

Company Registration No: 09386326

PARAGON MORTGAGES (No.23) PLC

Report and Financial Statements

Year ended 30 September 2020

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COMPANIES HOUSE

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Mortgages (No.23) PLC ('the Company') is a special purpose company established to act as a funding vehicle within Paragon Banking Group PLC ('the Group') and was set up to provide finance for its mortgage loan assets, by issuing mortgage backed floating rate loan notes and using the proceeds to purchase mortgage loans from other group companies of the Group.

On 23 July 2015 the Company issued floating rate notes and used the proceeds to purchase mortgage loans from Paragon Mortgages 2010 Limited, fellow group company of the Group. During the year the Company operated in the United Kingdom, the principal activity of the Company is the provision of first mortgage loans.

On 15 October 2019 the Company sold its mortgage loans to a fellow group company and used the proceeds to repay its outstanding asset backed loan notes. Since that date the company has been managed with a view to the orderly settlement of its remaining assets and liabilities and its eventual closure.

As shown in the Company's profit and loss account on page 12, the Company's net expense has decreased from £646,000 to £86,000. The result after tax has stayed consistent at a result of nil.

The balance sheet on page 13 of the Financial Statements shows the Company's financial position at year end. Loans to customers have decreased to £nil due to the Company selling its loan book with the sale proceeds used to repay the outstanding asset back loan notes.

No interim dividend was paid during the year (2019: £nil). No final dividend is proposed (2019: £nil).

The Company had entered into derivative contracts in order to provide an economic hedge against its exposure to fixed rate loans to customers. Although these instruments provide an economic hedge the prescriptive nature of the requirements of International Accounting Standard 39 – 'Financial Instruments: Recognition and Measurement' ('IAS 39') means that hedge accounting cannot always be achieved. This has led to the Company recognising a fair value net gain of £343,000 (2019: fair value net loss £26,000) in the year due to the effectiveness of the hedge relationship. This represents a timing difference and cumulative gains and losses recognised will tend to zero over time.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The remaining assets and liabilities of the Company are minor monetary assets and liabilities, principally owed to or by fellow group companies. There are therefore no significant risks or uncertainties relating to the financial position of the Company at the balance sheet date.

An analysis of the Company's exposure to risk in the year, including financial risk, and the steps taken to mitigate these risks are set out in note 6, a discussion of critical accounting judgements is set out in note 4 and a discussion of critical accounting estimates is set out in note 5.

FUTURE PROSPECTS

The directors' intention is that the Company will be wound up once its existing assets and liabilities are settled. The accounts have therefore been prepared on the basis that the Company is not a going concern. This is further discussed in note 3.

STRATEGIC REPORT (CONTINUED)

BOARD AND STAKEHOLDERS

The Board of the Company is mindful of its duty to act in good faith and to promote the success of the Paragon Banking Group PLC group of companies (the 'Group') for the benefit of its shareholders and with regard to the interests of all of its stakeholders and, in particular, the interests of the Company's noteholders. The Board confirms that, for the year ended 30 September 2020, 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 Company'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; and
- f. The need to act fairly as between members of the Company.

As part of the Group, stakeholder engagement, for stakeholder groups where there is substantial common identity between the non-shareholder stakeholders of the Company and of the Group, takes place at a group level and 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 Group's 2020 Annual Report and Accounts.

In its decision making the Board of Directors will also have regard to the rights and interests of the holders of the Mortgage Backed Floating Rate Notes, while these were outstanding, in accordance with the transaction documents under which they were issued.

As a securitisation entity the decision-making powers of the Board of Directors were limited so long as the notes remain outstanding. 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. The principal decision made by the directors in the year was that to sell the Company's mortgage book, pay off the Notes and eventually close the Company. In considering this and other items of business the Board makes autonomous decisions on their 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, including its results and performance. As a special purpose funding vehicle for the Group, the Board also reviews strategy, financial, and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance. This information is presented to the Board through reports sent in advance of each Board meeting and through in person presentations.

More information on the Company's impact on individual stakeholder groups is set out below.

SHAREHOLDERS

The Company has a single shareholder, Paragon Mortgages (No. 23) Holdings Limited. However, the transaction documents limit this entity to a nominal interest in the risks and rewards of the business of the Company. Those risks and rewards attach to non-equity securities and fall to their holders which are companies within the Group. Hence the Company is considered to be controlled by Paragon Banking Group PLC.

ENVIRONMENT

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

STRATEGIC REPORT (CONTINUED)

EMPLOYEES

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

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



P H Whitaker

per pro Intertrust Directors 1 Limited
Director

28 January 2021

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Paragon Mortgages (No.23) PLC, a company registered in England and Wales with registration no: 09386326, for the year ended 30 September 2020.

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 during the year and subsequently were:

Intertrust Directors 2 Limited

Intertrust Directors 1 Limited

J P Giles

P H Whitaker

DIRECTORS' INDEMNITIES

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

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

AUDITOR

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

DIRECTORS' REPORT (CONTINUED)

INFORMATION PRESENTED IN OTHER SECTIONS

Certain information required to be included in a directors' report by Schedule 7 can be found in the other sections of the Annual Report, as described below. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

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

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



P H Whitaker
per pro Intertrust Directors 1 Limited
Director

28 January 2021

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 (as explained in note 3, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

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

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

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



P H Whitaker

per pro Intertrust Directors 1 Limited

28 January 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON MORTGAGES (NO. 23) PLC

1 Our opinion is unmodified

We have audited the financial statements of Paragon Mortgages (No. 23) PLC ("the Company") for the year ended 30 September 2020 which comprise the:

- Profit and Loss Account
- Balance Sheet
- Statement of Movements in Equity
- Related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 2020 and of the Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the United Kingdom (IFRSs as adopted by the UK); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the shareholders on 9 February 2016. The period of total uninterrupted engagement is for the five financial years ended 30 September 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Emphasis of matter - non-going concern basis of preparation

We draw attention to the disclosure made in note 3 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

3 Key audit matters: our assessment of risks of material misstatement

- Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAGON MORTGAGES (No.23) PLC (CONTINUED)**

| Key audit matter | Our response |
|--|--|
| <p>Impairment allowances on loans to customers</p> <p>Risk vs 2019: ▲ (£nil; 2019: £nil)</p> <p><i>Refer to the Strategic Report, accounting policy note and note 13 (financial disclosures).</i></p> <p>Subjective estimate</p> <p>The measurement of expected credit losses ('ECL') involves significant judgements and estimates. There is increased risk of material misstatement of ECL in the current year due to the increased judgement and estimation uncertainty as a result of COVID-19. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's estimation of ECL are:</p> <p>Economic scenarios – IFRS 9 requires the Company to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used, particularly in the context of COVID-19, and the probability weightings assigned to each economic scenario.</p> <p>Qualitative adjustments – Adjustments to the model-driven ECL results are raised by management to address issues relating to model responsiveness or emerging trends relating to COVID-19. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts.</p> <p>Significant Increase in Credit Risk ('SICR') – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Company's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. Increased judgement exists in the current year relating to the treatment of those customers who were granted one or more COVID-19 payment reliefs.</p> <p>Model estimations – Inherently judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The LGD models used in the portfolios are the key drivers of the Company's ECL results and are therefore the most significant judgmental aspect of the Company's ECL modelling approach.</p> <p>Disclosure quality</p> <p>The disclosures regarding the Company's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Test of details: Key aspects of our testing involved: <ul style="list-style-type: none"> - We tested the key inputs and assumptions impacting the Company's overall ECL calculation to assess their reasonableness. This included performing sensitivity analysis to understand the significance of certain assumptions; benchmarking procedures to compare the Company's key assumptions to comparable peer group organisations; and assessing the key assumptions against the Company's historical experience; and - We performed recalculations of the ECL measured on the loan portfolios. • Our economic scenario expertise: We involved our own economic specialists to assist us in assessing the appropriateness of the Company's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed the overall reasonableness of the economic forecasts by comparing the Company's forecasts to our own modelled forecasts. As part of this work we assessed the reasonableness of the Company's considerations of the economic uncertainty relating to COVID-19. • Qualitative adjustments: For each of the adjustments to the model-driven ECL results we assessed the reasonableness of the adjustments by challenging, the key assumption being the probability of default floors, inspecting the calculation methodology and tracing a sample of data used back to source data. • SICR: We assessed the ongoing predictability of the SICR criteria and independently recalculated the loans' stage for 100% of the Company's loans and receivables. In addition, we assessed the reasonableness of management's treatment of COVID-19 payment relief customers from a SICR perspective. • Our financial risk modelling expertise: We involved our own financial risk modelling specialists in evaluating certain IFRS 9 models. We used our knowledge of the Company and our experience of the industry that the Company operates in to independently assess the appropriateness of the Company's IFRS 9 models and key components. • Assessing transparency: We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Company's overall ECL. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgments and assumptions made, including in respect of COVID-19, was sufficiently clear. |

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAGON MORTGAGES (No.23) PLC (CONTINUED)**

| | |
|---|---|
| | <p>Our results</p> <p>The results of our testing were satisfactory, and we considered the ECL charge, provision recognised and the related disclosures to be acceptable (2019: acceptable).</p> |
| <p>Interest receivable on loan accounts</p> <p>Risk vs 2019: ▲</p> <p>(£75k; 2019: £1,948k)</p> <p><i>Refer to the Strategic Report, accounting policy note and page 12 (profit and loss account).</i></p> <p>Subjective estimate</p> <p>The recognition of interest receivable on loan accounts under the effective interest rate ("EIR") method requires the directors to apply judgement, with the most critical estimate being the loans' expected behavioural life for originated assets. The subjectivity in respect of these assumptions has increased further at the current year-end as a result of the uncertainties arising from COVID-19.</p> <p>The expected life assumptions utilise repayment profiles which represent how customers are expected to pay. These profiles extend significantly into the future which creates a high degree of estimation uncertainty and subjects the judgement to future market changes. The Company makes its expected life assumptions based on its forecasting process which incorporates both historical experience and judgmental overlays by management.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> • Historical comparison: We critically assessed the Company's analysis and key assumptions over the repayment profiles by comparing them to the Company's historical trends and actual portfolio behaviour. This included considering the impact of uncertainties arising from COVID-19 in the current behavioural life forecasts; • Our sector experience: We critically assessed key assumptions behind the expected behavioural lives against our own knowledge of industry experience and trends, and challenged the appropriateness of the level of segmentation applied to the loan portfolios by management when determining the expected behavioural lives; and • Sensitivity analysis: We performed sensitivity analysis over the repayment profiles by applying alternative profiles based upon the above procedures. • Assessing transparency: We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Company's EIR adjustments and interest receivable. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the critical estimates and assumptions made, including in respect of COVID-19, was sufficiently clear; <p>Our results</p> <p>We found the resulting estimate of interest receivable on loan accounts and the related disclosures to be acceptable (2019: acceptable).</p> |

4 Our application of materiality and an overview of the scope of our audit

Materiality for the Company financial statements as a whole was set at £150 (2019: £400,000), determined with reference to a benchmark of the Company's total assets as at 30 September 2020, of which it represents 0.79% (2019: 0.75%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £8 (2019: £20,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON MORTGAGES (No.23) PLC (CONTINUED)

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and directors' report

Based solely on our work on the other information:

- 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.

6 We have nothing to report on the other 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements including 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 other irregularities (see below), 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, other irregularities 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON MORTGAGES (No.23) PLC (CONTINUED)

Irregularities – ability to detect

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 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 non-compliance 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.

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 license to operate. We identified the following areas as those most likely to have such an effect: money laundering, sanctions list and financial crime and various requirements governing securitisation transactions, recognising the nature of the company's activities and its legal form. 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. These limited procedures did not identify actual or suspected non-compliance.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 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.



Simon Clark (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

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

28 January 2021

PARAGON MORTGAGES (No.23) PLC

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2020

| | Note | 2020 £000 | 2019 £000 |
|---|------|--------------|--------------|
| Interest receivable | | | |
| Loans to customers | | 75 | 1,948 |
| Other | | 9 | 92 |
| | | <u>84</u> | <u>2,040</u> |
| Interest payable and similar charges | 7 | (170) | (2,686) |
| Net interest expense | | <u>(86)</u> | <u>(646)</u> |
| Other operating income | | - | 64 |
| Total operating income | | <u>(86)</u> | <u>(582)</u> |
| Operating expenses | | (257) | 606 |
| Provisions for losses | 13 | - | 2 |
| | | <u>(343)</u> | <u>26</u> |
| Fair value net gain / (loss) | 9 | 343 | (26) |
| Operating profit, being profit on ordinary activities before taxation | 10 | - | - |
| Tax on profit on ordinary activities | 11 | - | - |
| Profit on ordinary activities after taxation | 17 | <u>-</u> | <u>-</u> |

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 SEPTEMBER 2020

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Result for the year | - | - |
| Other comprehensive income | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Cash flow hedge profit taken to equity | - | 28 |
| Tax on items taken directly to equity | 2 | (7) |
| Other comprehensive income for the year net of tax | <u>2</u> | <u>21</u> |
| Total comprehensive income for the year | <u>2</u> | <u>21</u> |

PARAGON MORTGAGES (No.23) PLC

BALANCE SHEET

30 SEPTEMBER 2020

| | Note | 2020 £000 | 2020 £000 | 2019 £000 | 2019 £000 |
|-------------------------------------|------|--------------|--------------|--------------|--------------|
| ASSETS EMPLOYED | | | | | |
| FIXED ASSETS | | | | | |
| Financial assets | 12 | | - | | 38,138 |
| CURRENT ASSETS | | | | | |
| Debtors falling due within one year | 15 | 19 | | 670 | |
| Cash at bank | | - | | 13,927 | |
| | | | 19 | | 14,597 |
| | | | 19 | | 52,735 |
| FINANCED BY | | | | | |
| EQUITY SHAREHOLDERS' DEFICIT | | | | | |
| Called up share capital | 16 | 12 | | 12 | |
| Cashflow hedge reserve | 17 | - | | (2) | |
| Profit and loss account | 17 | - | | - | |
| | | | 12 | | 10 |
| PROVISIONS FOR LIABILITIES | | | | | |
| | 18 | | - | | 2 |
| CREDITORS | | | | | |
| Amounts falling due within one year | 19 | | 7 | | 52,723 |
| | | | 19 | | 52,735 |

These Financial Statements of the Company (registered number 09386326) were approved by the Board of Directors on 28 January 2021.

Signed on behalf of the Board of Directors



P H Whitaker

per pro Intertrust Directors 1 Limited

Director

PARAGON MORTGAGES (No.23) PLC

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2020

| | Share capital £000 | Cash flow hedging reserve £000 | Profit and loss account £000 | Total equity £000 |
|--|-----------------------|--------------------------------------|------------------------------------|-------------------------|
| <i>Total comprehensive income for the year</i> | | | | |
| Result for the year | - | - | - | - |
| Other comprehensive income | - | 2 | - | 2 |
| Total comprehensive income for the year | - | 2 | - | 2 |
| Opening equity | 12 | (2) | - | 10 |
| Closing equity | 12 | - | - | 12 |

YEAR ENDED 30 SEPTEMBER 2019

| | Share capital £000 | Cash flow hedging reserve £000 | Profit and loss account £000 | Total equity £000 |
|--|-----------------------|--------------------------------------|------------------------------------|-------------------------|
| <i>Total comprehensive income for the year</i> | | | | |
| Result for the year | - | - | - | - |
| Other comprehensive income | - | 21 | - | 21 |
| Total comprehensive income for the year | - | 21 | - | 21 |
| Opening equity | 12 | (23) | 2 | (9) |
| Change in accounting policy on adoption of IFRS9 | - | - | (2) | (2) |
| As restated | 12 | (23) | - | (11) |
| Closing equity | 12 | (2) | - | 10 |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

1. GENERAL INFORMATION

Paragon Mortgages (No.23) PLC ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 09386326. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

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

2. 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.

Adoption of new and reviewed reporting standards

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

- IFRS 16 – 'Leases'

This has had no impact upon the balance sheet or the profit and loss account.

Accounting changes at 1 October 2018

The accounting changes affecting equity at 1 October 2018 relate to the adoption of IFRS 9 – 'Financial Instruments' and are described in detail in note 3 to the accounts for the year ended 30 September 2019.

3. 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

In accordance with IAS 1 – 'Presentation of Financial Statements' a company may only present its financial statements on a going concern basis if management do not intend to liquidate the company or cease trading.

Following the disposal of its loan assets and the repayment of its external borrowings on 15 October 2019, the Company has effectively ceased to trade, and the intention of the directors is to settle its remaining assets and liabilities in an orderly fashion and, in due course, dissolve the Company. The directors have considered the available resources of the Company and concluded that all liabilities will be settled in full.

Due to the effective cessation of trade, these financial statements have not been prepared on a going concern basis, but due to the nature of the remaining assets and liabilities, the amounts presented do not differ from the values which would have been presented had the going concern basis been adopted.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. ACCOUNTING POLICIES (CONTINUED)

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.

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.

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; or
- 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables (Continued)

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.

Cash at bank

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

Current tax

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

Deferred taxation

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

Borrowings

Borrowings are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance.

Interest and all other costs of the funding are expensed to the profit and loss account as interest payable over the term of the borrowing on an Effective Interest Rate basis.

Derivative financial instruments

Derivative instruments utilised by the Company comprise currency swaps and interest rate swaps. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Company in line with the Company's risk management policies (note 6).

The Company does not enter into speculative derivative contracts.

All derivatives are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative. Fair value is based on market prices, where a market exists. If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments. Changes in the fair value of derivatives are recognised in the profit and loss account, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. ACCOUNTING POLICIES (CONTINUED)

Hedging

IFRS 9 paragraph 7.2.21 permits an entity to elect, as a matter of accounting policy, to continue to apply the hedge accounting requirements of IAS 39 in place of those set out in Chapter 6 of IFRS 9. The Company has made this election and the accounting policy below has been determined in accordance with IAS 39.

For all hedges, the Company documents, at inception, the relationship between the hedging instruments and the hedged items, as well as its risk management strategy and objectives for undertaking the transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by IAS 39.

For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of IAS 39, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

Where a derivative is used to hedge the variability of cash flows of an asset or liability, it may be designated as a cash flow hedge so long as this relationship meets the hedging requirements of IAS 39. For such an instrument the effective portion of the change in the fair value of the derivative is taken initially to equity, with the ineffective part taken to profit or loss. The amount taken to equity is released to the profit and loss account at the same time as the hedged item affects the profit and loss account. Where a cash flow hedge relationship is terminated, or deemed ineffective, the amount taken to equity will remain there until the hedged transaction is recognised, or is no longer highly probable.

Amounts owed by or to group companies

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

Revenue

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

Fee and commission income

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. ACCOUNTING POLICIES (CONTINUED)

Foreign currency

Foreign currency transactions, assets and liabilities are accounted for in accordance with International Accounting Standard 21 – ‘The Effects of Changes in Foreign Exchange Rates’. The functional currency of the Company is pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

Gains and losses on retranslation are included in interest payable or interest receivable depending on whether the underlying instrument is an asset or a liability, except where deferred in equity in accordance with cash flow hedging provisions of IAS 39.

Deferred purchase consideration

Under the Mortgage sale agreement profits from the company are paid up to the companies which originated the loans by way of deferred purchase consideration. Deferred purchase consideration is recognised in the period in which it becomes payable and is paid when sufficient cash resources allow. Paragon Mortgages (2010) Limited, to whom deferred purchase consideration is paid, is a fellow group company.

Disclosures

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

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

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

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

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 3 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-19 environment the granting of Covid-19 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-19 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 12.

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 12.

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; and
- 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

5. CRITICAL ACCOUNTING ESTIMATES

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

Impairment losses on loans to customers

Impairment losses on loans are calculated based on statistical models, 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.

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

5. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Fair values

Where financial assets and liabilities are carried at fair value, in the majority of cases this can be derived by reference to quoted market prices. Where such a quoted price is not available the valuation is based on cash flow models, based, where possible on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

6. FINANCIAL RISK MANAGEMENT

Until the sale of its loans and the repayment of the asset backed loan notes, the Company's operations were financed principally by floating rate, asset backed loan notes and, to a lesser extent, by a mixture of share capital and loans from other group companies of the Group. The Company issued financial instruments to finance the acquisition of its portfolio of loans to customers and used derivative financial instruments to hedge interest rate risk arising from fixed rate lending. In addition, various financial instruments, for example debtors and accruals, arise directly from the Company's operations.

The principal risks arising from the Company's financial instruments were 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 was primarily attributable to its loans to customers. The maximum credit risk at 30 September 2020 approximates to the carrying value of loans to customers (note 13). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

The Company acquired mortgages from Paragon Mortgages (2010) Limited, a fellow group company of the Group which place strong emphasis on good credit management at the time of underwriting new loans.

The acquired mortgages were secured by first charges over residential properties in the United Kingdom. Despite this security, in assessing credit risk an applicant's ability to repay the loan remains the overriding factor in the decision to lend by the originating lender. Additionally, each mortgage has the benefit of one or more life assurance policies and certain mortgages have the benefit of a mortgage guarantee indemnity insurance policy.

Paragon Mortgages (2010) Limited, a fellow group company of the Group, continued to administer the mortgages on behalf of Paragon Mortgages (No.23) PLC and the collections process is the same as that utilised for all companies in the group.

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

The terms of the debt issue require that the companies cash balances are held at institutions with a credit rating greater than P-1 by Moody's and/or A-1 by Standard and Poors and/or F1 by Fitch Ratings.

Liquidity risk

The Company's assets were principally financed by asset backed loan notes issued through the securitisation process. Details of the Company's borrowings are given in notes 20 and 21. Securitisation effectively eliminates the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the assets to be funded.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The Company's policy was to maintain floating rate liabilities and match these with floating rate assets by the use of interest rate swap agreements.

The rates payable on the asset backed loan notes issued by the Company were reset quarterly on the basis of LIBOR or EURIBOR. The Company's assets predominantly bear LIBOR linked interest rates or were hedged fixed rate assets. The interest rates charged on the Company's variable rate loan assets were determined by reference to, inter alia, the Company's funding costs and the rates being charged on similar products in the market. Generally this ensured 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.

In part, the Company's interest rate hedging objectives was achieved by the controlled mismatching of the dates on which instruments mature, redeem or have their interest rates reset.

Currency risk

All of the Company's assets and liabilities were denominated in sterling with the exception of the asset backed loan notes denominated in euros, described in note 21. Although IAS 39 requires that they be accounted for as currency liabilities and valued at their spot rates, it was a condition of the issue of these notes that the interest rate and currency swaps were put in place for the duration of the borrowing, having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing. As a result the Company has no material exposure to foreign currency risk.

The equivalent sterling principal amounts of notes in issue under these arrangements, and their carrying values at 30 September 2020 are:

| | 2020 Equivalent sterling principal £000 | 2020 Carrying value £000 | 2019 Equivalent sterling principal £000 | 2019 Carrying value £000 |
|------------|--|---|--|---|
| Euro notes | - | - | 1,501 | 1,908 |

Use of derivative financial instruments

The Company used derivative financial instruments for risk management purposes. Such instruments are used only to limit the exposure of the Company to movements in market interest rates, as described above.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken, and hence all of the Company's derivative financial instruments are for commercial hedging purposes. These are used to protect the Company from exposures principally arising from fixed rate lending. Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under IAS 39 either because natural accounting offsets are expected, or obtaining hedge accounting would be especially onerous.

The Company had designated a number of derivatives as fair value hedges. In particular this treatment is used for hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis. The Company believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Company to these assets.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values of financial assets and financial liabilities

Derivative financial instruments were stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a risk adjusted interest rate. The principal inputs to these valuation models are LIBOR benchmark interest rates for the currencies in which the instruments are denominated, sterling and euros. The cross currency basis swaps have a notional principal related to the outstanding currency borrowings and therefore the estimated rate of repayment of these notes also affects the valuation of the swaps. In order to determine the fair values the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counterparty. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors. Details of these assets are given in note 15.

7. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2020 £000 | 2019 £000 |
|-------------------------------------|--------------|--------------|
| Asset backed loan notes | 152 | 2,178 |
| Interest rate swaps | 4 | 56 |
| Subordinated loan interest | 14 | 362 |
| Interest on fee letter | - | 26 |
| Interest payable to related parties | - | 64 |
| | <u>170</u> | <u>2,686</u> |

8. DIRECTORS AND EMPLOYEES

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

The Company had no employees in the current year or preceding period. All administration is performed by employees of the related companies under the servicing agreement described in note 21. One director (2019: one director) of the Company is employed by Paragon Finance PLC, a related party, and their remuneration is disclosed within the financial statements of that company, which do not form part of this Report.

9. FAIR VALUE NET GAIN / (LOSS)

The fair value net gain of £343,000 (2019: fair value net loss of £26,000) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The gain / (loss) is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

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

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Operating profit is after charging / (receiving): | | |
| Directors' fees | 8 | 12 |
| Auditor remuneration - audit services | 7 | 12 |
| Deferred purchase consideration | (203) | (869) |

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

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

| | 2020 £000 | 2019 £000 |
|-----------------|--------------|--------------|
| Current tax | | |
| Corporation tax | - | - |

b) Factors affecting the tax charge for the year

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Profit before tax | - | - |
| UK corporation tax at 19% (2019: 19%) based on the profit for the year | - | - |

The standard rate of corporation tax in the UK applicable to the Company in the period was 19.0% (2019: 19.0%), based on currently enacted legislation. During the 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. Consequently, temporary differences which had been expected to reverse at a tax rate of 18% in the current year, or 17% in subsequent years, have either reversed or are expected to reverse at a rate of 19%. The impact of this change has been accounted for in the year.

12. FINANCIAL ASSETS

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Loans to customers (note 13) | - | 37,973 |
| Fair value adjustments from portfolio hedging | - | (238) |
| Derivative financial assets (note 14) | - | 403 |
| | - | 38,138 |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. 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 12, 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').

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.

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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.

In all cases accounts which are more than one month in arrears, where this is a meaningful measure, are considered to have an SICR.

The Company uses arrears multiples as a proxy for days past due, as this measure is commonly used in its arrears reporting. A loan will generally be one month in arrears from the point it is one day past due until it is thirty days past due.

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.

During the year the Company revised certain of its default definitions for regulatory purposes. Where appropriate, IFRS 9 definitions have been amended to harmonise with the new definition and hence the staging at 1 October 2019.

As a result of this harmonisation 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 ninety days overdue, even where such cases are being managed in the expectation of realising all of the carrying balance.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

IFRS 9 Staging

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages, with accounts which were credit impaired on initial recognition representing a fourth class.

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.

Impairments by stage

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

| | Stage 1 | Stage 2 * | Stage 3 * | Total |
|--------------------------|---------------|--------------|--------------|---------------|
| | £000 | £000 | £000 | £000 |
| 30 September 2020 | | | | |
| Gross loan book | - | - | - | - |
| Impairment provision | - | - | - | - |
| Net loan book | - | - | - | - |
| Coverage ratio | 0.00% | 0.00% | 0.00% | 0.00% |
| | Stage 1 | Stage 2 * | Stage 3 * | Total |
| | £000 | £000 | £000 | £000 |
| 1 October 2019 | | | | |
| Gross loan book | 37,688 | 285 | - | 37,973 |
| Impairment provision | - | - | - | - |
| Net loan book | 37,688 | 285 | - | 37,973 |
| Coverage ratio | 0.00% | 0.00% | 0.00% | 0.00% |

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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, which are automatically deemed to have an SICR.

| | < 1 month arrears £000 | > 1 <= 3 months arrears £000 | Total £000 |
|--------------------------|------------------------------|---------------------------------------|---------------|
| 30 September 2020 | | | |
| Gross loan book | - | - | - |
| Impairment provision | - | - | - |
| Net loan book | - | - | - |
| Coverage ratio | 0.00% | 0.00% | 0.00% |
| 1 October 2019 | | | |
| Gross loan book | 285 | - | 285 |
| Impairment provision | - | - | - |
| Net loan book | 285 | - | 285 |
| Coverage ratio | 0.00% | 0.00% | 0.00% |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 3 loans

The table below analyses the accounts in Stage 3 between accounts in the process of enforcement or where full recovery is considered unlikely ('Realisations' in the table), loans being managed on a long term basis where full recovery is possible but which are considered in default for regulatory purposes and buy-to-let mortgages where a receiver of rent ('RoR') has been appointed by the Company to manage the property on the customer's behalf. 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.

| | > 3 month arrears £000 | RoR managed £000 | Realisations £000 | Total £000 |
|--------------------------|------------------------------|------------------------|----------------------|---------------|
| <i>30 September 2020</i> | | | | |
| Gross loan book | - | - | - | - |
| Impairment provision | - | - | - | - |
| Net loan book | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Coverage ratio | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> |
| <i>1 October 2019</i> | | | | |
| Gross loan book | - | - | - | - |
| Impairment provision | - | - | - | - |
| Net loan book | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Coverage ratio | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> |

The exposure at default in the calculation shown above for stage 3 accounts is reduced by £nil 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

YEAR ENDED 30 SEPTEMBER 2020

13. 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.

| | 2020 | 2019 |
|--------------------------------|----------|----------|
| | £000 | £000 |
| At transition – 1 October 2019 | - | 2 |
| Recovered in period | - | (2) |
| Amounts written off | - | - |
| At 30 September 2020 | - | - |

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 2020 enforceable contractual balances of £nil were outstanding on 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. 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 2020 and 30 September 2019 is set out below.

| | Stage 1 £000 | Stage 2 * | Stage 3 * | Total £000 |
|-------------------------------------|-----------------|-----------|-----------|---------------|
| | | £000 | £000 | |
| Loss allowance at 1 October 2019 | - | - | - | - |
| New assets originated or purchased | - | - | - | - |
| Changes in loss allowance | | | | |
| Transfer to stage 1 | - | - | - | - |
| Transfer to stage 2 | - | - | - | - |
| Transfer to stage 3 | - | - | - | - |
| Changes due to credit risk | - | - | - | - |
| Write offs | - | - | - | - |
| Assets recognised | - | - | - | - |
| Loss allowance at 30 September 2020 | - | - | - | - |
| Loss allowance at 1 October 2018 | - | - | 2 | 2 |
| New assets originated or purchased | - | - | - | - |
| Changes in loss allowance | | | | |
| Transfer to stage 1 | - | - | - | - |
| Transfer to stage 2 | - | - | - | - |
| Transfer to stage 3 | - | - | - | - |
| Changes due to credit risk | - | - | (2) | (2) |
| Write offs | - | - | - | - |
| Assets recognised | - | - | - | - |
| Loss allowance at 30 September 2019 | - | - | - | - |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. 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 | Total £000 |
|------------------------------------|-----------------|-------------------|-------------------|---------------|
| Balances at 1 October 2019 | 37,688 | 285 | - | 37,973 |
| New assets originated or purchased | - | - | - | - |
| Changes in staging | - | - | - | - |
| Transfer to stage 1 | - | - | - | - |
| Transfer to stage 2 | - | - | - | - |
| Transfer to stage 3 | - | - | - | - |
| Redemptions and repayments | - | - | - | - |
| Assets derecognised | (37,202) | (280) | - | (37,482) |
| Write offs | - | - | - | - |
| Other changes | (486) | (5) | - | (491) |
| Balance at 30 September 2020 | - | - | - | - |
| Loss allowance | - | - | - | - |
| Carrying value | - | - | - | - |
| Balances at 1 October 2018 | 70,408 | 98 | 60 | 70,566 |
| New assets originated or purchased | - | - | - | - |
| Changes in staging | - | - | - | - |
| Transfer to stage 1 | - | - | - | - |
| Transfer to stage 2 | (280) | 280 | - | - |
| Transfer to stage 3 | - | - | - | - |
| Redemptions and repayments | (31,619) | (96) | (59) | (31,774) |
| Assets derecognised | - | - | - | - |
| Write offs | - | - | - | - |
| Other changes | (821) | 3 | (1) | (819) |
| Balance at 30 September 2019 | 37,688 | 285 | - | 37,973 |
| Loss allowance | - | - | - | - |
| Carrying value | 37,688 | 285 | - | 37,973 |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. 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.

| | 2020 | 2019 |
|---------------------------------|----------|------------|
| | £000 | £000 |
| Recovered in period | - | (2) |
| Recovery of written off amounts | - | - |
| | <u>-</u> | <u>(2)</u> |

Economic impacts

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 central scenario is the economic forecast used within the Company for planning purposes and represents its expectation of the most likely outcome. The upside and downside scenarios are less likely variants developed from this base case. The final scenario represents a protracted slump and is derived from the Bank of England's annual stress testing scenarios. Each scenario comprises a number of economic parameters and while models for different portfolios may not use all of the variables, the set, as a whole, is defined for the Company and must be consistent.

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 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) |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

30 September 2019

| | Central scenario | | Upside scenario | | Downside scenario | | Severe scenario | |
|------------------------|------------------|-------|-----------------|-------|-------------------|-------|-----------------|--------|
| | Max % | Min % | Max % | Min % | Max % | Min % | Max % | Min % |
| Economic driver | | | | | | | | |
| GDP | 1.9 | 1.2 | 3.1 | 1.2 | 1.6 | (1.0) | 1.3 | (4.7) |
| HPI | 4.3 | 0.7 | 9.7 | 0.9 | 4.9 | (4.7) | 5.7 | (17.8) |
| BBR | 0.8 | 0.8 | 2.5 | 0.8 | 0.5 | 0.5 | 0.0 | 0.0 |
| CPI | 2.2 | 2.0 | 2.2 | 1.4 | 3.2 | 2.0 | 4.9 | 2.0 |
| Unemployment | 4.1 | 3.8 | 3.9 | 3.5 | 6.1 | 4.2 | 9.2 | 4.5 |
| Secured lending | 3.9 | 3.2 | 4.8 | 3.3 | 3.8 | 1.7 | 3.7 | (1.2) |
| Consumer credit | 6.3 | 6.0 | 8.8 | 6.2 | 6.0 | 1.5 | 5.9 | (5.2) |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Hedge accounting is applied where appropriate, though some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under the IAS 39 rules, particularly where the hedged risk relates to an off balance sheet item. In other cases, hedge accounting has not been adopted either because natural accounting offsets are expected or because complying with the IAS 39 hedge accounting rules would be particularly onerous.

The Company's hedging arrangements can be analysed between:

- Fair value hedges of portfolio interest rate risk, which are used to manage the interest rate basis risk inherent in fixed rate lending.
- Cash flow hedges, which are used to manage the foreign exchange and interest rate basis risk inherent in its currency borrowings.

The analysis below splits derivatives between those accounted for as part of the portfolio fair value or cash flow hedges and those which, despite representing an economic hedge, do not qualify for this treatment. There were no individual interest rate risk hedging arrangements in place either in the year ended 30 September 2020 or the preceding year.

| | 2020 Assets £000 | 2020 Liabilities £000 | 2019 Assets £000 | 2019 Liabilities £000 |
|--|------------------------|-----------------------------|------------------------|-----------------------------|
| Derivatives in accounting hedge relationships | | | | |
| Fair value hedges | | | | |
| Interest rate swaps | | | | |
| Fixed to floating | - | - | 2 | (128) |
| | - | - | 2 | (128) |
| Cash flow hedges | | | | |
| Cross-currency basis swaps | | | | |
| Euro-sterling | - | - | 400 | - |
| | - | - | 400 | - |
| Total derivatives in accounting hedge relationships | - | - | 402 | (128) |
| Other derivatives | | | | |
| Interest rate swaps | - | - | 1 | (2) |
| Total recognised derivative assets / (liabilities) | - | - | 403 | (130) |

The credit risk inherent in the derivative financial assets shown above is discussed in note 6.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

a) Fair value hedges

Background and hedging objectives

The Company's fair value hedges of portfolios of interest rate risk ('macro hedges') arise from its management of the interest basis risk inherent in its fixed rate lending and deposit taking activities. These activities would expose the Company to movement in market interest rates if not hedged.

This position arises naturally where fixed rate loans are funded with floating rate borrowings, as in the Company's securitisation transactions, but may also arise where retail deposit funding is used. Where possible the Company takes advantage of natural hedging between fixed rate assets and deposit, but it is unlikely that a precise match for value and tenor of the instruments could be achieved leaving unmatched items on both sides. These net exposures are addressed through portfolio hedging arrangements.

This position arises naturally where fixed rate loans are funded with floating or variable rate borrowings but may also arise where retail deposit funding is used. Where possible the Company takes advantage of natural hedging between fixed rate assets and deposits, but it is unlikely that a precise match for value and tenor of the instruments could be achieved leaving unmatched items on both sides. This is referred to as repricing risk and controlled within limits under the Company's interest rate risk management process, described in note 7. In order to manage these exposures, they are hedged with financial derivatives and form part of the Company's portfolio hedging arrangements. Repricing risk is monitored regularly to ensure mismatches or gaps remain within limits set by policy.

Responsibility to direct and oversee structural risk management has been delegated by the Board to ALCO. A Hedging strategy is developed for each fixed product considering behavioural characteristics, such as whether a customer is likely to prepay before contractual maturity. This is reviewed from time to time with any changes agreed with ALCO.

In order to manage potential exposure to increases in interest rates it may be necessary to undertake pre-hedging of fixed rate assets in the pipeline. Interest rate swaps used to hedge pipeline loan exposures, which are not yet recognised on the balance sheet, can cause unmatched fair value cost or credit to arise until both sides of the hedge can be recognised within the interest rate portfolio hedging arrangement, generally a few months after the inception of the derivative contract.

In managing interest rate exposure, the Treasury function may use interest rate swaps, forward rate agreements, swaptions or interest rate caps and floors. However, interest rate swaps are the most generally used instruments.

The policy creates 'loan hedge' matching fixed rate buy-to-let mortgage assets with interest rate swaps to convert the interest receivable to a floating rate.

The Company is in the process of changing the principal sterling reference rate used in its interest rate risk management framework from LIBOR to SONIA.

Where fixed rate assets or liabilities have been hedged with interest rate swaps, these currently mostly reference three-month LIBOR. As the Company transitions away from LIBOR it is expected that all new hedging will eventually reference SONIA. For existing swaps referencing LIBOR that have a maturity beyond December 2021 (the date LIBOR is expected to become unavailable), the Company is closely following developments. The International Swaps and Derivative Association ('ISDA'), the trade organisation for derivatives, are consulting in developing fall backs and revisions to documentation that counterparties can sign to transition to SONIA. The proposals are expected to be finalised by calendar year-end, with implementation in 2020.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

The designation of the two macro hedges is updated, on a month by month basis, using software which compares the overall tenor, value and rate positions to match the expected fair value movement of the swaps with the expected interest rate risk related movement in the fair value of the relevant assets or liabilities over the designation period as closely as possible. The software applies regression analysis techniques to the potential impact of changes in expected interest rates over the designation period to maximise expected hedge effectiveness on a prospective basis. The value of the portfolio of loans or deposits selected is then designated, as a monetary amount of interest rate risk, as the hedged item, while the portfolio of swaps selected are designated as the hedging instruments.

Any swaps not selected in this process are disclosed as derivatives not in hedging relationships.

At the end of each designation period the Company will assess the effectiveness of each hedge retrospectively, based on fair value movements (relating to interest rate risk components only) which have actually occurred in the period. Movements are compared to pre-determined test thresholds to determine whether the hedge was effective in the period.

Ineffectiveness

The Company has identified the following possible sources of hedge ineffectiveness in its portfolio hedges of interest rate risk:

- The maturity profile of the hedging instruments may not exactly match that of the hedged items, particularly where hedged items settle early.
- The use of derivatives as a hedge of interest rate additionally exposes the Company to the derivative counterparties' credit risk, which is not matched in the hedged item. This risk is minimised by transacting only with high quality counterparties and through collateralisation arrangements (as described in note 6).
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments.
- Difference in the timing of interest payments on the hedged items and settlements on the hedging instruments.

These sources of ineffectiveness are minimised by the portfolio matching process, which seeks to match the terms of the items as closely as possible.

In addition to the hedging ineffectiveness described above, Company profit will also be affected by the fair value movements of interest rate swap agreements which were entered in to as part of the Company's interest rate risk hedging strategy, but failed to find a match in the hedging portfolio.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Hedging Instruments

The hedging portfolios consist of a large number of sterling denominated swaps. Settlement on all swaps is due quarterly where:

One payment is calculated based on a fixed rate of interest and the nominal value of the swap.

An opposite payment is calculated based on the same nominal value but using a floating interest rate set at a fixed margin over a reference rate, LIBOR or SONIA.

Basis exposure on loan assets is hedged by swaps where the Company pays fixed rate and receives floating, that on deposits by swaps where the Company pays floating rate and receives fixed.

The principal terms of the hedging instruments are set out below, analysed between the two directions of the swap.

| | 2020 Pay Fixed | 2019 Pay Fixed |
|--------------------------------------|----------------------|----------------------|
| Average fixed notional interest rate | | |
| Average notional margin over LIBOR | - | 1.30% |
| | £000 | £000 |
| Notional principal value | | |
| LIBOR swaps | - | 18,654 |
| | - | 18,654 |
| Maturing | | |
| Within one year | | |
| Between one and two years | - | 18,654 |
| Between two and five years | - | - |
| | - | 18,654 |
| Fair value | - | (126) |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Accounting impacts

Movements affecting the portfolio fair value hedges during the year are set out below.

| | 2020 Loan Hedge £000 | 2019 Loan Hedge £000 |
|--|----------------------------|----------------------------|
| Hedging items | | |
| Interest rate swaps | | |
| Included in derivative financial assets | - | 2 |
| Included in derivative financial liabilities | - | (128) |
| | <u>-</u> | <u>(126)</u> |
| Notional principal value | - | 18,654 |
| Change in fair value used in calculating hedge ineffectiveness | - | (147) |
| | <u>-</u> | <u>-</u> |
| | 2020 Loan Hedge £000 | 2019 Loan Hedge £000 |
| Hedging items | | |
| <i>Fixed rate loans</i> | | |
| Included in Loans to Customers | - | 17,700 |
| Accumulated amount of fair value hedge adjustments included on balance sheet (notes 12)* | - | (238) |
| Of which: amounts related to discontinued hedging relationships being amortised | - | - |
| Change in fair value used in recognising hedge ineffectiveness | - | 133 |
| | <u>-</u> | <u>133</u> |
| Hedge ineffectiveness recognised | | |
| Included in fair value gains/(losses) in the profit and loss account | <u>343</u> | <u>(26)</u> |

* Under the IAS 39 rules relating to fair value hedge accounting for portfolios of interest rate risk, the change in the fair value of the hedged items attributable to the hedged risk is shown as 'fair value adjustments from portfolio hedging' next to the carrying value of the hedged assets or liabilities in the appropriate note.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

b) Cash flow hedging

Background and hedging objectives

The Company has entered into cross-currency basis swap agreements which form part of its securitisation arrangements, providing an economic hedge against financial risks inherent in the deal structures, as described below. Such relationships have been designated as cash flow hedges for accounting purposes.

In any securitisation where asset backed floating rate notes are issued in currency (US dollars or euros), a currency and interest rate mismatch between assets and liabilities would exist, exposing the securitisation and the Company to both foreign exchange and interest basis risk.

This would preclude such a deal from attaining a AAA rating for its senior debt. To address that issue, in each deal a bespoke cross currency basis swap was written, with the swap being an asset or liability of the relevant SPV company.

The effect of these swaps is to translate the required currency payments, both of principal and interest to sterling payments, based on a fixed rate of exchange. They also translate the reference rate of interest on the notes from a dollar or euro LIBOR basis to a sterling LIBOR basis. This effectively eliminates the foreign exchange and interest rate basis risks with respect to these instruments.

In order to achieve a AAA rating for the deal, the swaps must themselves be capable of this level of rating. Therefore, the deal conditions specify that only high quality counterparties may be used, and that where there is deterioration in credit quality of the counterparty, collateral must be posted. The collateral requirement is supervised by the independent third-party trustees of the notes.

Hedging instruments

Under these swap agreements

- the Company will make quarterly payments of principal and floating rate interest in sterling and receive equivalent amounts of principal and floating rate interest, in currency (either US Dollars or Euros), translated at an exchange rate fixed on inception.
- Settlement of both the cross-currency basis swaps and the notes to which they relate takes place on the same date. The Company makes a single payment in sterling to the swap provider who will make the corresponding swap payment in currency to the external principal paying agent. The principal paying agent will use these funds immediately to make the payments required on the currency notes.
- the nominal amount of the swaps is adjusted automatically, quarter by quarter, such that it always amortises in line with the quarterly payments of principal made on the currency notes (a 'balance guarantee' feature)
- Floating rate interest on the sterling (pay) leg of the swaps is set with reference to three-month sterling LIBOR, with floating rate interest on the currency (receive) legs set by reference to equivalent currency rates
- The payment and repricing dates are the same (to the day) for the swaps as for their underlying notes
- The swaps must remain in place for as long as the notes are outstanding

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

The principal terms of the hedging instruments (the cross currency basis swaps) are summarised below.

| | 2020 Swap Currency EUR | 2019 Swap Currency EUR |
|---|---------------------------------|---------------------------------|
| Average fixed exchange rate | - | 1.43 |
| Average margin over LIBOR on interest payable (bp) | - | 1.26% |
| Average margin over US dollar LIBOR / EURIBOR on interest receivable (bp) | - | 0.70% |
| Notional Principal value (£000) | - | 1,501 |
| Fair value (£000) | - | 400 |
| Average remaining term (years) | - | 24 |

The current long term credit rating of the swap counterparty issued by Fitch ratings is A (2019: A) and £nil (2019: £nil) of collateral has been posted. This collateral is not included in the company's balance sheet.

Although the average remaining contractual term is as shown above, the link between the notional principal of the swaps and the balance outstanding on the Notes means that the life may, in practice, be much shorter.

In normal conditions the market values of such swaps would be expected to be relatively small. However, the majority of such swaps in the Company date from before the 2008 credit crisis, when a major dislocation in rates occurred, creating significant market value in the instruments. However, economically, this is offset by the corresponding increase in the carrying value of the currency denominated notes.

Sources of potential ineffectiveness

All cross-currency basis swap agreements have been designated as cash flow hedges in line with their economic effect and the critical terms, such as interest and exchange rates, pricing dates and principal balances of the designated hedging instruments exactly match those of the hedged currency denominated Floating Rate Notes ('FRNs'). This results in a critical terms match for IAS 39 purposes and hence no ineffectiveness could arise from sources other than credit risk.

In respect of credit risk the hedging instruments are partially collateralised, with additional collateral conditionally available, as described in note 7. This generates a small potential credit valuation adjustment associated with the derivative asset representing the credit risk of the receivable future cash flows that make up the derivative fair value. However, IAS 39 requires that Other Comprehensive Income ('OCI') is adjusted by the lower of the cumulative gain or loss on the derivative or the hedged item (as proxied by a hypothetical derivative). As the derivative bears credit risk of the counterparty (for the uncollateralised portion) it has a lower fair value than the hypothetical derivative. The result is that the full fair value of the derivative is taken to OCI as it is the lower of the two amounts and no ineffectiveness arises.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Accounting impacts

Movements affecting the cash flow hedge relationships in the year are set out below.

| | 2020 Swap Currency EUR £000 | 2019 Swap Currency EUR £000 |
|--|---|---|
| Hedging Items | | |
| <i>Cross-currency basis swaps</i> | | |
| Included in derivative financial assets | - | 400 |
| Included in derivative financial liabilities | - | - |
| | <u>-</u> | <u>400</u> |
| Notional principal value | - | 1,501 |
| Change in fair value used in calculating hedge ineffectiveness | <u>-</u> | <u>(103)</u> |
| Hedged Items | | |
| <i>Floating rate notes</i> | | |
| Included in Asset Backed Loan Notes | - | 1,501 |
| Changes in fair value used in calculating hedge ineffectiveness | - | (103) |
| Cash flow hedging reserve | <u>-</u> | <u>-</u> |

The table below summarises the amounts which have affected total comprehensive income as a result of the cash flow hedges described above.

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Change of value in hedging instrument recognised in cash flow hedge reserve | | |
| Euro swaps | (155) | (103) |
| | <u>(155)</u> | <u>(103)</u> |
| Amount reclassified from cash flow hedge reserve to profit, recognised as foreign exchange differences and interest on asset backed loan notes within interest payable | | |
| Euro swaps | (155) | (75) |
| | <u>(155)</u> | <u>(75)</u> |
| Net amount recognised in Other Comprehensive Income before tax | <u>-</u> | <u>28</u> |

All amounts reclassified to profit have been transferred because the hedged item has affected profit or loss.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Derivatives not in a hedging relationship

The Company's other derivatives comprise:

- Interest rate swaps which are economically part of the Company's portfolio hedging arrangements but failed to find a match in the hedge designation, including swaps hedging interest rate risk on the new lending pipeline

The principal terms of this derivative are set out below.

Interest rate swaps

| | 2020 Pay Fixed | 2019 Pay Fixed |
|--------------------------------------|----------------------|----------------------|
| Average fixed notional interest rate | | |
| Average notional margin over LIBOR | - | 0.96% |
| | £000 | £000 |
| Notional principal value | | |
| LIBOR swaps | - | 2,500 |
| | - | 2,500 |
| Maturing | | |
| Within one year | | |
| Between one and two years | - | 2,500 |
| | - | 2,500 |
| Fair value | - | (1) |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

15. DEBTORS

| | 2020 £000 | 2019 £000 |
|--------------------------------------|--------------|--------------|
| Amounts falling due within one year: | | |
| Amounts owed by group companies | 12 | 12 |
| Other debtors (note 21) | 7 | 622 |
| Deferred tax (note 18) | - | - |
| Prepayments and accrued income | - | 36 |
| | <u>19</u> | <u>670</u> |

16. CALLED UP SHARE CAPITAL

| | 2020 £ | 2019 £ |
|--|---------------|---------------|
| Allotted: | | |
| 49,999 ordinary shares of £1 each (25p called up and paid) | 12,500 | 12,500 |
| 1 ordinary shares of £1 each (fully paid) | 1 | 1 |
| | <u>12,501</u> | <u>12,501</u> |

17. RESERVES

| | Profit and loss account £000 | Cash flow hedging reserve £000 | Total reserves £000 |
|---|------------------------------------|--------------------------------------|---------------------------|
| At 1 October 2018 | 2 | (23) | (21) |
| Result for the financial year | - | - | - |
| Movement in fair value of hedging derivatives net of tax | - | 21 | 21 |
| Change in accounting policy on adoption of IFRS9 | (2) | - | (2) |
| At 30 September 2019 | <u>-</u> | <u>(2)</u> | <u>(2)</u> |
| Result for the financial year | - | - | - |
| Movement in fair value of hedging derivatives net of tax | - | 2 | 2 |
| At 30 September 2020 | <u>-</u> | <u>-</u> | <u>-</u> |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

18. PROVISIONS FOR LIABILITIES

Deferred tax

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

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Balance at 1 October 2019 | 2 | (5) |
| Charge to equity | (2) | 7 |
| Balance at 30 September 2020 | - | 2 |
| The net deferred tax liability for which provision has been made is analysed as follows: | | |
| Other timing differences | - | 2 |

19. CREDITORS

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Amounts falling due within one year: | | |
| Asset backed loan notes | - | 43,362 |
| Asset backed loan notes – fair value adjustment | - | 400 |
| | - | 43,762 |
| Derivative financial liabilities (note 14) | - | 130 |
| Intercompany subordinated loan | - | 7,501 |
| Other creditors (note 21) | - | 943 |
| Accruals and deferred income | 7 | 387 |
| | 7 | 52,723 |

The Company's securitisation borrowings are denominated in sterling and euros. All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to balances for the swaps being carried in the balance sheet. This is currently the case with all foreign currency swaps, although the credit balance is compensated for by retranslating the borrowings at the current exchange rate. A maturity analysis and further details of the asset backed loan notes are given in note 20.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. BORROWINGS

The mortgage backed floating rate notes were secured over a portfolio comprising fixed and variable rate mortgage loans secured by first charges over residential properties in the United Kingdom. The notes were subject to mandatory redemption in part on each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage. As a result of this structure, cash received in respect of loan assets is not immediately available for distribution. At 30 September 2020, the amount of restricted cash and investments held within the Company was £nil (2019: £13,927,000). The maturity date of the notes matches the maturity date of the underlying assets.

The Company has the option to repay all of the notes at an earlier date (the 'call date'), or at any interest payment date thereafter, at the outstanding principal amount.

On 15 October 2020 the Company sold its mortgage loans to a fellow group company and used the proceeds to repay its outstanding asset backed loan notes.

Interest was payable at a fixed margin above:

- the London Interbank Offered Rate ('LIBOR') on notes denominated in sterling; and
- the Euro Interbank Offered Rate ('EURIBOR') on notes denominated in euros.

All payments in respect of the notes were required to be made in the currency in which they are denominated.

The margin had a step-up to a higher rate from October 2020.

Notes in issue at 30 September 2020 and 30 September 2019 were:

| Notes | Maturity date | Call date | Principal outstanding | | Note margin | |
|-------|---------------|-----------|-----------------------|------|-------------|-------|
| | | | 2020 | 2019 | 2020 | 2019 |
| | | | £m | £m | | |
| 'A2' | Jan 2043 | Oct 2019 | - | 3.9 | 1.10% | 1.10% |
| 'B' | Jan 2043 | Oct 2019 | - | 14.8 | 1.65% | 1.65% |
| 'C' | Jan 2043 | Oct 2019 | - | 15.8 | 2.20% | 2.20% |
| 'E' | Jan 2043 | Oct 2019 | - | 7.5 | 2.55% | 2.55% |
| | | | €m | €m | | |
| 'A1' | Jan 2043 | Oct 2019 | - | 2.2 | 0.70% | 0.70% |

All of the above notes were listed on the main market of the London Stock Exchange.

If the issuer elects not to call and repay the Class A1, A2, B, C and E on or after the Call Date / Turbo date, the excess revenue that otherwise would have been paid to the administrator, such as interest on the subordinated loan, is used to repay the Class 'A' Noteholders.

There was a subordinated loan facility under which an amount was drawn down by the Company to establish the first loss fund, which is repayable to Paragon Finance PLC on the earlier of the last interest payment date in January 2043 or the first day on which there are no notes outstanding, except that on any Interest Payment Date sums borrowed will be repaid to the extent of any amount released from the first loss fund. Interest is payable at the rate of 4% above the London Interbank Offered Rate for three month sterling deposits.

There are no amounts of committed but undrawn facilities at 30 September 2020 and 30 September 2019.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

21. RELATED PARTY TRANSACTIONS

The Group has identified the following transactions which are required to be disclosed under the terms of IAS 24 - 'Related Party Disclosures' ('IAS 24').

Transactions with Paragon Mortgages (2010) Limited (PM2010)

The Company was owed £7,000 by PM2010, a company under common control as defined by IAS 24, at the balance sheet date in relation to monies paid to the Company (2019: the Company owed £607,000 to PM2010 in relation to deferred purchase consideration), and £nil (2019: £4,000) for mortgage fees and insurance which is included in other debtors / creditors.

The Company was owed £nil (2019: £622,000) from PM2010 relating to monies received by the servicer, that are yet to be passed onto the Company, which is included in other debtors.

Transactions with Paragon Finance PLC (PF)

During the year PF, a company under common control as defined by IAS 24, acted as servicer of the mortgages for the Company and earned £nil (2019: £177,000) in servicing fees. At the balance sheet date, the Company owed £nil (2019: £33,000) to PF in relation to servicing fees, which is included in accruals and deferred income.

At the balance sheet date PF, a company under common control as defined by IAS 24, was owed £nil (2019: £331,000) from the Company in relation to payments made on behalf of the Company, which is included in other creditors.

At the balance sheet date PF held the subordinated loan and Class E notes issued by the Company as disclosed in note 20. During the year PF earned £14,000 (2019: £362,000) in subordinated loan interest and £10,000 (2019: £254,000) in Class E note interest. At the balance sheet date, the Company owed £nil (2019: £76,000) in relation to subordinated loan interest and £nil (2019: £53,000) relating to Class E note interest, which are included in accruals and deferred income.

22. ULTIMATE PARENT COMPANY

The ultimate parent undertaking is Intertrust Corporate Services Limited who holds the entire share capital of the Company on a discretionary trust basis for the benefit of certain charities. The directors regard Paragon Banking Group PLC as the ultimate controlling party.

The smallest and largest group into which the Company is consolidated is that of Paragon Banking Group PLC, registered in England and Wales.

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