

STATE SECURITIES HOLDINGS LIMITED

Report and Financial Statements

Year ended 30 September 2019



STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

State Securities Holdings Limited ('the Company') became a subsidiary of Paragon Banking Group PLC ('the Group') when it was acquired by Paragon Bank PLC ('Paragon Bank') in November 2015 as part of the development of an asset finance business within Paragon Bank. As a result, the Company will benefit from the focus and investment that Paragon Bank plans to bring to the development of a substantial asset finance business.

The principal activity of the Company is to act as an investment holding company for the investment in Paragon Business Finance PLC.

The Company received dividend income of £2,000,000 (2018: £8,228,000) from its subsidiary, Paragon Business Finance PLC during the year

An interim dividend of £0.18 per share was paid during the year (2018: £0.78). No final dividend is proposed (2018: £nil).

The directors of the Company consider the results for the year to be satisfactory and are regularly monitoring the current market environment to assess likely changes in the level of performance in the coming year.

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 commercial 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 main risks and uncertainties to which the Company is exposed are a reduction in the level of asset finance lending.

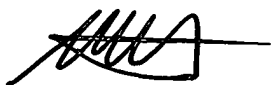
The performance of the Company is subject to analysis against plan, with key variances being analysed in detail on a monthly basis. The identification of performance trends allows for management to manage broker relationships to ensure that business volumes are maximised.

The Company does not utilise derivative financial instruments.

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.

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



K G Allen

Director

27 February 2020

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. The directors present the audited Financial Statements of State Securities Holdings Limited, a company registered in England and Wales with registration no: 04891996, for the year ended 30 September 2019.

DIRECTORS

The directors throughout the year and subsequently were:

K G Allen
R D Shelton
R J Woodman
D Newcombe (appointed 21 October 2019)
JE Phillipou (appointed 21 October 2019)

AUDITOR

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

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

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 4 to the accounts.
- Disclosure on any dividends paid during the year is included in the Strategic Report.

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



K G Allen

Director

27 February 2020

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 the 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year. In preparing these financial statements, the directors are required to:

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

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.



Pandora Sharp

Company Secretary

27 February 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE SECURITIES HOLDINGS LIMITED

Opinion

We have audited the Financial Statements of State Securities Holdings Limited for the year ended 30 September 2019 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 9, 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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including Financial Reporting Standard 101 – 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as impairment on loans and receivables and EIR on loans and advances and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE SECURITIES HOLDINGS LIMITED (CONTINUED)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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



Matthew Rowell (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

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

27 February 2020

STATE SECURITIES HOLDINGS LIMITED**PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 SEPTEMBER 2019**

	Note	2019 £000	2018 £000
Dividend income		2,000	8,228
Operating profit, being profit on ordinary activities before taxation		<u>2,000</u>	<u>8,228</u>
Tax on profit on ordinary activities	5	-	-
Profit on ordinary activities after taxation		<u>2,000</u>	<u>8,228</u>

All activities derive from continuing operations.

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

STATE SECURITIES HOLDINGS LIMITED

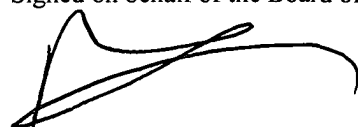
BALANCE SHEET

30 SEPTEMBER 2019

	Note	2019 £000	2018 £000
ASSETS			
Investment in subsidiaries	6	10,592	10,592
Total assets		<u>10,592</u>	<u>10,592</u>
SHAREHOLDER'S EQUITY			
Called up share capital	7	10,592	10,592
Profit and loss account	8	-	-
Total shareholder's equity		<u>10,592</u>	<u>10,592</u>

The financial statements of were approved by the Board of Directors on 27 February 2020.

Signed on behalf of the Board of Directors:



R D Shelton
Director

STATE SECURITIES HOLDINGS LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2019

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	2,000	2,000
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	2,000	2,000
<i>Transactions with owners</i>			
Dividends	-	(2,000)	(2,000)
Net movement in equity in the year	-	-	-
Opening equity	10,592	-	10,592
Closing equity	10,592	-	10,592

YEAR ENDED 30 SEPTEMBER 2018

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	8,228	8,228
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	8,228	8,228
<i>Transactions with owners</i>			
Dividends	-	(8,228)	(8,228)
Net movement in equity in the year	-	-	-
Opening equity	10,592	-	10,592
Closing equity	10,592	-	10,592

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2019

1. GENERAL INFORMATION

State Securities Holdings Limited ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 01497411. 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.

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

- IFRS 9 – 'Financial Instruments' (together with consequential changes to IFRS 7 - 'Financial Instruments: Disclosures')

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

3. ACCOUNTING POLICIES

The particular accounting policies applied are described below.

Accounting convention

The Financial Statements have been prepared under the historical cost convention.

Going concern

The Financial Statements have been prepared on a going concern basis. The directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Investment in subsidiaries

The investment in the subsidiary companies is shown at cost less provision for impairment.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2019

3. ACCOUNTING POLICIES (CONTINUED)

Disclosures

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

- The requirement to produce a cash flow statement and related notes
- The requirement to provide comparative period reconciliations in respect of fixed assets
- 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 3 'Business Combinations' in respect of business combinations undertaken by the Company.
- Certain disclosures required by IFRS 13 – 'Fair Value Measurement'.

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

4. OPERATING EXPENSES

Auditor's remuneration was borne by the parent company and is estimated to be £4,000 (2018: £4,000).

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2019

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year	2019 £000	2018 £000
Current tax		
Corporation tax	-	-
Adjustment in respect of prior periods	-	-
Tax charge on profit on ordinary activities	-	-

b) Factors affecting the tax charge for the year

	2019 £000	2018 £000
Profit before tax	2,000	8,228
UK corporation tax at 19% (2018: 19%) based on the profit for the year	380	1,563
Effects of:		
Tax exempt revenues	(380)	(1,563)
Tax charge for the year	-	-

The current rate of corporation tax applicable to the Company for the year ended 30 September 2019 is 19.0%. Legislation has been enacted that will reduce this to 17% with effect from 1 April 2020.

Therefore, the effective rate of corporation tax is expected to be 18% for the year ending 30 September 2020 and 17% thereafter.

6. INVESTMENTS

The Company has a 100% investment in the issued share capital of Paragon Business Finance PLC.

	2019 £000	2018 £000
Cost	10,592	10,592
Provision	-	-
	10,592	10,592

Paragon Business Finance PLC, a wholly owned subsidiary of State Securities Holdings Limited, has been trading throughout the period within the asset finance sector. Its registered office is 51 Homer Road, Solihull, West Midlands, England, B91 3QJ.

7. CALLED UP SHARE CAPITAL

	2019 £	2018 £
Allotted:		
10,591,627 ordinary shares of £1 each (fully paid)	10,591,627	10,591,627

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2019

8. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2017	-
Profit for the financial year	8,228
Dividend paid	(8,228)
At 30 September 2018	-
Profit for the financial year	2,000
Dividend paid	(2,000)
At 30 September 2019	-

An interim dividend of £0.18 pence per ordinary share (2018: £0.78) was paid during the year. The directors do not propose a final dividend (2018: £nil).

9. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate and ultimate parent undertaking and controlling party of the Company is Paragon Banking Group PLC, a company registered in England and Wales. This is the largest and smallest group of which the Company is a member and for which consolidated financial statements are drawn up. Copies of the Group's financial statements are available from that company's registered office at 51 Homer Road, Solihull, West Midlands, B91 3QJ.