

4. INTEREST RECEIVABLE

Interest receivable includes £nil (2017: £135,000) in respect of interest received on loans to other group companies.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £000	2017 £000
Interest payable to group companies	996	2,284

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2018

6. DIRECTORS AND EMPLOYEES

Directors received no remuneration for the services provided to the Company during either the current or the preceding year.

The Company had no employees in the current or preceding year. All administration is performed by employees of the Group. The directors of the Company are all employed by Paragon Finance PLC, a fellow group company, and their remuneration is disclosed within the Financial Statements of that company, which do not form part of this Report.

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

	2018	2017
	£000	£000
Operating profit is after receiving:		
Dividend income	12,000	18,500

The Company's audit fee of £5,000 (2017: £5,000) has been borne by a fellow subsidiary. Non audit services provided to the Group are disclosed in the accounts of the parent company and the exemption from disclosure of fees payable to the Company's auditor in respect to non-audit services in these financial statements has been taken.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax credit for the year

	2018	2017
	£000	£000
Current tax		
Group relief	(189)	(419)

b) Factors affecting the tax credit for the year

	2018	2017
	£000	£000
Profit before tax	11,004	16,351
UK corporation tax at 19% (2017: 19.5%) based on the profit for the year	2,091	3,188
Effects of:		
Tax exempt revenues	(2,280)	(3,607)
Tax charge for the year	(189)	(419)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2018

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The current rate of corporation tax applicable to the Company for the year ended 30 September 2018 is 19.0%. Legislation has been enacted that will reduce this to 17% with effect from 1 April 2020.

Therefore, the standard rate of corporation tax is expected to be 19% for the year ended 30 September 2019, 18% for the year ending 30 September 2020 and 17% thereafter. The deferred tax liability reflects the rate at which temporary differences are expected to reverse.

9. INVESTMENTS

	2018 £000	2017 £000
Shares in group undertakings		
Cost and valuation:		
Balance at 1 October 2017	131,678	131,678
Additions	-	-
Balance at 30 September 2018	<u>131,678</u>	<u>131,678</u>

10. SUBSIDIARY UNDERTAKINGS

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to the principal subsidiaries of the Company:

Name of undertaking	Country of Incorporation	% of ordinary shares held	Principal activity
Mortgage Trust Services PLC	England and Wales	100%	Provision of secured mortgage lending
First Flexible No.6 PLC	England and Wales	100%	Provision of secured mortgage lending

The registered office of each of the entities listed in this note is the same as that of the Company (note 1).

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2018

11. CALLED UP SHARE CAPITAL

	2018 £	2017 £
Called up and allotted:		
26,015,412 (2017: 15,250,003 ordinary shares of £1 each (fully paid))	26,015,412	15,250,003
10,765,409 ordinary shares of £1 each issued (fully paid)	-	10,765,409
	<u>26,015,412</u>	<u>26,015,412</u>

12. SHARE PREMIUM

	2018 £000	2017 £000
Balance at 1 October 2017 and 30 September 2018	<u>65,250</u>	<u>65,250</u>

13. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2016	792
Profit for the financial year	16,770
Dividend paid	-
At 30 September 2017	<u>17,562</u>
Profit for the financial year	11,193
Dividend paid	<u>(27,000)</u>
At 30 September 2018	<u>1,755</u>

An interim dividend of £1.04 pence per ordinary share (2017: £nil) was paid during the year. The directors do not propose a final dividend (2017: £nil).

14. CREDITORS

	2018 £000	2017 £000
Amounts falling due within one year:		
Amounts due to group companies	<u>38,658</u>	<u>22,851</u>

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2018

15. ULTIMATE PARENT COMPANY

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

Copies of the financial statements of the Company and Paragon Banking Group PLC may be obtained from the Company Secretary, 51 Homer Road, Solihull, West Midlands, B91 3QJ.