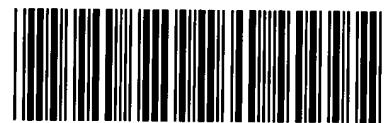


PARAGON LOAN FINANCE (NO. 2) LIMITED

Report and Financial Statements

Year ended 30 September 2016

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STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Loan Finance (No. 2) Limited ('the Company') is a wholly owned subsidiary of The Paragon Group of Companies PLC ('the Group') and was set up to provide finance for its consumer finance loan assets, by issuing asset backed floating rate loan notes and using the proceeds to purchase consumer loans from other group companies.

During the year the Company operated in the United Kingdom, the Company's principal activities were the provision of consumer finance loans. The loans were sold to another group company and used the proceeds to repay the outstanding notes. The Company is currently engaged in loan relationships with other group companies. The Company provides a subordinated loan to Paragon Mortgages (No.9) PLC. 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 5, the Company's net interest expense has increased by 3% (2015: 12% increase). This was principally due to interest charged on amounts due to group companies being higher in the current year. The loss after tax has increased from £126,000 to £131,000. This was mainly due to the increase in the net interest expense.

The balance sheet on page 6 of the Financial Statements shows that the Company's financial position at the year end. Net liabilities have increased due to the loss for the year. Details of amounts owed from and to other group companies are shown in notes 10 and 13.

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

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out in note 4.

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

ENVIRONMENT

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

EMPLOYEES

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



R J Woodman

Director

16 February 2017

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Paragon Loan Finance (No. 2) Limited, a company registered in England and Wales with registration no: 02173065, for the year ended 30 September 2016.

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 4 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



R J Woodman

Director

16 February 2017

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

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

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

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

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

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

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



Pandora Sharp

Company Secretary

16 February 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON LOAN FINANCE (NO. 2) LIMITED

We have audited the Financial Statements of Paragon Loan Finance (No. 2) Limited for the year ended 30 September 2016 which comprise the profit and loss account, the balance sheet, the statement of movement in equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on Financial Statements

In our opinion the Financial Statements:

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Simon Clark (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

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

16 February 2017

PARAGON LOAN FINANCE (NO. 2) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2016

| | Note | 2016 £000 | 2015 £000 |
|---|------|--------------|--------------|
| Interest receivable and similar income | 5 | 331 | 331 |
| Interest payable and similar charges | 6 | (494) | (489) |
| Net interest expense | | <u>(163)</u> | <u>(158)</u> |
| Operating expenses | | (1) | (1) |
| Operating loss, being loss on ordinary activities before taxation | 8 | <u>(164)</u> | <u>(159)</u> |
| Tax on loss on ordinary activities | 9 | 33 | 33 |
| Loss on ordinary activities after taxation | 12 | <u>(131)</u> | <u>(126)</u> |

All activities derive from continuing operations.

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

PARAGON LOAN FINANCE (NO. 2) LIMITED**BALANCE SHEET****30 SEPTEMBER 2016**

| | Note | 2016 £000 | 2016 £000 | 2015 £000 | 2015 £000 |
|-------------------------------------|------|--------------|--------------|--------------|--------------|
| ASSETS EMPLOYED | | | | | |
| CURRENT ASSETS | | | | | |
| Debtors falling due within one year | 10 | | 7,310 | | 7,310 |
| | | | | | |
| FINANCED BY | | | | | |
| EQUITY SHAREHOLDER'S DEFICIT | | | | | |
| Called up share capital | 11 | 12 | | 12 | |
| Profit and loss account | 12 | (3,776) | | (3,645) | |
| | | | (3,764) | | (3,633) |
| CREDITORS | | | | | |
| Amounts falling due within one year | 13 | | 11,074 | | 10,943 |
| | | | 7,310 | | 7,310 |

These Financial Statements were approved by the Board of Directors on 16 February 2017.

Signed on behalf of the Board of Directors



R D Shelton

Director

PARAGON LOAN FINANCE (NO. 2) LIMITED

STATEMENT OF MOVEMENT IN EQUITY

YEAR ENDED 30 SEPTEMBER 2016

| | Share capital £000 | Profit and loss account £000 | Total equity £000 |
|--|-----------------------|------------------------------------|-------------------------|
| <i>Total comprehensive income for the year</i> | | | |
| Loss for the year | - | (131) | (131) |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | (131) | (131) |
| Opening equity | 12 | (3,645) | (3,633) |
| Closing equity | 12 | (3,776) | (3,764) |

YEAR ENDED 30 SEPTEMBER 2015

| | Share capital £000 | Profit and loss account £000 | Total equity £000 |
|--|-----------------------|------------------------------------|-------------------------|
| <i>Total comprehensive income for the year</i> | | | |
| Loss for the year | - | (126) | (126) |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | (126) | (126) |
| Opening equity | 12 | (3,519) | (3,507) |
| Closing equity | 12 | (3,645) | (3,633) |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

1. GENERAL INFORMATION

Paragon Loan Finance (No. 2) 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 02173065. 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.

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

Accounting convention

The Financial Statements are prepared under the historical cost convention.

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. 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.

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.

Revenue

The revenue of the Company comprises of interest receivable. Interest receivable or payable from other Group companies is recognised in accordance with the effective interest rate method.

Current tax

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

Disclosures

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

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

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

- Certain disclosures required by IFRS 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. TRANSITION TO FRS 101

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

In preparing these accounts the Company has not been required to adjust amounts presented in its balance sheet under old UK GAAP. This is a result of the old UK Accounting Standards principally affecting the Company's accounting, FRS 25 – ‘Financial Instruments: Presentation’ and FRS 26 – ‘Financial Instruments: Recognition and Measurement’ being equivalent to their IFRS counterparts IAS 32 – ‘Financial Instruments: Presentation’ and IAS 39.

4. FINANCIAL RISK MANAGEMENT

The Company's primary financial assets and liabilities are with other group companies; therefore the directors do not consider that the Company is exposed to any significant cash flow, credit or liquidity risks.

PARAGON LOAN FINANCE (NO. 2) LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

5. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| Interest receivable from group companies | 331 | 331 |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2016 £000 | 2015 £000 |
|-------------------------------------|--------------|--------------|
| Interest payable to group companies | 494 | 489 |

7. 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.

8. OPERATING LOSS, BEING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2016 £000 | 2015 £000 |
|---------------------------------------|--------------|--------------|
| Operating loss is after charging: | | |
| Auditor remuneration - audit services | 1 | 1 |

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

9. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Tax credit for the year

| | 2016 £000 | 2015 £000 |
|--------------|--------------|--------------|
| Current tax | | |
| Group relief | (33) | (33) |

b) Factors affecting the tax credit for the year

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| Loss before tax | (164) | (159) |
| UK corporation tax at 20% (2015: 20.5%) based on the loss for the year | (33) | (33) |

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

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

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

10. DEBTORS

| | 2016 £000 | 2015 £000 |
|--------------------------------------|--------------|--------------|
| Amounts falling due within one year: | | |
| Amounts due from group companies | 7,269 | 7,269 |
| Prepayments and accrued income | 41 | 41 |
| | 7,310 | 7,310 |

Included within amounts due from group companies, is a subordinated loan facility provided to Paragon Mortgages (No.9) PLC, which is repayable to the Company on the earlier of the last interest payment date in May 2041 or the first day on which there are no notes outstanding. Interest is received at the rate of 4% above the London Interbank Offered Rate for three month sterling deposits.

PARAGON LOAN FINANCE (NO. 2) LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

11. CALLED UP SHARE CAPITAL

| | 2016 £ | 2015 £ |
|--|---------------|---------------|
| Allotted: | | |
| 50,000 ordinary shares of £1 each (25p called up and paid) | 12,500 | 12,500 |
| 1 special share of £1 (fully paid) | 1 | 1 |
| | <u>12,501</u> | <u>12,501</u> |

The special share has no particular rights which are different to the ordinary shares.

12. PROFIT AND LOSS ACCOUNT

| | £000 |
|-----------------------------|----------------|
| At 1 October 2014 | (3,519) |
| Loss for the financial year | (126) |
| At 30 September 2015 | <u>(3,645)</u> |
| Loss for the financial year | (131) |
| At 30 September 2016 | <u>(3,776)</u> |

13. CREDITORS

| | 2016 £000 | 2015 £000 |
|--------------------------------------|---------------|---------------|
| Amounts falling due within one year: | | |
| Amounts due to group companies | 11,073 | 10,942 |
| Accruals and deferred income | 1 | 1 |
| | <u>11,074</u> | <u>10,943</u> |

14. ULTIMATE PARENT COMPANY

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

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