

Company Registration No: 07350538

IDEM CAPITAL SECURITIES LIMITED

Report and Financial Statements

Year ended 30 September 2021



CAUTIONARY STATEMENT

Sections of this Annual Report, including but not limited to the Directors' Report and the Strategic Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of Idem Capital Securities Limited. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as 'anticipate', 'estimate', 'expect', 'intend', 'will', 'project', 'plan', 'believe', 'target' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. These have been made by the directors in good faith using information available up to the date on which they approved this report and the Company undertakes no obligation to update these forward-looking statements other than in accordance with its legal or regulatory obligations (including under the Market Abuse Regulation, UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority).

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Company and depend upon circumstances that may or may not occur in the future that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. There are a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. As a result, you are cautioned not to place reliance on such forward-looking statements as a prediction of actual results or otherwise.

These factors include, but are not limited to: material impacts related to foreign exchange fluctuations; macro-economic activity; the impact of outbreaks, epidemics or pandemics, such as the Novel Coronavirus 19 ('Covid') pandemic and ongoing challenges and uncertainties posed by the Covid pandemic for businesses and governments around the world, including the duration, spread and any recurrence of the Covid pandemic and the extent of the impact of the Covid pandemic on overall demand for the Company's services and products; potential changes in dividend policy; changes in government policy and regulation (including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the Group operates) and the consequences thereof (including, without limitation, actions taken as a result of the Covid pandemic); actions by the Company's competitors or counterparties; third party, fraud and reputational risks inherent in its operations; the UK's exit from the European Union ('EU'); unstable economic conditions and market volatility, including currency fluctuations; the risk of a global economic downturn; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; general changes in government policy that may significantly influence investor decisions (including, without limitation, actions taken in support of managing and mitigating climate change and in supporting the global transition to net zero carbon emissions); societal shifts in customer financing and investment needs; and other risks inherent to the industries in which the Company operates.

Nothing in this Annual Report should be construed as a profit forecast.

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Idem Capital Securities Limited ('the Company') is a wholly owned subsidiary of Idem Capital Limited, which is a wholly owned subsidiary of Idem Capital Holdings Limited. Idem Capital Holdings Limited is a wholly owned subsidiary of Paragon Banking Group PLC ('the Group'). The Company was set up to either invest in portfolios held by third parties or acquire loan assets by borrowing from a fellow group company. This continues to be the principal activities of the Company. 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 12, net interest income has increased from £3,627,000 to £3,746,000. This was principally due to a decrease in interest payable to group companies. Other operating income decreased during the year due to lower admin fees collected. Operating expenses have decreased during the year from £8,076,000 to £3,823,000 due to less resources required to manage the loan books. Provision for loss has improved from a charge of £480,000 to a release of provision of £317,000; as a result of all these factors, the result after tax has increased from a loss of £3,786,000 to a profit of £237,000.

The balance sheet on page 13 of the financial statements shows the Company's financial position at the year end. As a result of the profit for the year, net liabilities have decreased but remain in a net liability position. Details of amounts owed to and from other group companies is shown in notes 9 and 12.

The directors recommend no final dividend (2020: £nil) which, given the interim dividend of £nil per share (2020: £nil per share), means a total dividend for the year of £nil per share (2020: £nil per share).

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 Paragon Banking Group PLC Annual Report, which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The assets of the Company are located entirely in the United Kingdom and its results are therefore impacted by the economic environment within the UK. A material downturn in economic performance could increase the numbers of customers who default on loans and / or cause the values of the properties over which the Company enjoys security to fall.

The UK economy in the current year has been impacted significantly by the effects of the Covid virus. This has caused major economic disruption within the UK and global economy but has also driven governments and regulators to offer unprecedented levels of support to businesses and consumers, aimed at mitigating its impact.

The Company has put contingency plans in place to ensure that it can continue to service its customers and to satisfy its obligations under the funding structure. However, should the pandemic have significant long-term impacts on the UK economy then this would significantly impact the Company's future cash flows and performance.

Together with continuing uncertainty arising the potential impact economic impact of the UK's withdrawal from the European Union, the Covid pandemic has made the long-term economic prospects for the UK and their impacts on the Company much difficult to forecast.

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 13.

STRATEGIC REPORT (CONTINUED)

GOING CONCERN

The performance of the Company is subject to analysis against plan, with key variances being analysed in detail on a monthly basis. This monitoring, particularly of credit and liquidity measures has been enhanced at Group level in response to the Covid situation.

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows on a company by company basis.

In compiling the most recent forecast, for the period commencing 1 October 2021, particular attention was paid to the potential consequences of Covid on the Group's operations, customers, funding and prospects, both in the short and longer term. This included consideration of a number of different scenarios with impacts of varying duration and severity. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October in light of the continuing development of the Covid crisis, based on updated external projections. Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products.

After considering the Company's position, the economic environment and the forecasts described 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.

BOARD AND STAKEHOLDERS

The Board is mindful of its duty to act in good faith and to promote the success of the Group for the benefit of its shareholders and with regard to the interests of all of its stakeholders. The Board confirms that, for the year ended 30 September 2021, it has acted to promote the success of the Company for the benefit of its members as a whole and continues to have due regard to the following matters (as per section 172 of the Companies Act 2006):

- a. The likely consequences of any decision in the long-term
- b. The interests of the Group's employees
- c. The need to foster the Company's business relationships with suppliers, customers and others
- d. The impact of the Company's operations on the community and the environment
- e. The desirability of the Company maintaining a reputation for high standards of business conduct
- f. The need to act fairly as between members of the Company

The principal activity of the Company is to support the loan origination and servicing activities of the Group and therefore, there is substantial common identity between the external non-shareholder stakeholders of the Company and those of the Group. There are also significant group stakeholders, including the entities to which the Company provides services, support and funding, aside from ownership interests.

As a consequence, engagement with external stakeholders takes place at a group level. The Company looks to group initiatives for guidance and takes them into account in its decision making. The Company follows Group policies and procedures as mentioned above, including those relating to the fair treatment of customers, standards of business conduct, the environment, the community and other stakeholders. More detail may be found in the Paragon Banking Group PLC 2021 Annual Report and Accounts.

STRATEGIC REPORT (CONTINUED)

BOARD AND STAKEHOLDERS (CONTINUED)

However, in considering items of business directors of the Company make autonomous decisions on each decision's own merits, after due consideration of the long-term success of the Company, those factors set out in section 172 of the Companies Act 2006, where relevant, and the stakeholders impacted. Board meetings are held periodically where the directors consider Company business, such as participation in securitisation and other group funding transactions, sales and purchases of mortgage assets, group funding arrangements and dividend payments.

The Board considers and discusses information from across the organisation to help it understand the Group's business and its impact on the Company. It also reviews strategy, financial, and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance.

SHAREHOLDERS

The Company is a wholly owned subsidiary of Idem Capital Holdings Limited, Paragon Banking Group PLC is the ultimate parent company of the Group. The interests of the Company's shareholders thus coincide with those of the shareholders of the Group (s172 (1)(f)).

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 Paragon Banking Group PLC Annual Report, which does not form part of this Report. Further information can also be found in the Group's inaugural Responsible Business Report (published on the Paragon Banking Group PLC website).

EMPLOYEES

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in the Paragon Banking Group PLC 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

17 February 2022

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 Idem Capital Securities Limited ('the Company'), a company registered in England and Wales with registration no: 07350538, for the year ended 30 September 2021.

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 (resigned 3 February 2021)

R J Woodman

D Newcombe

K G Allen

AUDITOR

The directors have taken all necessary 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 are unaware.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 (2) of the Companies Act 2006.

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 13 to the accounts
- Disclosure on any dividends paid during the year is included in the Strategic Report

DIRECTORS' REPORT (CONTINUED)

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

A handwritten signature in black ink, appearing to read 'K G Allen', written in a cursive style.

K G Allen

Director

17 February 2022

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report the Directors' 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 they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) in conformity with the requirements of the Companies Act 2006 and applicable law.

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 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 judgements and estimates that are reasonable, relevant and reliable
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use 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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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



K G Allen

Director

17 February 2022

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IDEM CAPITAL SECURITIES LIMITED**

Opinion

We have audited the financial statements of Idem Capital Securities Limited for the year ended 30 September 2021 which comprise the profit and loss account, the balance sheet, the statement of movements in equity and the related notes 1 to 18, including the accounting policies in note 15.

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2021 and of its loss 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 group 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

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.
- However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IDEM CAPITAL SECURITIES LIMITED (CONTINUED)**

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors, Internal Audit and inspection of policy documentation as to the high-level policies and procedures of the Paragon Group (of which this company is a part) to prevent and detect fraud, including the Internal Audit function, and the Company's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Inspecting Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as loan loss provisioning.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted and approved by the same user.
- Assessing significant accounting estimates for bias.

We discussed with the Audit Committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of noncompliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IDEM CAPITAL SECURITIES LIMITED (CONTINUED)**

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: conduct, money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Directors matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IDEM CAPITAL SECURITIES LIMITED (CONTINUED)**

Directors' responsibilities

As explained more fully in their statement set out on page 7 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.

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.



Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

17 February 2022

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £000	2020 £000
Interest receivable and similar income	2	6,216	6,490
Interest payable and similar charges	3	(2,470)	(2,863)
Net interest income		3,746	3,627
Other operating income		23	236
Total operating income		3,769	3,863
Operating expenses		(3,823)	(8,076)
Provision for losses	8	317	(480)
Operating profit / (loss), being profit / (loss) on ordinary activities before taxation	5	263	(4,693)
Tax on profit / (loss) on ordinary activities	6	(26)	907
Profit / (loss) on ordinary activities after taxation		237	(3,786)

All activities derive from continuing operations.

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

IDEM CAPITAL SECURITIES LIMITED

BALANCE SHEET

30 SEPTEMBER 2021

	Note	2021 £000	2021 £000	2020 £000	2020 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Financial assets	7		36,629		43,648
CURRENT ASSETS					
Debtors falling due within one year	9	89		117	
Cash at bank		1,204		1,562	
			1,293		1,679
			37,922		45,327
FINANCED BY					
SHAREHOLDER'S DEFICIT					
Called up share capital	11	1		1	
Profit and loss account		(360)		(597)	
			(359)		(596)
CREDITORS					
Amounts falling due within one year	12		38,281		45,923
			37,922		45,327

These financial statements were approved by the Board of Directors on 17 February 2022.

Signed on behalf of the Board of Directors



K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2021

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	237	237
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	237	237
<i>Transactions with owners</i>			
Dividends	-	-	-
Net movement in equity in the year	-	237	237
Opening equity	1	(597)	(596)
Closing equity	1	(360)	(359)

YEAR ENDED 30 SEPTEMBER 2020

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Loss for the year	-	(3,786)	(3,786)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(3,786)	(3,786)
<i>Transactions with owners</i>			
Dividends	-	-	-
Net movement in equity in the year	-	(3,786)	(3,786)
Opening equity	1	3,189	3,190
Closing equity	1	(597)	(596)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2021

1. GENERAL INFORMATION

Idem Capital Securities 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 07350538. 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.

The remaining notes to the accounts are organised into three sections:

- Analysis – providing further analysis and information on the amounts shown in the primary financial statements
- Financial Risk – providing information on the Company's management of its principal financial risks
- Basis of preparation – providing details of the Company's accounting policies and of how they have been applied in the preparation of the financial statements

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

The notes set out below give more detailed analysis of the balances shown in the primary financial statements and further information on how they relate to the operations, results and financial position of the Company.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 £000	2020 £000
Loan income	6,216	6,484
Bank interest	-	6
	<u>6,216</u>	<u>6,490</u>

Interest receivable arises from financial assets held at amortised cost.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £000	2020 £000
Interest payable to group companies	<u>2,470</u>	<u>2,863</u>

All interest payable on financial liabilities relates to financial liabilities held at amortised cost.

4. DIRECTORS AND EMPLOYEES

Directors received no fees 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 years. 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.

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

	2021 £000	2020 £000
Operating profit / (loss) is after charging:		
Auditor remuneration - audit services	<u>22</u>	<u>19</u>

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 of non-audit services in these financial statements has been taken.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

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

a) Tax charge / (credit) for the year

	2021 £000	2020 £000
Current tax		
Corporation tax	29	-
Group relief	-	(892)
Prior year credit	(5)	(10)
Total current tax	<u>24</u>	<u>(902)</u>
Deferred tax (note 10)		
Origination and reversal of timing differences	6	-
Recognition of previously unrecognised tax losses	5	-
Rate change	(9)	(5)
Total deferred tax	<u>2</u>	<u>(5)</u>
Tax charged / (credited) on profit / (loss) on ordinary activities	<u>26</u>	<u>(907)</u>

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

	2021 £000	2020 £000
Profit / (loss) before tax	<u>263</u>	<u>(4,693)</u>
UK corporation tax at 19% (2020: 19%) based on the profit / (loss) for the year	50	(892)
Effects of:		
Non-deductible expenses	-	-
Timing differences	(15)	-
Change in rate of taxation on deferred tax balances	(9)	(5)
Prior year credit	-	(10)
Tax charge / (credit) for the year	<u>26</u>	<u>(907)</u>

The standard rate of corporation tax in the UK applicable to the Company in the period was 19.0% (2020: 19.0%), based on currently enacted legislation. During the previous period, legislation was substantively enacted, reversing the reduction in the tax rate to 17.0% which had been due to come into effect from April 2020. In the current period legislation was substantially enacted that will increase the rate to 25% with effect from 1 April 2023. Consequently, temporary differences which had been expected to reverse at a tax rate of 19% in the current year or in subsequent years, have either reversed or are expected to reverse at 19% in the year ended 30 September 2022, 22% in the year ended 30 September 2023 or 25% in subsequent years. The impact of this change has been accounted for in the year.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

7. FINANCIAL ASSETS

	2021 £000	2020 £000
Loans to customers (note 8)	36,629	43,648
	<u>36,629</u>	<u>43,648</u>

Loan accounts at 30 September 2021 and 30 September 2020, which are all denominated and payable in sterling, were:

	2021 £000	2020 £000
Secured loans	9,883	11,463
Unsecured loans	26,746	32,185
	<u>36,629</u>	<u>43,648</u>

Secured loans enjoy second charges on residential property.

Secured loans have a contractual term of up to 25 years. In all cases 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.

Unsecured loans have a contractual term of up to 10 years. In all cases 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.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

This note sets out information on the Company's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 7, loans held at amortised cost, accounted for under IFRS 9, subject to the IFRS 9 impairment requirements.

The disclosures are set out under the following headings:

- Basis of provision
- Impairments by stage and division
- Movements in impairment provision in the period
- Impairments charged to income

Basis of provision

IFRS 9 requires that impairment is evaluated on an expected credit loss ('ECL') basis. ECLs are based on an assessment of the probability of default ('PD') and loss given default ('LGD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. Provision may be based on either twelve month or lifetime ECL, dependant on whether an account has experienced a significant increase in credit risk ('SICR').

The Company's process for determining its provisions for impairments is summarised below. This includes

- The methods used for the calculation of ECL
- How it defines SICR
- How it defines default
- How it identifies which loans are credit impaired, as defined by IFRS 9
- How the ECL estimation process is monitored and controlled
- How the Group develops and enhances the models it uses in the ECL estimation process
- How the Group uses Post Model Adjustments ('PMA's) to ensure all elements of credit risk are fully addressed

Calculation of expected credit loss ('ECL')

For the majority of the Company's loan assets, the ECL is generated using statistical models applied to account data to generate PD and LGD components.

PD on both a twelve month and lifetime basis is estimated based on statistical models for the Company's most significant asset classes. The PD calculation is a function of current asset performance, customer information and future economic assumptions. The structure of the models was derived through analysis of correlation in historic data, which identified which current and historical customer attributes and external economic variables were predictive of future loss. The Company utilised all reasonably available information in its possession for this exercise.

LGD for each account is derived by calculating a value for exposure at the point of default (which will include consideration of future interest, account charges and receipts) and reducing this for security values and costs of recovery. These calculations allow for the Company's potential case management activities. This evaluation includes the potential impact of economic conditions at the time of any future default or enforcement. The derivation of the significant assumptions used in these calculations is discussed below.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

In certain asset classes a fully modelled approach is not possible. This is generally where there are few assets in the class, where there is insufficient historical data on which to base an analysis or where certain measures, such as days past due are not useful. In these cases, which represent a small proportion of the total portfolio, alternative approaches are adopted. These rely on internal credit monitoring practices and professional credit judgement.

Notwithstanding the mechanical procedures discussed above, the Company will always consider whether the process generates sufficient provision for particular loans, especially large exposures, and will provide additional amounts as appropriate.

In extreme or unprecedented economic conditions, such as the Covid pandemic, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of present conditions. In these circumstances, management carefully review all outputs to ensure provision is adequate.

At 30 September 2021 the impact of reduced economic activity in the UK from the Covid crisis had not yet been evidenced in customer credit performance and defaults, due to the lagging effect of government policy interventions. Where customers were given payment reliefs, arrears and adverse credit indicators were not recorded by the Company or other lenders, meaning that both internal credit metrics and external credit bureau data might not accurately reflect the customer's credit position leading to modelled PDs being underestimated.

During the year the trend of economic performance has been generally upward, albeit from a low level, meaning that the principal economic indicators are more positive than at 30 September 2020, though still more depressed than pre-Covid levels. The economic forecasts indicate continued recovery, but this upward trend will reduce calculated probabilities of default, even where the absolute levels of metrics remain low and where an underlying credit issues on account have not emerged, which may result in rising defaults as government support initiatives unwind.

These factors have led management to conclude that in the current economic conditions, the Group's models do not fully represent loss expectations, and Post Model Adjustments ('PMA's) have been made to compensate for these weaknesses.

Significant Increase in Credit Risk ('SICR')

Under IFRS 9, SICR is not defined solely by account performance, but on the basis of the customer's overall credit position, and this evaluation should include consideration of external data. The Company's aim is to define SICR to correspond, as closely as possible, to that population of accounts which are subject to enhanced administrative and monitoring procedures operationally. The Company assesses SICR in its modelled portfolios primarily on the basis of the relative difference in an account's lifetime PD between origination and the reporting date. The levels of difference required to qualify as an SICR may differ between portfolios and will depend, to some extent, on the level of risk originally perceived and are monitored on an ongoing basis to ensure that this calibrates with actual experience.

It should be noted that the use of the current PD, which includes external factors such as credit bureau data, means that all relevant information in the Company's hands concerning the customers present credit position is included in the evaluation, as will future economic expectations.

Where for non-modelled portfolios, the SICR assessment is based on the credit monitoring position of the account in question and for all portfolios a number of qualitative indicators which provide evidence of SICR have been considered.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

In determining whether an account has an SICR in the Covid environment the granting of Covid reliefs, including payment holidays and similar arrangements, may mean that an SICR may exist without this being reflected in either arrears performance or credit bureau data. The Company has accepted the advice of UK regulatory bodies that the grant of initial Covid relief does not, of itself, indicate an SICR, but has carefully considered internal credit and customer data to determine whether there might be any accounts with SICR not otherwise identified by the process.

When reviewing the subsequent payment patterns of accounts that have been granted Covid-related reliefs, it has been evident that there is higher payment volatility (both in terms of account improvement and deterioration) in these cases, particularly in cases where an extension to the payment holiday has been granted. This indicates an increased credit risk, though the impact is not significant in scale in all cases. As a result of this analysis the accounts of customers who have been granted extended payment reliefs have been placed in Stage 2, regardless of other indicators. This aligns the Group's approach to regulatory guidance which suggested that while initial payment reliefs should not automatically be taken as an indication of an SICR, an extension to such a relief was more likely to be so.

This overall approach remains consistent with that taken at 30 September 2020. In reviewing account performance during the current year the Group has not yet identified any positive evidence which would cause it to begin to unwind this position. It will be reviewed going forward as other government economic interventions are scaled back and the post-relief credit characteristics of such accounts become more evident.

Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The Company's definitions of default for its various portfolios are aligned to its internal operational procedures and the regulatory definitions of default used internally. In particular the Company's receiver of rent cases are defined as defaulted for modelling purposes as the behaviour of the case after that point is significantly influenced by internal management decisions.

IFRS 9 provides a rebuttable presumption that an account is in default when it is ninety days overdue and this was used as the basis of the Company's definition. A combination of qualitative and quantitative measures were used in developing the definitions. These include account management activities and internal statuses.

Credit Impaired loans

IFRS 9 defines a credit impaired account as one where an account has suffered one or more event which has had a detrimental effect on future cash flows. It is thus a back-ward looking definition, rather than one based on future expectations.

Credit impaired assets are identified either through quantitative measures or by operational status. Designations of accounts for regulatory capital purposes are also taken into account. Assets may also be assigned to Stage 3 if they are identified as credit impaired as a result of management review processes.

All loans which are in the process of enforcement, from the point where this becomes the administration strategy, are classified as credit impaired.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Credit Impaired loans (continued)

Loans are retained in Stage 3 for three months after the point where they cease to exhibit the characteristics of default. After this point, they may move to Stage 2 or Stage 1 depending on whether an SICR trigger remains.

All default cases are considered to be credit impaired, including all receiver of rent cases and all cases with at least one payment more than 90 days overdue, even where such cases are being managed in the expectation of realising all of the carrying balance.

In order to provide better information for users, additional analysis of credit impaired accounts has been presented below distinguishing between probationary accounts, receiver of rent accounts, accounts subject to realisation / enforcement procedures and long term managed accounts, all of which are treated as credit impaired. While other indicators of default are in use, the categories shown account for the overwhelming majority of Stage 3 cases.

Monitoring of ECL estimation processes

The Group's ECL models are compiled on the basis of the analysis of relevant historical data. Before a model is adopted for use its operations and outputs are examined to ensure that it is expected to be appropriately predictive and, if it is an updated model, expected to be more predictive than any existing model. Before a new model is adopted the changes and impacts will be considered by the CFO, alongside any advice from the Group's independent model review functions.

The performance of all models is reviewed on an ongoing basis, by senior finance and risk management, including the CFO. Monitoring packs comparing actual and predicted loss levels are produced at regular intervals, set on the basis of the materiality of each model. The continuing appropriateness of model assumptions is also reviewed as part of this process.

Models are revisited on a regular basis to ensure that they continue to reflect the most recent data as the available information increases over time.

On a monthly basis all model outputs, model overlays and provisions calculated for non-modelled books are reviewed by senior finance management including the CFO in conjunction with the latest credit risk operational and economic metrics to ensure that the impairment provision by assets type remains appropriate. This exercise will be the subject of particular focus at year end and half year.

This information is summarised for the Audit Committee on a biannual basis, and they have regard to this data in forming their conclusions on the appropriateness of provisioning levels.

Model development

The models used by the Group are updated from time to time to allow for changes in the business, developments in best practice and the availability of additional data with the passing of time. During the year ended 30 September 2021 a major update to the buy-to-let PD model took place.

All revised models and model enhancements are carefully reviewed and tested before adoption, and are subject to a governance process for their approval.

As a result of the reanalysis of updated historical data, the economic inputs identified as most predictive of future PD performance were changed, with the UK unemployment rate being substituted for UK GDP in the model as the indicator of general UK economic activity levels.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)*Model development (continued)*

The impacts of the adoption of the new PD model on the calculated provision were not significant.

Post Model Adjustments ('PMA's')

Where management has identified a requirement to amend the calculated provision as a result of either model deficiencies or idiosyncratic behaviour in part of the portfolio, PMAs are applied to the modelled outputs so that the ECL recognised corresponds expert judgement, taking into account the widest possible range of current information, which might not be factored into the modelling process.

In normal circumstances the Group's objective is to develop its modelling to the point where the level of PMAs required is minimal, but in economic conditions where previous relevant experience is limited or non-existent, as with Covid, some form of PMA is always likely to be necessary.

The current model behaviour and the potential for unobserved credit issues have meant that the requirement for such adjustments at 30 September 2021 was significant. Evidence considered by management included internal performance data, customer feedback, evidence on the wider economy and quantitative and qualitative data and statements from industry, government and regulatory bodies. These were combined to form a broad estimate of the level of provision required across the Group.

Other than the behaviour of extended payment relief cases noted above, this analysis found no evidence of particular concentrations of credit risk below portfolio level. Given this and the high level nature of the PMA exercise the PMAs have been allocated on a broad brush basis to individual cases.

The Company will continue to monitor the requirement for these PMAs as the economic situation develops and the impact of government interventions recedes.

Impairments by Stage

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages.

The three classes comprise: those where there has been no SICR since advance or acquisition (Stage 1); those where there has been a SICR (Stage 2); and loans which are impaired (Stage 3).

- On initial recognition, and for assets where there has not been an SICR, provisions will be made in respect of losses resulting from the level of credit default events expected in the twelve months following the balance sheet date
- Where a loan has experienced an SICR, whether or not the loan is considered to be credit impaired, provisions will be made based on the ECLs over the full life of the loan
- For credit impaired assets, provisions will also be made on the basis of ECLs

For assets which were 'Purchased or Originated as Credit Impaired' ('POCI') accounts (i.e. considered as credit impaired at the point of first recognition) the carrying valuation is based on expected cash flows discounted by the EIR determined at the point of acquisition.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments by stage (continued)

An analysis of the Company's loan portfolios between the stages defined above is set out below.

	Stage 1 £000	Stage 2 * £000	Stage 3 * £000	POCI £000	Total £000
30 September 2021					
Gross loan book					
Secured loans	3,810	495	6,261	-	10,566
Unsecured loans	-	-	-	26,746	26,746
Total	3,810	495	6,261	26,746	37,312
Impairment provision					
Secured loans	(310)	(32)	(341)	-	(683)
Unsecured loans	-	-	-	-	-
Total	(310)	(32)	(341)	-	(683)
Net loan book					
Secured loans	3,500	463	5,920	-	9,883
Unsecured loans	-	-	-	26,746	26,746
Total	3,500	463	5,920	26,746	36,629
Coverage ratio					
Secured loans	8.14%	6.46%	5.45%	-	6.46%
Unsecured loans	0.00%	0.00%	0.00%	-	0.00%
Total	8.14%	6.46%	5.45%	-	1.83%

* Stage 2 and 3 balances are analysed in more detail below.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Stage 1 £000	Stage 2 * £000	Stage 3 * £000	POCI £000	Total £000
30 September 2020					
Gross loan book					
Secured loans	4,361	832	7,256	-	12,449
Unsecured loans	-	-	-	32,185	32,185
Total	4,361	832	7,256	32,185	44,634
Impairment provision					
Secured loans	(12)	(23)	(951)	-	(986)
Unsecured loans	-	-	-	-	-
Total	(12)	(23)	(951)	-	(986)
Net loan book					
Secured loans	4,349	809	6,305	-	11,463
Unsecured loans	-	-	-	32,185	32,185
Total	4,349	809	6,305	32,185	43,648
Coverage ratio					
Secured loans	0.28%	2.76%	13.11%	-	7.92%
Unsecured loans	0.00%	0.00%	0.00%	-	0.00%
Total	0.28%	2.76%	13.11%	-	2.21%

* Stage 2 and 3 balances are analysed in more detail below.

In terms of the Company's credit management processes, Stage 1 cases will fall within the appropriate customer servicing functions and Stage 2 cases will be subject to account management arrangements. Stage 3 cases will include both those subject to recovery or similar processes and those which, though being managed on a long-term basis, are included with defaulted accounts for regulatory purposes. However, these broad categorisations may vary between different product types.

Analysis of Stage 2 loans

The table below analyses the accounts in Stage 2 between those not more than one month in arrears where an SICR has nonetheless been identified from other information and accounts more than one month in arrears.

Cases which have been greater than one month in arrears in the last three months, but which are not at the balance sheet date are shown as 'recent arrears' in the tables below. These cases have been analysed separately for the first time in the current year.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 2 loans (continued)

In all cases accounts which are more than one month in arrears, where this is a meaningful measure, are considered to have an SICR. However, in certain loan portfolios, regular monthly payments of pre-set amounts are not required and hence this criterion cannot be used.

Levels of Stage 2 assets increased substantially during the early part of the Covid outbreak, and has been broadly stable over the course of the year. The largest part of the Stage 2 balance at 30 September 2021 related to extended payment holiday accounts transferred from Stage 1. These are shown in the < 1 month arrears column in the table below. As fewer extensions were granted after 30 September 2020, the rate of increase of such Stage 2 cases has been much reduced in the period.

While the numbers of Stage 2 arrears accounts across the portfolios has increased since September 2020 in the Mortgage Lending segment as payment reliefs unwind, levels remain far lower than those seen in September 2019 in more normal payment conditions.

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£000	£000	£000	£000
30 September 2021				
Gross loan book				
Secured loans	25	123	347	495
Unsecured loans	-	-	-	-
Total	25	123	347	495
Impairment provision				
Secured loans	-	(1)	(31)	(32)
Unsecured loans	-	-	-	-
Total	-	(1)	(31)	(32)
Net loan book				
Secured loans	25	122	316	463
Unsecured loans	-	-	-	-
Total	25	122	316	463
Coverage ratio				
Secured loans	0.00%	0.81%	8.93%	6.46%
Unsecured loans	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.81%	8.93%	6.46%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 2 loans (continued)

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£000	£000	£000	£000
30 September 2020				
Gross loan book				
Secured loans	152	445	235	832
Unsecured loans	-	-	-	-
Total	152	445	235	832
Impairment provision				
Secured loans	-	(9)	(14)	(23)
Unsecured loans	-	-	-	-
Total	-	(9)	(14)	(23)
Net loan book				
Secured loans	152	436	221	809
Unsecured loans	-	-	-	-
Total	152	436	221	809
Coverage ratio				
Secured loans	0.00%	2.02%	5.96%	2.76%
Unsecured loans	0.00%	0.00%	0.00%	0.00%
Total	0.00%	2.02%	5.96%	2.76%

Analysis of Stage 3 loans

The table below analyses the accounts in Stage 3 between those:

- In the process of sale or other enforcement procedures ('Realisations')
- Where a receiver of rent ('RoR') has been appointed by the Group to manage the property on the customers' behalf
- Which are being managed on a long-term basis and where full recovery is possible, but which are considered to meet regulatory default criteria at the balance sheet date ('>3 month arrears')
- which no longer meet regulatory default criteria but which are being retained in Stage 3 for a probationary period ('Probation')

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 3 loans (continued)

In these disclosures probation accounts have been analysed separately for the first time, in order to provide better information for users.

RoR accounts in Stage 3 may be fully up-to-date with full recovery possible. These accounts are included in Stage 3 as they are classified as defaulted for regulatory purposes.

The impact of Covid on the number and value of Stage 3 accounts has been limited so far. Payment reliefs have prevented arrears being recorded and other enforcement activities have been limited by government intervention. This particularly impacts on cases analysed as 'realisations'.

The completion of payment relief periods has led to some increase in > 3 month arrears cases, particularly in the Mortgage Lending business, while credit reviews have identified at risk cases in other areas. This increase is, however, is offset by the continuing realisations from the receiver of rent portfolio as long-term cases are managed out.

	Probation £000	> 3 month arrears £000	RoR managed £000	Realisations £000	Total £000
30 September 2021					
Gross loan book					
Secured loans	55	6,072	-	134	6,261
Unsecured loans	-	-	-	-	-
Total	55	6,072	-	134	6,261
Impairment provision					
Secured loans	-	(326)	-	(15)	(341)
Unsecured loans	-	-	-	-	-
Total	-	(326)	-	(15)	(341)
Net loan book					
Secured loans	55	5,746	-	119	5,920
Unsecured loans	-	-	-	-	-
Total	55	5,746	-	119	5,920
Coverage ratio					
Secured loans	0.00%	5.37%	0.00%	11.19%	5.45%
Unsecured loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.00%	5.37%	0.00%	11.19%	5.45%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 3 loans (continued)

	Probation £000	> 3 month arrears £000	RoR managed £000	Realisations £000	Total £000
30 September 2020					
Gross loan book					
Secured loans	192	7,064	-	-	7,256
Unsecured loans		-	-	-	-
Total	<u>192</u>	<u>7,064</u>	<u>-</u>	<u>-</u>	<u>7,256</u>
Impairment provision					
Secured loans	(5)	(946)	-	-	(951)
Unsecured loans		-	-	-	-
Total	<u>(5)</u>	<u>(946)</u>	<u>-</u>	<u>-</u>	<u>(951)</u>
Net loan book					
Secured loans	187	6,118	-	-	6,305
Unsecured loans		-	-	-	-
Total	<u>187</u>	<u>6,118</u>	<u>-</u>	<u>-</u>	<u>6,305</u>
Coverage ratio					
Secured loans	2.60%	13.39%	0.00%	0.00%	13.11%
Unsecured loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total	<u>2.60%</u>	<u>13.39%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>13.11%</u>

The exposure at default in the calculation shown above for stage 3 accounts is reduced by £3,577,000 (2020: £3,978,000) in respect of the value of security given by customers. The estimated value of the security represents, for each account, the lesser of the valuation estimate and the exposure value in the central economic scenario. Security values are based on the most recent valuation of the relevant property held by the Company, indexed as appropriate.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Movements in impairment provision by stage

The movements in the impairment provision calculated under IFRS 9 is set out below.

	2021	2020
	£000	£000
At 1 October 2020	986	704
(Released) / provided in period	(170)	307
Amounts written off	(133)	(25)
At 30 September 2021	683	986

Accounts are considered to be written off for accounting purposes when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. This has no effect on the net carrying value, only on the amounts reported as gross loan balances and accumulated impairment provisions.

At 30 September 2021 enforceable contractual balances of £23,000 (2020: £110,000) were outstanding on non-POCI assets written off in the period. This will exclude those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances will be kept under review for operational purposes but no amounts will be recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

These tables, and the matching tables analysing movements in gross balances, have been compiled by comparing opening and closing balances on each account and analysing the movements between them.

Changes due to credit risk includes all changes in model parameters whether related to account performance, external credit data or model assumptions, including economic scenarios and weightings.

There have been no changes in models creating significant movements in balances in the period.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

A more detailed analysis of these movements by IFRS 9 stage on a consolidated basis for the year ended 30 September 2021 and 30 September 2020 is set out below.

	Stage 1 £000	Stage 2 *	Stage 3 *	POCI £000	Total £000
	£000	£000	£000	£000	£000
Loss allowance at 1 October 2020	12	23	951	-	986
New assets originated or purchased	-	-	-	-	-
Changes in loss allowance					
Transfer to stage 1	23	(19)	(4)	-	-
Transfer to stage 2	-	13	(13)	-	-
Transfer to stage 3	-	-	-	-	-
Changes on stage transfer	(21)	(6)	-	-	(27)
Changes due to credit risk	296	21	(460)	-	(143)
Write offs	-	-	(133)	-	(133)
Assets derecognised	-	-	-	-	-
Loss allowance at 30 September 2021	<u>310</u>	<u>32</u>	<u>341</u>	<u>-</u>	<u>683</u>
Loss allowance at 1 October 2019	12	72	620	-	704
New assets originated or purchased	-	-	-	-	-
Changes in loss allowance					
Transfer to stage 1	30	(28)	(2)	-	-
Transfer to stage 2	-	4	(4)	-	-
Transfer to stage 3	-	(10)	10	-	-
Changes on stage transfer	(26)	3	23	-	-
Changes due to credit risk	(4)	(18)	329	-	307
Write offs	-	-	(25)	-	(25)
Assets derecognised	-	-	-	-	-
Loss allowance at 30 September 2020	<u>12</u>	<u>23</u>	<u>951</u>	<u>-</u>	<u>986</u>

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

The principal movements in the impairment provision in the year were downwards, with a more benign economic outlook reducing both the estimated likelihood of losses and the expected loss on defaulted cases as security values improved. However, levels still remain in excess of those pre-Covid, with PMAs in place to compensate for the potential impact of credit issues not apparent in the data.

While less accounts have been granted payment holiday extensions in the year than in the year ended 30 September 2020, this has driven further transfers from Stage 1 to Stage 2. Transfers to Stage 3 reflect principally a small number of realisation cases and other cases identified through credit review. Write offs largely relate to the realisation of already provided losses on cases being worked out on a long-term basis.

In the year ended 30 September 2020 the principal factor generating the increase in the loss allowance in the period was the impact of the Covid crisis, which has led to increased loss expectations across all of the Company's portfolios, primarily as a result of the forecast deterioration in key economic variables and their impact on the Company's customers. The broad availability of payment holidays was also reflected, with extended payment holiday accounts transferred to Stage 2 and PMAs made to allow for the potential delay in the recognition of credit issues due to reliefs.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

The movements in the Loans to Customers balances in respect of which these loss allowances have been made are set out below.

	Stage 1 £000	Stage 2 * £000	Stage 3 * £000	POCI £000	Total £000
Balances at 1 October 2020	4,361	832	7,256	32,185	44,634
New assets originated or purchased	-	-	-	-	-
Changes in staging					
Transfer to stage 1	596	(484)	(112)	-	-
Transfer to stage 2	(133)	365	(232)	-	-
Transfer to stage 3	(184)	(53)	237	-	-
Redemptions and repayments	(877)	(154)	(715)	(5,439)	(7,185)
Assets derecognised	-	-	-	-	-
Write offs	-	-	(133)	-	(133)
Other changes	47	(11)	(40)	-	(4)
Balance at 30 September 2021	3,810	495	6,261	26,746	37,312
Loss allowance	(310)	(32)	(341)	-	(683)
Carrying value	3,500	463	5,920	26,746	36,629
Balances at 1 October 2019	4,650	1,946	8,243	39,284	54,123
Changes in staging					
Transfer to stage 1	1,045	(792)	(253)	-	-
Transfer to stage 2	(203)	308	(105)	-	-
Transfer to stage 3	(173)	(380)	553	-	-
Redemptions and repayments	(855)	(234)	(1,055)	(7,099)	(9,243)
Assets derecognised	-	-	-	-	-
Write offs	-	-	(25)	-	(25)
Other changes	(103)	(16)	(102)	-	(221)
Balance at 30 September 2020	4,361	832	7,256	32,185	44,634
Loss allowance	(12)	(23)	(951)	-	(986)
Carrying value	4,349	809	6,305	32,185	43,648

Accounts are considered to be written off for accounting purposes when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. This has no effect on the net carrying value, only on the amounts reported as gross loan balances and accumulated impairment provisions.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments charged to income

The amounts charged to the profit and loss account in the period are analysed as follows.

	2021	2020
	£000	£000
(Realised) / provided in period	(450)	455
Written off amounts	133	25
	<u>(317)</u>	<u>480</u>

Economic impacts to provision calculations

Impairment provision under IFRS 9 is calculated on a forward-looking ECL basis, based on expected economic conditions in multiple internally coherent scenarios. The Company uses four distinct economic scenarios chosen to represent the range of possible outcomes and allow for the impact of economic asymmetry in the calculations.

In developing its economic scenarios, the Company considers analysis from reputable external sources to form a general market consensus which inform its central scenario. These sources included forecasts produced by the Office of Budget Responsibility ('OBR') and the PRA as well as private sector economic research bodies.

The four economic scenarios comprise a base case, which will normally carry the highest scenario weighting, an upside case, a downside and a severe downside, the latter typically being benchmarked to be at least as severe as scenarios provided by the Bank of England for stress testing purposes. For the 2020 year end, each of the Company's scenarios represents a differing level of impact of the pandemic on the economy and different timings of recovery. They have been reviewed against emerging economic data and updated external forecasts reflecting the most recent information available, including the impact of the UK's second lockdown. The approach utilises data and forecasts from both economic advisers and from public sources, such as Bank of England statements and projections.

The economic variables comprising each scenario, and their projected average rates of increase (or decrease) for the first five years of the forecast period are set out below.

30 September 2021

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	11.5	1.1	13.3	1.6	7.3	0.9	14.3	(5.9)
HPI	6.1	(4.0)	7.7	0.6	2.9	(9.8)	2.4	(16.9)
BBR	0.8	0.1	1.0	0.1	0.5	0.1	0.2	(0.1)
CPI	4.0	1.8	3.8	1.8	4.5	1.8	2.0	0.2
Unemployment	5.5	4.1	4.7	3.8	5.9	4.5	11.9	4.8
Secured lending	4.8	3.0	5.5	3.5	4.0	2.5	3.1	(2.5)
Consumer credit	6.4	0.4	8.5	1.9	4.6	(0.1)	9.2	(8.9)

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

30 September 2020

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	18.0	(7.6)	18.8	(5.9)	17.8	(15.1)	20.5	(17.9)
HPI	5.0	(4.0)	4.0	0.0	4.0	(10.0)	4.0	(20.0)
BBR	0.8	0.1	1.0	0.1	1.0	0.1	0.8	(0.4)
CPI	2.4	0.6	2.3	0.7	2.3	0.2	2.3	(0.3)
Unemployment	7.6	4.0	7.0	4.0	9.0	4.5	9.0	5.3
Secured lending	3.9	3.5	4.8	4.0	3.8	1.7	3.7	(1.2)
Consumer credit	6.3	6.0	8.8	6.7	5.7	1.5	4.8	(5.2)

9. DEBTORS

	2021 £000	2020 £000
Amounts falling due within one year:		
Amounts owed by group companies	4	6
Other debtors	28	49
Deferred tax (note 10)	45	47
Prepayments and accrued income	12	15
	<u>89</u>	<u>117</u>

10. DEFERRED TAX

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

	2021 £000	2020 £000
Balance at 1 October 2020	47	42
Profit and loss charge (note 6)	(6)	-
Profit and loss charge prior year (note 6)	(5)	-
Rate change (note 6)	9	5
Balance at 30 September 2021	<u>45</u>	<u>47</u>
The net deferred tax liability for which provision has been made is analysed as follows:		
Other timing differences	<u>45</u>	<u>47</u>

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

11. CALLED UP SHARE CAPITAL

	2021 £	2020 £
Allotted:		
1,000 ordinary shares of £1 each (fully paid)	1,000	1,000

12. CREDITORS

	2021 £000	2020 £000
Amounts falling due within one year:		
Amounts due to group companies	38,228	45,896
Corporation tax	24	-
Accruals and deferred income	29	27
	38,281	45,923

NOTES TO THE ACCOUNTS – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2021

The note below describes the processes and measurements which the Company use to manage their exposure to financial risks including credit, liquidity, interest rate and foreign exchange risk.

13. FINANCIAL RISK MANAGEMENT

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

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

The Company's financial assets are comprised of loans to customers and investments in securities. Investments in securities represent the Company's contribution made to special purpose vehicle ('SPV') companies established and controlled by third parties to purchase pools of loans assets. All such investments are denominated in sterling and the underlying loans are made to United Kingdom borrowers. Cash generated by the assets is distributed to investors in accordance with a specified priority of payments. The Group has no obligation to make further contributions to the SPV companies concerned.

The management has considered the position of the underlying assets and concluded that they will generate sufficient cash flows to repay the amount of the investment.

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate 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 2021 approximates to the carrying value of loans to customers (note 8). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

In assessing credit risk an applicant's ability to repay the loan remains the overriding factor in the decision to lend by the originator.

Idem Capital Securities Limited continues to administer the loans 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.

Liquidity risk

It is the Company's 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 considers the year end position satisfactorily reflects the policies and objectives set out above.

The Company has no external borrowings and liquidity is provided as part of the Group's working capital arrangements.

NOTES TO THE ACCOUNTS – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2021

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The Company's assets predominantly bear LIBOR linked interest rates. The interest rates charged on the Company's variable rate loan assets are determined by reference to, inter alia, the Company's 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 loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

Currency risk

The Company has no material exposure to foreign currency risk.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

The notes set out below describe the accounting basis on which the Company prepare their accounts, the particular accounting policies adopted by the Company and the principal judgements and estimates which were required in the preparation of the financial statements.

They also include other information describing how the accounts have been prepared required by legislation and accounting standards.

14. BASIS OF PREPARATION

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.

The “requirements of the Companies Act 2006” here means accounts being prepared in accordance with “international accounting standards” as defined in section 474(1) of that Act, as it applied immediately before IP Completion Day (the end of the UK’s transition period) (‘IPCD’), including where the Company also makes use of standards which have been adopted for use within the United Kingdom in accordance with regulation 1(5) of the International Accounting Standards and European Public Limited Liability Company (Amendment etc.) (EU Exit) Regulations 2019, subsequent to the IPCD.

Under the Listing Rules of the FCA, despite the UK’s exit from the EU on 31 January 2020, the EU endorsed IFRS regime remains applicable to the Company until its first financial year commencing after the IPCD on 31 December 2020.

Therefore, while EU endorsed IFRS applies to these financial statements, those for the year ending 30 September 2022 will instead be prepared under ‘UK-adopted international accounting standards’.

The changes in the way that the basis of preparation is described, as a result of the UK’s exit from the EU, including the move to UK-adopted international accounting standards from the Company’s financial year commencing 1 October 2021, do not represent a change in the basis of accounting which would necessitate a prior year restatement.

Adoption of new and revised reporting standards

In the preparation of these financial statements, the following accounting standards are being applied for the first time.

- 2020 amendments to IAS 39 – ‘Interest Rate Benchmark Reform’ and consequential amendments to IFRS 7

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2021****14. BASIS OF PREPARATION (CONTINUED)****Adoption of new and revised reporting standards (continued)***IAS 39 amendments 'Interest Rate Benchmark Reform'*

In August 2020 the IASB issued a further amendment to IAS 39 'Interest Rate Benchmark Reform – Phase 2'. This amendment sets out accounting requirements for the treatment of Interbank Offered Rate ('IBOR') - linked financial assets and liabilities under the amortised cost method when a firm replaces the IBOR linkage in the underlying instruments with a replacement benchmark. It is therefore potentially applicable to the Company's London Interbank Offered Rate ('LIBOR') - linked intercompany loans where interest is charged on the basis of LIBOR or other IBOR rates.

The intention of the standard is that, where the transition is effectively a like for like replacement, no windfall gain or loss should occur on transition.

This amendment is effective from the Company's financial year ending 30 September 2022 but has been endorsed by both the EU and the UK and has been early adopted by the Company as permitted.

The Company has utilised, and will continue to utilise, the provisions of the amendment as it transitions its IBOR-linked assets and liabilities. The impact of the amendment will depend upon the IBOR related assets, and liabilities at the point at which transition occurs.

Standards not yet adopted

There are no standards and interpretations in issue but not effective which address matters relevant to the Company's accounting and reporting.

15. ACCOUNTING POLICIES**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.

Going concern

The financial statements of the Company for the year ended 30 September 2021 have been prepared on the going concern basis, as defined in IAS 1 – 'Presentation of Financial Statements'. In order to prepare financial statements on this basis the directors must conclude that the management does not intend to liquidate the Company or cease trading, and that the Company has the ability to continue to trade and will be able to satisfy its liabilities as they fall due. Particular focus is given to the Group's financial forecasts to ensure the adequacy of resources available for the Company to meet its business objectives on both a short term and strategic basis.

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows on a company-by-company basis. In compiling the most recent forecast, for the period commencing 1 October 2021, particular attention was paid to the potential consequences of Covid on the Group's operations, customers, funding and prospects, both in the short and longer term. This included consideration of a number of different scenarios with impacts of varying duration and severity. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October in light of the continuing development of the Covid crisis, based on updated external projections. Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

15. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

On the basis of this analysis, the directors have concluded that the Company is able to continue as a going concern for at least twelve months from the date of approval of these financial statements and that therefore it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements.

Loans to customers

Loans to customers includes assets accounted for as financial assets. The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and its business model for managing the asset. The Company has concluded that its business model for its customer loan assets is of the type defined as 'Hold to collect' by IFRS 9 and the contractual terms of the asset should give rise to cash flows that are solely payments of principal and interest ('SPPI'). Such loans are therefore accounted for on the amortised cost basis.

Loans advanced are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procurement fees paid to brokers or other business providers and less initial fees paid by the customer. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter, all loans to customers are valued at this initial amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method. The loan balances are then reduced where necessary by a provision impairment.

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 future cash payments and receipts arising from the loan to the initial carrying amount.

Impairment of loans and receivables

The carrying values of all loans to customers, whether accounted for under IFRS 9 or IAS 17, are reduced by an impairment provision based on their expected credit loss ('ECL'), determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

With the exception of 'Purchased or Originated as Credit Impaired' ('POCI') financial assets (which are discussed separately below), all assets are assessed to determine whether there has been a significant increase in credit risk ('SICR') since the point of first recognition (origination or acquisition). Assets are also reviewed to identify any which are 'Credit Impaired'. SICR and credit impairment are identified on the basis of pre-determined metrics including qualitative and quantitative factors relevant to each portfolio, with a management review to ensure appropriate allocation.

Assets which have not experienced an SICR are referred to as 'Stage 1' accounts, assets which have experienced an SICR but are not credit impaired are referred to as 'Stage 2' accounts, while credit impaired assets are referred to as 'Stage 3' accounts.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

15. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables (continued)

An impairment allowance is provided on an account by account basis:

- For Stage 1, at an amount equal to 12-month ECL, i.e. the total expected ECL that results from those default events that are possible within 12 months of the reporting date, weighted by the probability of those events occurring
- For Stage 2 and 3 accounts, at an amount equal to lifetime ECL, i.e. the total expected ECL that results from any future default events, weighted by the probability of those events occurring

In establishing an ECL allowance, the Company assesses its probability of default, loss given default and exposure at default for each reporting period, discounted to give a net present value. The estimates used in these assessments must be unbiased and take into account reasonable and supportable information including forward-looking economic inputs.

Within its buy-to-let portfolio the Company 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. Such cases are automatically considered to have an SICR, but where a letting strategy is adopted by the receiver, a tenant is in place and arrears are reduced or cleared, the account will not necessarily be considered to be credit impaired. Properties in receivership are eventually either returned to their landlord owners or sold.

For financial accounting purposes, provisions for impairments of loans to customers are held in an *impairment allowance account from the point at which they are first recognised*. These balances are released to offset against the gross value of the loan when it is written off for accounting purposes. This occurs when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. Any further gains from post-write off salvage activity are reported as impairment gains.

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.

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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

15. ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

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, 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, discounted at the original EIR. Loans are assessed collectively, compared 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.

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.

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.

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.

Deferred sale consideration

Deferred sale consideration is recognised in the period in which it is received.

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

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2021****15. ACCOUNTING POLICIES (CONTINUED)****Disclosures (continued)**

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.

16. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 15 relate to:

Significant Increase in Credit Risk (‘SICR’)

Under IFRS 9, the directors are required to assess where a credit obligation has suffered a Significant Increase in Credit Risk (‘SICR’). The directors’ assessment is based primarily on changes in the calculated probability of default, but also includes consideration of other qualitative indicators and the adoption of the backstop assumption in the Standard that all cases which are more than 30 days overdue have a SICR, for account types where days overdue is an appropriate measure.

If additional accounts were determined to have an SICR, these balances would attract additional impairment provision and the overall provision charge would be higher.

In determining whether an account has a SICR in the Covid environment the granting of Covid reliefs, including payment holidays and similar arrangements, may mean that a SICR may exist without this being reflected in either arrears performance or credit bureau data. The Group has accepted the advice of UK regulatory bodies that the grant of Covid relief does not, of itself, indicate an SICR, but has carefully considered internal credit and customer data to determine whether there might be any accounts with SICR not otherwise identified by the process.

More information on the definition of SICR adopted is given in note 8.

Definition of default

In applying the impairment provisions of IFRS 9, the directors have used models to derive the probabilities of default. In order to derive and apply such models, it is required to define ‘default’ for this purpose. The Group’s definition of default is aligned to its internal operational procedures. IFRS 9 provides a rebuttable presumption of default when an account is 90 days overdue and this was used as the starting point for this exercise. Other factors include account management activities such as appointment of a receiver or enforcement procedures.

A combination of qualitative and quantitative measures was considered in developing the definition of default.

If a different definition of default had been adopted the expected loss amounts derived might differ from those shown in the accounts.

More information on the Group’s definition of default adopted is given in note 8.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

16. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)**Classification of financial assets**

The classification of financial assets under IFRS 9 is based on two factors:

- The company's 'business model' – how it intends to generate cash and profit from the assets
- The nature of the contractual cash flows inherent in the assets

Financial assets are classified as held at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

For an asset to be held at amortised cost, the cash flows received from it must comprise solely payments of principal and interest ('SPPI'). In effect, this restricts this classification to 'normal' lending activities, excluding arrangements where the lender may have a contingent return or profit share from the activities funded. The Group has considered its products and concluded that, as standard lending products, they fall within the SPPI criteria.

The use of amortised cost accounting is also restricted to assets which a company holds within a business model whose object is to collect cash flows arising from them, rather than seek to profit by disposing of them (a 'Held to Collect' model). The Group's strategy is to hold loan assets until they are repaid or written off. Loan disposals are rare, and the Group does not manage its assets in order to generate profits on sale. On this basis, it has categorised its business model as Held to Collect.

Therefore, the Company has classified its customer loan assets as carried at amortised cost.

17. 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, applied to the present status, performance and management strategy for the loans concerned which are used to determine each loan's PD and LGD.

Internal information used will include number of months arrears, qualitative information, such as possession by a first charge holder on a second charge mortgage or where a buy-to-let case is under the control of a receiver of rent, the receiver's present and likely future strategy for the property (e.g. keeping current tenants in place, refurbish and relet, immediate sale etc).

External information used includes customer specific data, such as credit bureau information as well as more general economic data.

Key internal assumptions in the models relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property or other charged assets. These cash flows will include payments received from the customer, and, for buy-to-let cases where a receiver of rent is appointed, rental receipts from tenants, after allowing for void periods and running costs. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2021****17. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)****Impairment losses on loans to customers (continued)**

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 current and expected 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. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

In order to provide forward looking economic inputs to the modelling of the ECL, the Company must derive a set of scenarios which are internally coherent. The Company addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes.

The variables are used for two purposes in the IFRS 9 calculations:

- They are applied as inputs in the models which generate PD values, where those found by statistical analysis to have the most predictive value are used
- They are used as part of the calculation where the variable has a direct impact on the expected loss calculation, such as the house price index

The economic variables will also inform assumptions about the Company's approach to account management given a particular scenario.

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.

18. ULTIMATE PARENT COMPANY

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