Company Registration No: 03946857

ARIANTY NO. 1 PLC

Report and Financial Statements

Year ended 30 September 2016

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Arianty No.1 PLC ('the Company') is a wholly owned subsidiary of Arianty Holdings Limited. The shares in Arianty Holdings Limited are held by Intertrust Capital Markets (UK) Limited under a Declaration of Trust for charitable purposes. The directors regard The Paragon Group of Companies PLC ('the Group') as the ultimate controlling party.

The Company was set up to provide the funding of mortgage loans acquired by the Group by using a revolving credit facility. Subsequently, the mortgage loans were sold to fellow group companies. During the year the Company operated in the United Kingdom, its principal activities are the provisions of first mortgage loans. 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 income has decreased by 2% (2015: increase of 11%). This was principally reflecting the reduction in the Company's loan book during the year. The result after tax has fallen from a profit of £149,000 to a loss of £49,000. This was mainly due to a provision charge on loans to group companies for the current year as compared to a release in the provision in the preceding year.

The balance sheet on page 6 of the Financial Statements shows the Company's financial position at the year end. Net assets have decreased due to the loss for the year. Details of amounts owed from other group companies are shown in note 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 6, and a discussion of critical accounting estimates is set out in note 5.

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. 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

26 January 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 Arianty No.1 PLC, a company registered in England and Wales with registration no: 03946857, for the year ended 30 September 2016.

DIRECTORS

The directors throughout the year and subsequently were:

R D Shelton

R J Woodman

J Fairrie

D P Stolp (resigned 1 November 2016)

K G Allen

J P Nowacki (appointed 21 November 2016)

J A Harvey (appointed 21 November 2016)

AUDITOR

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

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

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 6 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

26 January 2017

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

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

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

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

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

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

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

PSharp

Pandora Sharp

Company Secretary

26 January 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARIANTY NO. 1 PLC

We have audited the Financial Statements of Arianty No. 1 PLC for the year ended 30 September 2016 which comprise the profit and loss account, the balance sheet, statement of movement in equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

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

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

Opinion on Financial Statements
In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its 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 matter 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

26 January 2017

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £000	2015 £000
Interest receivable			
Mortgages		25	31
Other	7	92	88
Net interest income		117	119
Other operating income		727	790
Total operating income		844	909
Operating expenses		(838)	(901)
Provision for losses	9	(128)	163
Operating (loss) / profit, being (loss) / profit on ordinary activities before taxation	10	(122)	171
Tax on (loss) / profit on ordinary activities	11	73	(22)
(Loss) / profit on ordinary activities after taxation	15	(49)	149

All activities derive from continuing operations.

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

BALANCE SHEET

30 SEPTEMBER 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Loans to customers	12		1,009		1,011
CURRENT ASSETS					
Debtors falling due within one year	13	10,721		10,473	
Cash at bank		9		12	
			10,730		10,485
			11,739		11,496
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called up share capital	14	12		12	
Profit and loss account	15	1,524		1,573	
			1,536		1,585
PROVISIONS FOR LIABILITIES	16		-		1
CREDITORS					
Amounts falling due within one year	17	4		4	
Amounts falling due after one year	17	10,199		9,906	
			10,203		9,910
			11,739		11,496

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

Signed on behalf of the Board of Directors

J Fairrie

Director

STATEMENT OF MOVEMENT IN EQUITY

YEAR ENDED 30 SEPTEMBER 2016

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Loss for the year	-	(49)	(49)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(49)	(49)
Opening equity	12	1,573	1,585
Closing equity	12	1,524	1,585

YEAR ENDED 30 SEPTEMBER 2015

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	149	149
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	149	149
Opening equity	12	1,424	1,436
Closing equity	12	1,573	1,585

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

1. GENERAL INFORMATION

Arianty No. 1 PLC ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 03946857. 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. RESTRICTION ON OPERATIONS

The ability of the Company to engage in any activity other than those associated with the purchase, servicing and subsequent securitisation of mortgages is restricted by agreements entered into by the Company with, among others, Mortgage Trust Limited ("MTL") as servicer and Citicorp Trustee Company Ltd as security agent.

Under the terms of the servicing agreement, MTL was appointed to service the mortgages. The business of MTL was transferred to Mortgage Trust Services PLC ("MTS") on 1 October 2003, under the novation agreement then dated, and consequently, since that date, MTS have been the servicer.

3. 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 4.

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.

Loans to customers

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

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

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

3. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables

Loans and receivables are reviewed for indications of possible impairment throughout the year and at each balance sheet date in accordance with IAS 39. Where loans exhibit objective evidence of impairment (a 'loss event') the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security (net of sales costs) discounted at the original EIR.

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

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

In addition to loans where loss events are evident, loans are also assessed collectively, grouped by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date. Collective impairment provisions are calculated for each key portfolio based on recent historical performance, with adjustments for expected changes in losses based on management's judgement.

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

Servicing fees

Servicing fees are payable by the Company to MTS under the terms of a servicing agreement. The servicing fee is calculated on the outstanding mortgage portfolio as defined in the servicing agreement. MTS is also entitled to a deferred consideration based on the excess earnings as defined in the mortgage sale agreement.

Cash at bank

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

Current tax

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

Deferred taxation

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

Deferred purchase consideration

Under the mortgage sale agreements profits of First Flexible No.5 Plc ("FFL5"), First Flexible No. 6 Plc ("FFL6"), Paragon Mortgages (No. 7) Plc ("PM7") and Paragon Mortgages (No.8) Plc ("PM8") are paid to the Company as originator of the loans by way of deferred purchase consideration. In turn, profits of the Company are paid to MTS by way of deferred purchase consideration. Deferred purchase consideration is recognised in which it becomes payable and is paid when sufficient cash resources allow.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

3. ACCOUNTING POLICIES (CONTINUED)

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

Fee and commission income

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

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.

4. TRANSITION TO FRS 101

As stated in note 3 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 3 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.

The Company accounts for 2015 were produced under old UK GAAP which included Financial Reporting Standard Number 5 ('FRS 5') "Reporting the substance of transactions", which included mortgage accounts being presented under link presentation. Under FRS 101 there is no equivalent standard to FRS5. Assets subject to non- recourse finance have been included within Debtors falling due within one year.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

5. CRITICAL ACCOUNTING ESTIMATES

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

Impairment losses on loans to customers

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

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

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

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

Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. These estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and that predicted, which in turn would depend directly or indirectly on customer behaviour.

6. FINANCIAL RISK MANAGEMENT

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

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

Credit risk

The Company's credit risk is primarily attributable to its loans to customers. The maximum credit risk at 30 September 2016 approximates to the carrying value of loans to customers (note 12). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

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

Mortgages Trust Services PLC, a fellow group company continues to administer the mortgages on behalf of Arianty No. 1 PLC and the collections process is the same as that utilised for all companies in the group.

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

7. INTEREST RECEIVABLE - OTHER

	2016 £000	2015 £000
Interest receivable from group companies	92	88

8. DIRECTORS AND EMPLOYEES

Directors' remuneration from the Company during the year is stated in note 10.

The Company had no employees in the current or preceding years. All administration is performed by employees of the Group. The directors of the Company, with the exception of J Fairrie, D P Stolp and J P Nowacki, are employed by Paragon Finance PLC, and their remuneration is disclosed within the financial statements of that company, which do not form part of this Report.

9. PROVISIONS FOR LOSSES

	2016 £000	2015 £000
Impairment / (release) of provision of financial assets		
Loans to group companies	128	(163)

10. OPERATING (LOSS) / PROFIT, BEING (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2016 £000	2015 £000
Operating (loss) / profit is after charging:		
Servicing fees payable	1	1
Auditor remuneration – audit	4	4
Directors' fees	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

11. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

a) Tax (credit) / charge for the year

	2016 £000	2015 £000
Current tax		
Corporation tax	(72)	(79)
Adjustment in respect of prior periods	-	101
Total current tax	(72)	22
Deferred tax (note 16)		
Origination and reversal of timing differences	(1)	-
Total deferred tax	(1)	-
Tax (credit) / charge on (loss) / profit on ordinary activities	(73)	22

b) Factors affecting the tax (credit) / charge for the year

	2016 £000	2015 £000
(Loss) / profit before tax	(122)	171
UK corporation tax at 20% (2015: 20.5%) based on the (loss) / profit for the year	(24)	35
Effects of:		
Mismatch in timing differences	(1)	-
Non-deductible expenses	(48)	(114)
Prior period debit	-	101
Tax (credit) / charge for the year	(73)	22

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

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

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

12. LOANS TO CUSTOMERS

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

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

All the mortgage loans are pledged as collateral for liabilities at 30 September 2016 and 30 September 2015.

	2016 £000	2015 £000
Balance at 1 October 2015	1,011	1,198
Other debits	25	32
Repayments and redemptions	(27)	(219)
Balance at 30 September 2016	1,009	1,011

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

13. DEBTORS

	2016 £000	2015 £000
Amounts falling due within one year:		
Amounts due from group undertakings	10,649	10,394
Corporation tax	72	79
	10,721	10,473

14. CALLED UP SHARE CAPITAL

	2016 £	2015 £
Allotted:		
50,000 ordinary shares of £1 each (25p called up and paid)	12,500	12,500

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

15. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2014	1,424
Profit for the financial year	149
At 30 September 2015	1,573
Loss for the financial year	(49)
At 30 September 2016	1,524

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

16. PROVISIONS FOR LIABILITIES

Deferred tax

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

	2016 £000	2015 £000
Balance at 1 October 2015	1	1
Profit and loss credit (note 11)	(1)	-
Balance at 30 September 2016	-	1
The net deferred tax liability for which provision has been made is analysed as follows:		
Other timing differences	-	1

17. CREDITORS

	2016 £000	2015 £000
Amounts falling due within one year:		
Accruals and deferred income	4	4
Amounts falling due after more than one year:		
Deferred purchase consideration (note 18)	10,199	9,906

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2016

18. RELATED PARTY TRANSACTIONS

Transactions with the Mortgage Trust group

Under an agreement entered into on 28 December 2000 with MTL, a company under common control as defined by IAS 24 - 'Related Party Disclosures' ('IAS 24'), the Company bought mortgages intraday which were originated by MTL at net book value. MTL also provided credit and threshold margin support for these mortgages.

The business of MTL was transferred to MTS on 1 October 2003, under the novation agreement then dated, and consequently, since that date, MTS have been the servicer.

At the balance sheet date the Company had bought £2,641,000 (2015: £2,641,000) of mortgages from MTL. The Company owed £10,199,000 (2015: £9,906,000) to MTS at the balance sheet date in relation to deferred purchase consideration. During the year the Company paid £540,000 (2015: £710,000) in relation to deferred purchase consideration. MTS earned £831,000 (2015: £894,000) from the Company in relation to deferred purchase consideration.

19. ULTIMATE PARENT UNDERTAKING

The directors consider that the ultimate parent undertaking is Arianty Holdings Limited. The smallest and largest group into which the Company is consolidated is that of The Paragon Group of Companies PLC, registered in England and Wales.

The shares in Arianty Holdings Limited are held by Intertrust Capital Markets (UK) Limited under a Declaration of Trust for charitable purposes. The directors regard The Paragon Group of Companies PLC as the ultimate controlling party.

Copies of the consolidated financial statements may be obtained from the Company Secretary, 51 Homer Road, Solihull, West Midlands, B91 3QJ.