Company Registration No: 04481151

PBAF ACQUISITIONS LIMITED

Report and Financial Statements

Year ended 30 September 2022

CAUTIONARY STATEMENT

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

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

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

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

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

PBAF Acquisitions Limited ('the Company') is a wholly owned subsidiary of Paragon Asset Finance Limited, which is a wholly owned subsidiary of Paragon Bank PLC. Paragon Bank PLC is a wholly owned subsidiary of Paragon Banking Group PLC ('the Group') and was set up to provide finance for its loan assets.

The Company was set up to acquire loan assets by borrowing from a fellow group company. This continues to be the principal activities of the Company. During the year the Company operated in the United Kingdom. The Company is currently engaged in loan relationships with other group companies. Paragon Bank PLC provides funding to the Company to purchase loan books from other group companies. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

During the year the Company sold £140,886,000 of loans to a fellow group company, as a result the amounts due to group companies decreased.

As shown in the Company's profit and loss account on page 12, the result after tax has decreased from a profit of £1,093,000 to a loss of £986,000. This was principally due to a decrease in net interest income in the current year. This was reflecting the reduction in the Company's loan book during the year.

The balance sheet on page 13 of the Financial Statements shows the Company's financial position at the year end. Loans to customers was £295,181,000 (2021: £413,473,000); as a result, the balance outstanding under the amounts owed to group companies 30 September 2022 was £250,672,000 (2021: £366,785,000).

The directors recommend no final dividend (2021: £nil) which, given the interim dividend of £nil per share (2021: 6.67 pence per share), means a total dividend for the year of £nil per share (2021: 6.67 pence per share).

The Group manages its operations on a centralised basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group's mortgage lending operation, which includes the Company, is discussed in the 2022 Annual Report of Paragon Banking Group PLC, which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The UK economy in the current year has been impacted by a number of significant pressures, initially the ongoing impacts of the Covid pandemic and latterly inflationary pressures, rising interest rates and geopolitical impacts resulting from Russian actions in Ukraine. These factors have caused major economic disruption within the UK and global economy with their ultimate impacts remaining uncertain, over both the short and longer terms.

The Company has established processes in place and proved on a through-the-cycle basis which will allow it to support its customers through any adverse economic conditions and optimise outcomes for both customers and investors.

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out in note 12, a discussion of critical accounting judgements is set out in note 15 and a discussion of critical accounting estimates is set out in note 16.

STRATEGIC REPORT (CONTINUED)

GOING CONCERN

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

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

In compiling the most recent forecast, for the period commencing 1 October 2022, particular attention was paid to the potential consequences of the uncertain economic outlook for the UK on the Group's operations, customers, funding and prospects, both in the short and long term. These considerations include the increased cost of living, rising interest rates and the impacts of Russia's intervention in Ukraine, as well as the long-term after effects of the Covid pandemic. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October 2022 based on updated external projections.

After considering the Company's position, the economic environment and the forecasts described above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. This is further supported by the Group holding sufficient cash resources to support the Company's obligations as they fall due. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

BOARD AND STAKEHOLDERS

The Board is mindful of its duty to promote the success of the Company for the benefit of its shareholders and to fulfil the Company's purpose, having regard to the interests of all of its stakeholders. The Board confirms that, for the year ended 30 September 2022, 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 insofar as they are applicable (as per section 172 of the Companies Act 2006):

a. The likely consequences of any decision in the long-term

b. The interests of the Group's employees

c. The need to foster the Company's business relationships with suppliers, customers and others

d. The impact of the Company's operations on the community and the environment

e. The desirability of the Company maintaining a reputation for high standards of business conduct

f. The need to act fairly as between members of the Company

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

As a consequence, engagement with external stakeholders takes place at a Group level. The Company looks to group initiatives for guidance and takes them into account in its decision making. The Company follows Group policies and procedures 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 2022 Annual Report and Accounts of Paragon Banking Group PLC and its 2022 Responsible Business Report, both of which are available on the Group's website.

STRATEGIC REPORT (CONTINUED)

BOARD AND STAKEHOLDERS (CONTINUED)

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

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

SHAREHOLDERS

The Company has a single shareholder, Paragon Bank PLC, which is itself a wholly owned subsidiary of Paragon Banking Group PLC, the ultimate parent company of the Group. The interests of the Company's shareholders thus coincide with those of the shareholders of the Group (s172 (1)(f)).

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any impacts that might result from the Group's activities. The Company operates in accordance with Group policies, which are described in the Paragon Banking Group PLC Annual Report, which does not form part of this Report. Further information can also be found in the Group's 2022 Responsible Business Report (published on Paragon Banking Group PLC website), which does not form part of this report.

EMPLOYEES

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in the Paragon Banking Group PLC Annual Report, with supplementary information included in the Group's 2022 Responsible Business Report, neither of which forms part of this Report.

This Strategic Report has been drawn up and presented in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

17 February 2023

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 PBAF Acquisitions Limited, a company registered in England and Wales with registration no: 04481151, for the year ended 30 September 2022.

DIRECTORS

The directors throughout the year and subsequently were:

K G Allen

D Newcombe

JE Phillipou

RJ Woodman

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.

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

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

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 12 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

17 February 2023

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

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

The directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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's profit or loss for that period. In preparing each of the Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole

- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

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

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

K G Allen

Director

17 February 2023

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PBAF ACQUISITIONS LIMITED

Opinion

We have audited the Financial Statements of PBAF Acquisitions Limited ("the Company") for the year ended 30 September 2022 which comprise the profit and loss account, the balance sheet, the statement of movements in equity and the related notes 1 to 17, including the accounting policies in note 14.

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2022 and of the company's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 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.

Going concern

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

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

Our risk assessment procedures included:

- Enquiring of directors, Internal Audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Internal Audit function, and the Company's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

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

On this audit we do not believe there is a fraud risk related to revenue recognition, with the exception of the EIR adjustment. The revenue streams are considered non-complex and require limited judgement. However, we have recognised a fraud risk in respect of the EIR adjustment to interest income given the subjectivity inherent in the estimate.

We also identified a fraud risk related to estimation of impairment provisions on loans to customers, specifically relating to the significant estimation uncertainty inherent in the subjective judgements or uncertainties that are difficult to corroborate.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user and those including specific descriptors.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of 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, financial crime, certain aspects of company legislation recognising the financial 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

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 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.

M Davidson

Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

17 February 2023

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
Interest receivable	2	13,365	18,535
Interest payable and similar charges	3	(7,264)	(9,559)
Net interest income		6,101	8,976
Other operating income		52	75
Total operating income		6,153	9,051
Operating expenses		(7,277)	(8,372)
Provisions for losses	8	(91)	676
Operating (loss) / profit, being (loss) / profit on ordinary activities before taxation	5	(1,215)	1,355
Tax on (loss) / profit on ordinary activities	6	229	(262)
(Loss) / profit on ordinary activities after taxation		(986)	1,093

All activities derive from continuing operations.

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

BALANCE SHEET

30 SEPTEMBER 2022

	Note	2022 £000	2022 £000	2021 £000	2021 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Loans to customers	7		295,181		413,473
FINANCED BY					
EQUITY SHAREHOLDER'S FUNDS					
Called up share capital	9	45,000		45,000	
Profit and loss account		(575)		411	
			44,425		45,411
PROVISIONS FOR LIABILITIES	10		84		94
CREDITORS					
Amounts falling due within one year	11		250,672		367,968
			295,181		413,473

These Financial Statements were approved by the Board of Directors on 17 February 2023.

Signed on behalf of the Board of Directors

K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2022

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Loss for the year	-	(986)	(986)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(986)	(986)
Transactions with owners			
Issue of shares	-	-	-
Dividends	-	-	-
Net movement in equity in the year	-	(986)	(986)
Opening equity	45,000	411	45,411
Closing equity	45,000	(575)	44,425

YEAR ENDED 30 SEPTEMBER 2021

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	1,093	1,093
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,093	1,093
Transactions with owners			
Issue of shares	45,000	-	45,000
Dividends	-	(3,000)	(3,000)
Net movement in equity in the year	45,000	(1,907)	43,093
Opening equity	-	2,318	2,318
Closing equity	45,000	411	45,411

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2022

1. GENERAL INFORMATION

PBAF Acquisitions 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 04481151. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

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

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

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

2. INTEREST RECEIVABLE

	2022 £000	2021 £000
Interest receivable in respect of		
First mortgages	8,279	6,345
Secured consumer loans	1,942	3,257
Unsecured consumer loans	3,144	8,933
	13,365	18,535

Interest receivable arises from financial assets held at amortised cost.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2022 £000	2021 £000
Interest payable to other group companies	7,264	9,559

All interest due to other group companies relates to financial liabilities held at amortised cost.

4. DIRECTORS AND EMPLOYEES

Directors received no remuneration for the services provided to the Company during either the current or the preceding year.

The Company had no employees in the current or preceding year. All administration is performed by employees of the Group. The directors of the Company are all employed by Paragon Finance PLC, a fellow group company, and their remuneration is disclosed within the financial statements of that company, which do not form part of this Report.

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

	2022 £000	2021 £000
Operating profit is after charging:		
Auditor remuneration - audit services	14	12

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 - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

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

a) Tax (credit) / charge for the year

	2022 £000	2021 £000
Current tax		
Corporation tax	-	269
Group relief	(219)	-
Adjustment in respect of prior periods	-	(11)
Total current tax	(219)	258
Deferred tax (note 10)		
Origination and reversal of timing differences	(12)	(12)
Adjustment in respect of prior periods	-	(2)
Rate change	2	18
Total deferred tax	(10)	4
Tax (credit) / charge on (loss) / profit on ordinary activities	(229)	262

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

	2022 £000	2021 £000
(Loss) / profit before tax	(1,215)	1,355
UK corporation tax at 19% (2021: 19%) based on the (loss) / profit for the year	(231)	257
Effects of:		
Prior period credit	-	(13)
Change in rate of taxation on deferred tax balances	2	18
Tax (credit) / charge for the year	(229)	262

The standard rate of corporation tax in the UK applicable to the Company in the period was 19.0% (2021: 19.0%), based on currently enacted legislation. During the previous period, legislation was substantively enacted, that will increase the rate to 25% with effect from 1 April 2023. Consequently, temporary differences at the balance sheet date will either reverse at 22% in the year ended 30 September 2023 or 25% in subsequent years.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

7. FINANCIAL ASSETS

	2022 £000	2021 £000
Loans to customers (note 8)	295,181	413,473
	295,181	413,473

Loan accounts at 30 September 2022 and 30 September 2021, which are all denominated and payable in sterling, were:

	2022 £000	2021 £000
First mortgage loans	260,505	296,996
Secured loans	33,967	45,749
Unsecured loans	709	70,728
	295,181	413,473

First mortgages which are secured on residential property within the United Kingdom and secured loans enjoy first charges on residential property.

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

Secured loans enjoy second charges on residential property.

Secured loans have a contractual term of up to 25 years. In all cases the borrower is entitled to settle the loan at any point and in most cases such early settlement does take place. All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms.

Unsecured loans have a contractual term of up to 10 years. In all cases the borrower is entitled to settle the loan at any point and in most cases such early settlement does take place. All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

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

The disclosures are set out under the following headings:

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

Basis of provision

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

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

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

Calculation of expected credit loss ('ECL')

For the majority of the Company's loan assets, the ECL is generated using statistical models applied to account data to generate PD and LGD components. In determining for which portfolios a statistically modelled approach is appropriate, the Company considers the volume of available data and the level of similarity of the credit characteristics of the underlying accounts.

PD on both a twelve month and lifetime basis is estimated based on statistical models for the Company's loan book. 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. PD measures are calculated for the full contractual lives of loans with the models deriving probabilities that, at a given future date, a loan will be in default, performing or closed.The Company utilised all reasonably available information in its possession for this exercise.

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Calculation of expected credit loss ('ECL') (continued)

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.

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

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

At 30 September 2022 the UK economy was subject to levels of inflation and interest rates not seen for some considerable time and not represented sufficiently in the data sets used to create the Group's models. There was also a level of uncertainty as to the direction of government policy which was unusual for the UK. The situation was evolving rapidly at the year end, meaning that there was a risk that credit metrics and external credit bureau data might not fully reflect increasing risks, which would lead to a potential understatement of PDs.

During 2021 the management concluded that Group's models do not fully represent loss expectations, and Post Model Adjustments ('PMA's) have been made to compensate for these weaknesses. However, for the year ending 30 September 2022 no model adjustments are required.

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 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.

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Significant Increase in Credit Risk ('SICR') (continued)

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 well as the impact of future economic expectations.

As part of its determination of whether model outputs form a reliable basis for impairment provisioning, the Company considered whether it had any evidence of groups of accounts demonstrating factors indicating a higher level of credit risk than other accounts in the same portfolios. No such evidence was noted at 30 September 2022, and hence no additional accounts were identified as having an SICR.

While no requirement to identify additional SICR cases has arisen in 2022, the approach is consistent with that adopted at 30 September 2021, and will be kept under review in future periods.

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

Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The analysis of these default cases provides the foundation for the Company's PD modelling. IFRS 9 provides a rebuttable presumption that an account is in default when it is 90 days overdue and this was used as the basis of the Company's definition, combined with qualitative and quantitative factors specific to each portfolio.

The most influential quantitative factor in the majority of portfolios is the arrears level, while the principal qualitative factors relate to internal account management statuses. In particular the decision to commence a process of enforcement will be considered as a default in all portfolios. In the Company's buy-to-let mortgage portfolio the appointment of a receiver of rent to manage the property on the customers behalf is considered a default, while for portfolios assessed on a case-by-case basis, such as the Company's development finance loans, the movement of an account to the highest risk category is considered as a default.

This ensures that Company's definitions of default for its various portfolios are materially aligned to the regulatory definitions of default used internally, and are broadly aligned to its internal operational procedures, allowing for the arbitrary nature of the 90-day cut-off, which is a regulatory rather than an operational requirement. 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.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Credit Impaired loans

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

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

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

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

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

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

Monitoring of ECL estimation processes

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

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

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

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

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

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Model development

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

The adoption of this model has enabled the reporting process in the year to be more streamlined and supported increased use of scenario analysis.

The Group's programme of model development continued during the year with a particular focus on analysing how default and loss data recorded over the period of the Coved pandemic should be reflected in forward-looking models, given the unprecedented nature of the pandemic and the national and international response to it.

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

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

Judgemental adjustments

In order to ensure that its loan portfolios are adequately provisioned, the Group considers whether there are factors not fully captured by the modelling process, including economic conditions more generally, which indicate a need for judgemental adjustments. Information considered includes credit data, customer and broker feedback received, the results of insight surveys, industry intelligence and expert knowledge within the business lines.

During the year, the dominance of Covid in these considerations reduced as the short-term impact of the pandemic receded and other economic factors such as the UK cost of living, rising interest rates and the conflict in the Ukraine became more significant.

Towards the end of the year the consensus view of the likely severity of these impacts became markedly more pessimistic, and together with political instability in the UK Government and emerging negative economic indicators this generated a situation where very careful assessment of credit prospects was required.

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

In normal circumstances the Group's objective is to develop its modelling to the point where the level of judgemental adjustments required is minimal, but in economic conditions where previous relevant experience is limited or non-existent, some form of judgemental adjustment is always likely to be necessary. While high interest rate and inflation scenarios have occurred in the UK in the past, market conditions, products and regulatory expectations have moved on considerably in the meantime, and most such observations would pre-date the existence of buy-to-let mortgages as a distinct asset class. This means that the value of past history as a guide to future credit performance is reduced.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Judgemental adjustments (continued)

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

Following a review of the mortgage portfolio, it was concluded that the models provided a sufficient level of provisioning of the classes of loans held, as a consequence no adjustments were posted in the current year.

The Company will continue to monitor the requirement for these adjustments as the economic situation develops and its impacts begin to be reflected in model outputs.

Impairments by Stage

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

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Stage 1	Stage 2 *	Stage 3 *	POCI	Total
	£000	£000	£000	£000	£000
30 September 2022					
Gross loan book					
First mortgage loans	190,845	63,808	4,540	2,741	261,934
Secured loans	20,014	2,094	7,463	4,731	34,302
Unsecured loans	-	-	-	709	709
Total	210,859	65,902	12,003	8,181	296,945
Impairment provision					
First mortgage loans	(4)	(172)	(1,253)	-	(1,429)
Secured loans	(13)	(50)	(272)	-	(335)
Unsecured loans	-	-	-	-	-
Total	(17)	(222)	(1,525)	-	(1,764)
Net loan book					
First mortgage loans	190,841	63,636	3,287	2,741	260,505
Secured loans	20,001	2,044	7,191	4,731	33,967
Unsecured loans	-	-	-	709	709
Total	210,842	65,680	10,478	8,181	295,181
Coverage ratio					
First mortgage loans	0.00%	0.27%	27.60%	0.00%	0.55%
Secured loans	0.06%	2.39%	3.64%	0.00%	0.98%
Unsecured loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.01%	0.34%	12.71%	0.00%	0.59%

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Stage 1	Stage 2 *	Stage 3 *	POCI	Total
	£000	£000	£000	£000	£000
30 September 2021					
Gross loan book					
First mortgage loans	238,616	52,997	3,657	3,158	298,428
Secured loans	27,607	2,583	8,909	7,225	46,324
Unsecured loans	-	-	-	70,728	70,728
Total	266,223	55,580	12,566	81,111	415,480
Impairment provision					
First mortgage loans	(19)	(431)	(982)	-	(1,432)
Secured loans	(29)	(60)	(486)	-	(575)
Unsecured loans	-	-	-	-	-
Total	(48)	(491)	(1,468)	-	(2,007)
Net loan book					
First mortgage loans	238,597	52,566	2,675	3,158	296,996
Secured loans	27,578	2,523	8,423	7,225	45,749
Unsecured loans	-	-	-	70,728	70,728
Total	266,175	55,089	11,098	81,111	413,473
Coverage ratio					
First mortgage loans	0.01%	0.81%	26.85%	0.00%	0.48%
Secured loans	0.11%	2.32%	5.46%	0.00%	1.24%
Unsecured loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.02%	0.88%	11.68%	0.00%	0.48%

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 2 loans

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

Cases which have been greater than one month in arrears in the last three months, but which are not at the balance sheet date are shown as 'recent arrears' in the tables below.

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

The value of accounts in stage 2 has increased across all categories as a result of the generally worsening economic outlook. The largest increase is in those cases in the buy-to-let book identified with an SICR through PD movements, a result of the updated economic scenarios and weightings.

Provision levels and coverage in the Mortgage Lending division have both reduced, however, due to the impact of the strong growth in house prices on security values.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 2 loans (continued)

	< 1 month arrears £000	Recent arrears £000	> 1 <= 3 months arrears £000	Total £000
30 September 2022				
Gross loan book				
First mortgage loans	440	62,541	827	63,808
Secured loans	249	1,287	558	2,094
Unsecured loans	-	-	-	-
Total	689	63,828	1,385	65,902
Impairment provision				
First mortgage loans	-	(164)	(8)	(172)
Secured loans	(2)	(9)	(39)	(50)
Unsecured loans	-	-	-	-
Total	(2)	(173)	(47)	(222)
Net loan book				
First mortgage loans	440	62,377	819	63,636
Secured loans	247	1,278	519	2,044
Unsecured loans	-	-	-	-
Total	687	63,655	1,338	65,680
Coverage ratio				
First mortgage loans	0.00%	0.26%	0.97%	0.27%
Secured loans	0.80%	0.70%	6.99%	2.39%
Unsecured loans	0.00%	0.00%	0.00%	0.00%
Total	0.29%	0.27%	3.39%	0.34%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	< 1 month arrears £000	Recent arrears £000	> 1 <= 3 months arrears £000	Total £000
30 September 2021				
Gross loan book				
First mortgage loans	482	52,221	294	52,997
Secured loans	300	1,338	945	2,583
Unsecured loans	-	-	-	-
Total	782	53,559	1,239	55,580
Impairment provision				
First mortgage loans	-	(431)	-	(431)
Secured loans	(7)	(10)	(43)	(60)
Unsecured loans	-	-	-	-
Total	(7)	(441)	(43)	(491)
Net loan book				
First mortgage loans	482	51,790	294	52,566
Secured loans	293	1,328	902	2,523
Unsecured loans	-	-	-	-
Total	775	53,118	1,196	55,089
Coverage ratio				
First mortgage loans	0.00%	0.83%	0.00%	0.81%
Secured loans	2.33%	0.75%	4.55%	2.32%
Unsecured loans	0.00%	0.00%	0.00%	0.00%
Total	0.90%	0.82%	3.47%	0.88%

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 3 loans

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

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

Where an account meets two of the criteria, it will be assigned to the category shown first in the list above.

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

The gross values of Stage 3 accounts at 30 September 2022 are significantly reduced from these at 30 September 2021 as the number of new defaults in the year remained low and historic cases were resolved.

Coverage levels remained broadly similar to the year end position. Ratios in Stage 3 will naturally be subject to a wider range of fluctuation than those elsewhere, given the low number of accounts involved, the consequent potential for mix effects and the idiosyncratic nature of some of the cases.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£000	£000	£000	£000	£000
30 September 2022					
Gross loan book					
First mortgage loans	51	1,364	2,097	1,028	4,540
Secured loans	128	7,246	-	89	7,463
Unsecured loans	-	-	-	-	-
Total	179	8,610	2,097	1,117	12,003
Impairment provision					
First mortgage loans	-	(6)	(787)	(460)	(1,253)
Secured loans	-	(272)	-	-	(272)
Unsecured loans	-	-	-	-	-
Total	-	(278)	(787)	(460)	(1,525)
Net loan book					
First mortgage loans	51	1,358	1,310	568	3,287
Secured loans	128	6,974	-	89	7,191
Unsecured loans	-	-	-	-	-
Total	179	8,332	1,310	657	10,478
Coverage ratio					
First mortgage loans	0.00%	0.44%	37.53%	44.75%	27.60%
Secured loans	0.00%	3.75%	0.00%	0.00%	3.64%
Unsecured loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.00%	3.23%	37.53%	41.18%	12.71%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Probation £000	> 3 month arrears £000	RoR managed £000	Realisations £000	Total £000
30 September 2021					
Gross loan book					
First mortgage loans	-	198	3,024	435	3,657
Secured loans	263	8,491	-	155	8,909
Unsecured loans	-	-	-	-	-
Total	263	8,689	3,024	590	12,566
Impairment provision					
First mortgage loans	-	-	(872)	(110)	(982)
Secured loans	(7)	(468)	-	(11)	(486)
Unsecured loans	-	-	-	-	-
Total	(7)	(468)	(872)	(121)	(1,468)
Net loan book					
First mortgage loans	-	198	2,152	325	2,675
Secured loans	256	8,023	-	144	8,423
Unsecured loans	-	-	-	-	-
Total	256	8,221	2,152	469	11,098
Coverage ratio					
First mortgage loans	0.00%	0.00%	28.84%	25.29%	26.85%
Secured loans	2.66%	5.51%	0.00%	7.10%	5.46%
Unsecured loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total	2.66%	5.39%	28.84%	20.51%	11.68%

The exposure at default in the calculation shown above for stage 3 accounts is reduced by £30.7m (2021: £36.7m) 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.

The RoR managed accounts are being managed to ensure the optimal resolution for landlords, tenants and lenders and this long-term, stable situation underpinned their treatment as not impaired under IAS 39, but the existence of the RoR arrangement causes the accounts to be treated as defaulted for regulatory purposes.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Movements in impairment provision by stage

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

	2022 £000	2021 £000
At 1 October 2021	2,007	3,419
New assets purchased	-	-
Released in period	(37)	(1,193)
Amounts written off	(206)	(219)
At 30 September 2022	1,764	2,007

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 2022 enforceable contractual balances of £31,000 (2021: £1,940,000) were outstanding on non-POCI assets written off in the period. This will exclude those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances will be kept under review for operational purposes but no amounts will be recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

A more detailed analysis of these movements by IFRS 9 stage for the year ended 30 September 2022 and 30 September 2021 is set out below.

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

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Stage 1 £000	Stage 2 * £000	Stage 3 * £000	POCI £000	Total £000
Loss allowance at 1 October 2021	48	491	1,468	-	2,007
New assets originated or purchased	-	-	-	-	-
Changes in loss allowance					
Transfer to stage 1	97	(73)	(24)	-	-
Transfer to stage 2	(11)	16	(5)	-	-
Transfer to stage 3	-	(27)	27	-	-
Changes on stage transfer	(94)	47	153	-	106
Changes due to credit risk	(23)	(232)	112	-	(143)
Write offs	-	-	(206)	-	(206)
Assets recognised	-	-	-	-	-
Loss allowance at 30 September 2022	17	222	1,525	-	1,764
Loss allowance at 1 October 2020	104	552	2,763	-	3,419
New assets originated or purchased	-	-	-	-	-
Changes in loss allowance					
Transfer to stage 1	99	(61)	(38)	-	-
Transfer to stage 2	(17)	61	(44)	-	-
Transfer to stage 3	(3)	(11)	14	-	-
Changes on stage transfer	(90)	30	69	-	9
Changes due to credit risk	(45)	(80)	(1,077)	-	(1,202)
Write offs	-	-	(219)	-	(219)
Assets recognised	-	-	-	-	-
Loss allowance at 30 September 2021	48	491	1,468	-	2,007

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2 *	Stage 3 *	POCI	Total
	£000	£000	£000	£000	£000
Balances at 1 October 2021	266,223	55,580	12,566	81,111	415,480
New assets originated or purchased	-	-	-	-	-
Changes in staging					
Transfer to stage 1	19,891	(19,527)	(364)	-	-
Transfer to stage 2	(35,212)	35,528	(316)	-	-
Transfer to stage 3	(1,377)	(1,282)	2,659	-	-
Redemptions and repayments	(36,655)	(4,428)	(2,067)	(17,236)	(60,386)
Assets recognised	-	-	-	(55,694)	(55,694)
Write offs	-	-	(206)	-	(206)
Other changes	(2,011)	31	(269)	-	(2,249)
Balance at 30 September 2022	210,859	65,902	12,003	8,181	296,945
Loss allowance	(17)	(222)	(1,525)	-	(1,764)
Carrying value	210,842	65,680	10,478	8,181	295,181

Balances at 1 October 2020	325,669	42,394	15,926	112,405	496,394
New assets originated or purchased	-	-	-	-	-
Changes in staging					
Transfer to stage 1	6,093	(5,237)	(856)	-	-
Transfer to stage 2	(25,508)	26,270	(762)	-	-
Transfer to stage 3	(590)	(886)	1,476	-	-
Redemptions and repayments	(37,213)	(7,555)	(1,941)	(31,294)	(78,003)
Assets recognised	-	-	-	-	-
Write offs	-	-	(219)	-	(219)
Other changes	(2,228)	594	(1,058)	-	(2,692)
Balance at 30 September 2021	266,223	55,580	12,566	81,111	415,480
Loss allowance	(48)	(491)	(1,468)	-	(2,007)
Carrying value	266,175	55,089	11,098	81,111	413,473

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments charged / (credited) to income

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

	2022	2021
	£000	£000
Released in period	(115)	(895)
Written off amounts	206	219
	91	(676)

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. While the provision calculation is intended to address all possible future economic outcomes, the Group, in common with most other lenders, uses a small number of differing scenarios as representatives of this universe of potential outturns.

The Group uses four distinct economic scenarios chosen to represent the range of possible outcomes and allow for the impact of economic asymmetry in the calculations. 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 Group and must be consistent.

As the Group does not have an internal economics function, in developing its economic scenarios it considers analysis from reputable external sources to form a general market consensus which informs its central scenario. These sources include data and forecasts produced by the Office of Budget Responsibility ('OBR') and the PRA as well as private sector economic research bodies. The Group also takes account of public statements from bodies such as the Bank of England and the UK Government to inform its final position.

The central scenario used for IFRS 9 impairment purposes is consistent with the scenario which forms the basis of the Group's business planning and forecasting and will therefore generally carry the highest probability weighting. In its September 2022 forecasting cycle (the 'October forecast'), the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2021, with the starting point of the scenario updated to reflect the actual movements of economic variables and expectations in the year. The general trend of the Group's central forecast is broadly negative in the short term, with interest rates and inflation increasing sharply by historical terms in the early part of the five year forecast period before normalising. Short term falls in house prices are also anticipated.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Compared to the central scenario adopted at 30 September 2021, the new central forecast is based on a significantly higher interest rate environment throughout the period, reflecting increases already seen in the second half of the year and clear market expectations of higher rates to come. Inflation is much higher in the early years of the forecast than anticipated twelve months ago, with credit growth more constricted. GDP growth is slowed and house prices less positive in the short term, but recover later. These all reflect a worsening outlook for the UK than anticipated 12 months ago especially in the first two years of the period.

The upside and downside scenarios continue to be derived from the central scenario, as they have been in previous periods. The shapes of these three scenarios are broadly similar across the period, but the degree of divergence of the upside and downside scenarios from the central scenario has been reviewed to ensure that the asymmetrical nature of credit risk is properly accounted for and the full universe of possible outcomes adequately represented.

The severe scenario has been derived from stress testing scenarios published by the Bank of England, as in previous periods, with the 2022 Annual Cyclical Scenario being used at 30 September 2022. This scenario is based on a deep recession, higher interest rates and falling asset prices. To ensure that the scenario is appropriately severe in the Groups circumstances a slightly higher unemployment level and a slightly worse outcome on house prices were assumed, otherwise the appreciation of security values in the later part of the forecast period would negate other impacts.

Following a review of the weightings of the different scenarios, set against the overall potential for variability in the future economic outlook, the Group decided to amend the scenario weightings used at 30 September 2021 for the current year.

The weightings attached to each scenario are set out below

	2022	**2021**
Central scenario	40%	40%
Upside scenario	10%	10%
Downside scenario	30%	35%
Severe scenario	20%	15%
	100%	100%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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 2022

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	2.2	(0.3)	3.5	1.2	2.2	(2.7)	1.2	(5.0)
HPI	4.8	(4.5)	7.5	3.3	4.9	(13.1)	5.7	(17.8)
BBR	5.0	3.0	4.5	3.0	5.5	3.0	6.0	3.3
CPI	10.8	1.4	10.3	1.7	14.0	1.8	17.0	1.8
Unemployment	5.0	3.9	4.5	3.4	6.3	4.1	9.2	4.5
Secured lending	4.0	2.3	4.8	3.1	3.3	1.6	3.7	(1.2)
Consumer credit	5.0	2.5	5.8	3.3	4.3	1.8	4.8	(5.2)

30 September 2021

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

9. CALLED UP SHARE CAPITAL

	2022 £	2021 £
Allotted:		
45,000,001 (2021: 1) ordinary share of £1 each (fully paid)	45,000,001	1
45,000,000 ordinary share of £1 each (fully paid) issued	-	45,000,000
	45,000,001	45,000,001

During the preceding year 45,000,000 Ordinary shares of £1 each were subscribed for at par by the parent company.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

10. PROVISIONS FOR LIABILITIES

Deferred tax

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

	2022 £000	2021 £000
Balance at 1 October 2021	94	90
Profit and loss credit prior period (note 6)	-	(2)
Profit and loss credit (note 6)	(12)	(12)
Rate change (note 6)	2	18
Balance at 30 September 2022	84	94

	2022 £000	2021 £000
The net deferred tax liability for which provision has been made is analysed as follows:		
Other timing differences	84	94

11. CREDITORS

	2022 £000	2021 £000
Amounts falling due within one year:		
Amounts due to group companies	250,672	366,785
Corporation tax	-	1,171
Accruals and deferred income	-	12
	250,672	367,968

NOTES TO THE ACCOUNTS - FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2022

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

12. FINANCIAL RISK MANAGEMENT

The Company's operations are financed principally by loans from other group companies. The principal risks arising from the Company's financial instruments is credit risk. The board of the Company's holding company reviews and agrees policies for all companies in the Group managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year and since the year end. The Company's primary financial liabilities are with other group companies; therefore, the directors do not consider that the Company is exposed to any significant cash flow or liquidity risks.

Credit risk

The Company's credit risk is primarily attributable to its loans to customers. The maximum credit risk at 30 September 2022 approximates to the carrying value of loans to customers (note 7). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

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

At 30 September 2022 96.2% (2021: 91.9%) of the Company's mortgage loans by value had a loan-to-value ('LTV') ratio of 70% or less. The weighted average LTV was 47.6% (2021: 52.2%). LTV for each account is calculated by comparing the current balance to the most recent valuation of the mortgaged property, indexed as appropriate.

Paragon Bank PLC and Idem Capital Securities Limited, fellow group companies, continue to administer the loans on behalf of PBAF Acquisitions Limited 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.

Currency risk

The Company has no material exposure to foreign currency risk.

NOTES TO THE ACCOUNTS - BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

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

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

13. BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with applicable United Kingdom ('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 as adopted by the UK (UK-adopted international accounting standards) ('UK-IAS') but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of disclosure exemptions provided by FRS 101 has been taken.

On 31 December 2020, EU-adopted International Financial Reporting Standards ('IFRS') was brought into UK law and become UK-IAS, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company Financial Statements transitioned to UK-adopted international accounting standards (as described above) in its first financial year commencing after 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

The particular accounting policies adopted have been set out in note 14 and the critical accounting judgements and estimates which have been regarded in preparing these financial statements are described in notes 15 and 16 respectively.

Adoption of new and revised reporting standards

In the preparation of these financial statements, no new accounting standards are being applied for the first time.

Standards not yet adopted

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

14. ACCOUNTING POLICIES

The particular accounting policies applied are described below.

Accounting convention

The Financial Statements are prepared under the historical cost convention.

Going concern

Accounting standards require the directors to assess the Company's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them. Particular focus is given to the Group's financial forecasts to ensure the adequacy of resources available for the Company to meet its business objectives on both a short term and strategic basis.

NOTES TO THE ACCOUNTS - BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

14. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

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

In compiling the most recent forecast, for the period commencing 1 October 2022, particular attention was paid to the potential consequences of the uncertain economic outlook for the UK on the Group's operations, customers, funding and prospects, both in the short and long term. These considerations include the increased cost of living, rising interest rates and the impacts of Russia's intervention in Ukraine, as well as the long-term after effects of the Covid pandemic. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October 2022 based on updated external projections.

After performing this assessment, the directors concluded that there was a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future, and that therefore it was appropriate for them to continue to adopt the going concern basis in preparing the Annual Report and Accounts. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Loans to customers

Loans to customers includes assets accounted for as financial assets and finance leases. 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 procuration 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 an impairment provision.

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.

Where financial assets are credit-impaired at initial recognition the EIR is calculated on the basis of expected future cash receipts allowing for the effect of credit risk. In other cases, the expected contractual cash flows are used.

14. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables

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

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

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

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

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

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

While the Company uses statistical models as the basis for its calculation of ECLs where appropriate, expert judgement will always be used to assess the adequacy of any calculated amount and additional provision made if required.

Within its buy-to-let portfolio the Company utilises a receiver of rent process, whereby the receiver stands between the landlord and tenant and will determine an appropriate strategy for dealing with any delinquency. This strategy may involve the immediate sale of any underlying security or the short or long term letting of the property to cover arrears and principal shortfalls. Such cases are automatically considered to have an SICR, but where a letting strategy is adopted by the receiver, a tenant is in place and arrears are reduced or cleared, the account will not necessarily be considered to be credit impaired. Properties in receivership are eventually either returned to their landlord owners or sold.

For loan portfolios acquired at a discount, the discounts take account of future expected impairments and such assets are treated as POCI. For these assets, the Company recognises all changes in future cash flows arising from changes in credit quality since initial recognition as a loss allowance with any changes recognised in profit or loss.

NOTES TO THE ACCOUNTS - BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

14. 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.

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.

Revenue

The revenue of the Company comprises of interest receivable on loans to customers and other operating income. The accounting policy for the recognition of revenue is described separately within these accounting policies. Interest receivable on loans to customers is recognised in accordance with the effective interest rate method.

Fee and commission income

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

Deferred sale consideration

Other operating income includes deferred sale consideration which is recognised in the period in which it is received.

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.

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.

14. 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
- 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.

15. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 14 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.

As part of its consideration of the adequacy of its impairment provisioning, management have considered whether there are any factors not reflected in its normal approach which indicate that a group, or groups of accounts should be considered as having an SICR. No such accounts were identified.

If additional accounts were determined to have an SICR, these balances would attract additional impairment provision, as such cases are provided on the basis of lifetime expected loss, rather the 12-month expected loss, and the overall provision charge would be higher. Conversely, if cases are incorrectly identified as SICR, impairment provisions will be overstated. Furthermore, adjustments to current PD estimates in the Group's models may also have the effect of identifying more or less accounts as having an SICR.

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

15. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

Definition of default

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

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

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

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

Classification of financial assets

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

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

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

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

This is because all the Group's lending arrangements involve the advancing of amounts to customers, either as loans or finance lease products and the receipt of repayments of principal and charges, where those charges are calculated based on the amount loaned. There are no 'success fee' or other compensation arrangements not linked to the loan principal.

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. There were no significant changes in the nature of the Group's products, nor in the business models in which they are held, during the year.

16. 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 important of these, those which could, if revised significantly in the next financial year, have a material impact on the carrying amounts of assets or liabilities 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.

In evaluating the potential impact of the economic situation at 30 September 2022 this process is made more complex by both the elevated level of uncertainties and the lack of recent experience of similar situations against which to benchmark. At the same time, the level to which Covid-related 'scarring' has yet to manifest itself in credit metrics is still unclear.

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.

NOTES TO THE ACCOUNTS - BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

16. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Impairment losses on loans to customers (continued)

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. These scenarios at 30 September 2022 have been derived in light of the current economic situation, at that date, modelling a variety of possible outcomes as described in note 8. It should be noted, however, that there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK, which have diverged again over the period since September 2021, with both UK economic and geopolitical uncertainties building.

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.

In addition to uncertainty created by the economic scenarios, the Group recognises that the present situation lies outside the range of situations considered when it originally derived its IFRS 9 approach to impairment. It is considered that the current forecast scenarios, which include higher rates of interest and inflation than in the historically observed data, represent situations where its models may not be able to fully allow for potential economic impacts on its loan portfolios. It therefore assessed, for each class of asset, whether any adjustment to the normal approach was required to ensure sufficient provision was created and also reviewed other available data, both from account performance and customer feedback to form a view of the underlying reasons for observed customer behaviours and of their future intentions and prospects.

As a result of this exercise additional requirements for provision were identified for the year ended 30 September 2021, to compensate for potential model weakness and to allow for economic pressures in the wider economy which cannot be identified by a modelled approach. By their nature such adjustments are less systematic and therefore subject to a wider range of outturns. No adjustments were required for the year ended 30 September 2022.

The position after considering all these matters is set out in note 8

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, including those relating to early redemption charges. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. For each portfolio a model is in place to ensure that income is appropriately spread.

The underlying 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 those predicted, which in turn would depend directly or indirectly (in the case of borrowings) on customer behaviour.

NOTES TO THE ACCOUNTS - BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

17. ULTIMATE PARENT COMPANY

The Company's immediate parent undertaking is Paragon Asset Finance Limited. The Company's ultimate parent company and ultimate controlling party is Paragon Banking Group PLC. 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 financial statements of the Company and Paragon Banking Group PLC may be obtained from the Company Secretary, 51 Homer Road, Solihull, West Midlands, B91 3QJ.