

IDEM (NO. 1) LIMITED

Report and Financial Statements

Year ended 30 September 2012

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DIRECTORS' REPORT

The directors present their Annual Report and the audited Financial Statements of Idem (No 1) Limited ('the Company'), registration no 6904002, for the year ended 30 September 2012

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of The Paragon Group of Companies PLC ('the Group') and was set up to purchase asset backed loan notes of fellow group companies. These are the 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 retained profit has fallen from £2,060,000 to £1,010,000. This was principally due to increase in interest payable on intercompany loans during the year.

The balance sheet on page 6 of the Financial Statements shows that the Company's financial position at the year end, it reflects the additional investment in asset backed loan notes funded by a loan from another group company during the year. Net assets have increased as a result of the retained profit for the year less the interim dividend paid during the year. Details of amounts owed to other group companies are shown in note 13.

The directors recommend no final dividend (2011: £nil) which, given the interim dividend of £500,000 per share (2011: £1,000,000), means a total dividend for the year of £500,000 per share (2011: £1,000,000).

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

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. A discussion of critical accounting estimates is set out in note 2.

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.

DIRECTORS

The directors throughout the year and subsequently were:

N Keen

R D Shelton

J G Gemmell

J A Harvey (appointed 1 November 2011)

DIRECTORS' REPORT (CONTINUED)

CREDITOR PAYMENT POLICY

The Company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

AUDITORS

The directors have taken all necessary steps to make themselves and the Company's auditors 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 auditors are unaware.

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

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

A handwritten signature in black ink, consisting of a stylized 'J' and 'G' followed by a horizontal line.

J G Gemmell

Secretary,

15 January 2013

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 year. 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.

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 and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IDEM (NO 1) LIMITED

We have audited the Financial Statements of Idem (No 1) Limited for the year ended 30 September 2012 which comprise the profit and loss account, the statement of movement in shareholder's funds, the balance sheet 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).

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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the 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.



Peter Birch (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham, United Kingdom

15 January 2013

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2012

	Note	2012 £000	2011 £000
Interest receivable and similar income	4	4,030	3,919
Interest payable and similar charges	5	(2,631)	(1,111)
Net interest income		<u>1,399</u>	<u>2,808</u>
Operating expenses		(72)	(68)
Operating profit, being profit on ordinary activities before taxation	7	<u>1,327</u>	<u>2,740</u>
Tax on profit on ordinary activities	8	(317)	(680)
Profit on ordinary activities after taxation	12	<u>1,010</u>	<u>2,060</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 total recognised gains and losses has not been presented

STATEMENT OF MOVEMENT IN SHAREHOLDER'S FUNDS

YEAR ENDED 30 SEPTEMBER 2012

	2012 £000	2011 £000
Profit attributable to shareholder's	1,010	2,060
Dividend paid	(1,000)	(2,000)
Net movement in shareholder's funds	<u>10</u>	<u>60</u>
Opening shareholder's funds	1,118	1,058
Closing shareholder's funds	<u>1,128</u>	<u>1,118</u>

BALANCE SHEET**30 SEPTEMBER 2012**

	Note	2012 £000	2012 £000	2011 £000	2011 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Investments	9		60,790		27,901
CURRENT ASSETS					
Debtors falling due within one year	10	328		58	
		<u>328</u>		<u>58</u>	
			61,118		27,959
			<u>61,118</u>		<u>27,959</u>
FINANCED BY					
SHAREHOLDER'S FUNDS					
Called up share capital	11	-		-	
Profit and loss account	12	1,128		1,118	
		<u>1,128</u>		<u>1,118</u>	
			1,128		1,118
CREDITORS					
Amounts falling due within one year	13		59,990		26,841
			<u>59,990</u>		<u>26,841</u>
			61,118		27,959
			<u>61,118</u>		<u>27,959</u>

These Financial Statements were approved by the Board of Directors on 15 January 2013

Signed on behalf of the Board of Directors



R D Shelton

Director

NOTES TO THE ACCOUNTS**YEAR ENDED 30 SEPTEMBER 2012****1. ACCOUNTING POLICIES**

The Financial Statements are prepared in accordance with applicable UK Accounting Standards. The particular accounting policies adopted are described below. They have been applied consistently throughout the current and preceding year. The Financial Statements have been prepared on a going concern basis as described in the Directors' Report.

Accounting convention

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

Investments

Investments and debt securities are valued at inception as the amount paid, which is the fair value at that time. Thereafter they are valued at this amount plus the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method.

The EIR method spreads the expected net income arising from an investment 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 investments to the initial carrying amount.

Related party disclosures

The Company has taken advantage of the exemption granted by Financial Reporting Standard 8 - 'Related Party Disclosures' and does not therefore provide details of transactions with other group companies as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

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.

Revenue

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

FRS 29 disclosure

The Company has taken advantage of the exemption granted by Financial Reporting Standard 29 (IFRS 7) - 'Financial Instruments: Disclosures' and does not therefore provide the disclosures required by the Standard as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

Cash flow statement

The Company has taken advantage of the exemption granted by Financial Reporting Standard 1 - 'Cash Flow Statements' and does not therefore provide a cash flow statement as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

2. 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 is

Effective interest rates

In order to determine the effective interest rate applicable to the investments an estimate must be made of the expected life of the investments and hence the cash flows relating thereto. These estimates are based on historical data and reviewed regularly. The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual repayments and that predicted.

3. 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.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £000	2011 £000
Interest received on loan notes issued by other group companies	1,856	557
Unwinding of discount on purchase on loan notes in other group companies	2,174	3,362
	<u>4,030</u>	<u>3,919</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £000	2011 £000
Interest payable to group companies	<u>2,631</u>	<u>1,111</u>

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

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

	2012 £000	2011 £000
Operating profit is after charging		
Auditors' remuneration - audit services	5	5

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 auditors in respect to non-audit services in these Financial Statements has been taken

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2012 £000	2011 £000
Current tax		
Corporation tax	318	715
Prior year credit	(1)	(35)
	<u>317</u>	<u>680</u>

b) Factors affecting the current tax charge

	2012 £000	2011 £000
Profit before tax	1,327	2,740
UK corporation tax at 25% (2011 27%) based on the profit for the year	332	740
Effects of		
Prior year credit	(1)	(35)
Other adjustments	(14)	(25)
	<u>317</u>	<u>680</u>

During the year ended 30 September 2011 the United Kingdom Government enacted provisions reducing the rate of corporation tax to 26% with effect from 1 April 2011 and 25% from 1 April 2012. During the year ended 30 September 2012 enacted provisions further reducing the rate of corporation tax to 24% with effect from 1 April 2012 and 23% from 1 April 2013. Therefore the standard rate of corporation tax applicable to the Company for the year ended 30 September 2012 is 25% and the rate is expected to be 23.5% in the year ending 30 September 2013 and 23% thereafter.

The Government has announced its intention to make further reductions in the rate of corporation tax in future years. The effect of any such changes on deferred tax balances will be accounted for in the period in which any such changes are enacted.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

9. INVESTMENTS

	2012 £000	2011 £000
Valuation and Cost		
At 1 October 2011	27,901	25,639
Investment during the year	32,100	-
Other debits	2,174	3,362
Repayment of loans	(1,385)	(1,100)
At 30 September 2012	<u>60,790</u>	<u>27,901</u>

The investments are asset backed loan notes of group companies which are not subsidiaries of the Company

The Company holds asset backed loan notes of the following companies

Paragon Mortgages (No 8) PLC

Paragon Mortgages (No 10) PLC

Paragon Mortgages (No 14) PLC

Paragon Secured Finance (No 1) PLC

First Flexible No 6 PLC

Paragon Mortgages (No 16) PLC

Other debits include primarily interest charged and other changes in the amortised cost of the assets caused by the effective interest rate method

10 DEBTORS

	2012 £000	2011 £000
Amounts falling due within one year		
Prepayments and accrued income	<u>328</u>	<u>58</u>

The fair value of the above items are not considered to be materially different to their carrying values

Included with the prepayments and accrued income balance is an amount of £328,000 (2011 £58,000) due from fellow subsidiaries of The Paragon Group of Companies PLC

11. CALLED UP SHARE CAPITAL

	2012 £	2011 £
Allotted		
2 ordinary shares of £1 each (fully paid)	<u>2</u>	<u>2</u>

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2012

12. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2010	1,058
Profit for the financial year	2,060
Dividend paid	(2,000)
At 30 September 2011	1,118
Profit for the financial year	1,010
Dividend paid	(1,000)
At 30 September 2012	1,128

An interim dividend of £500,000 per share was paid during the year (2011 £1,000,000) No final dividend is proposed (2011 £nil)

13. CREDITORS

	2012 £000	2011 £000
Amounts falling due within one year		
Amounts due to group companies	59,667	26,121
Corporation tax	318	715
Accruals and deferred income	5	5
	59,990	26,841

14. ULTIMATE PARENT COMPANY

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

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