

RESIDUAL INTEREST PARAGON MORTGAGES (NO. 12) PLC

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 Residual Interest Paragon Mortgages (No.12) PLC ('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 and UK Listing Rules and the Disclosure Guidance).

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

Residual Interest Paragon Mortgages (No. 12) PLC (“the Company”) is a wholly owned subsidiary of Residual Interest Paragon Mortgages (No. 12) Holdings Limited. The shares in Residual Interest Paragon Mortgages (No. 12) Holdings Limited are held by Maples Fiduciary Services (UK) Limited under a Declaration of Trust for charitable purposes.

The Company was incorporated on 20 May 2019 as an orphan Special Purpose Vehicle (“SPV”) Company.

On 26th June 2019, Paragon Banking Group (“PBG”) disposed of its residual interests in Paragon Mortgages (No.12) PLC (“PM12”) to the Company. These comprised the subordinated loan used to establish the First Loss Fund in PM12 and the right to receive Deferred Consideration. The purchase of the subordinated loan interest was funded by the issue of listed notes and the purchase of the deferred consideration interest was funded by the issue of a Residual Certificate.

The Company was set up to acquire the residual interests in PM12. During the year the Company operated in the United Kingdom and its principal activity is asset investment. There have been no significant changes in the Company’s principal activities in the year. The directors are not aware, at the date of this report, of any likely major changes in the Company’s activities in the next year.

As shown in the Company’s profit and loss account on page 14, the Company’s net interest income has increased from £36,000 to £42,000 and operating expenses has increased from £35,000 to £41,000. As a result, profit after tax is has stayed consistent at £1,000.

The balance sheet on page 15 of the Financial Statements shows the Company’s financial position at the year-end. Details of amounts owed from other group companies are shown in note 8.

No interim dividend was paid during the year (2021: £nil). No final dividend is proposed (2021: £nil).

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 PM12’s customers who default on loans and / or cause the values of the properties over which it enjoys security to fall. This could, therefore impact on the cash flows from PM12 to the Company and the ultimate recovery of the subordinated loan balance.

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.

PM12 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.

The Company is a securitisation company and has been structured so as to avoid, in as far as is possible, all forms of financial risk with its outstanding loan notes match-funded to maturity. 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 15.

STRATEGIC REPORT (CONTINUED)

FUTURE PROSPECTS

After considering the above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future, this is further discussed in note 17.

BOARD AND STAKEHOLDERS

The Board of the Company is mindful of its duty to promote the success of the Company for the benefit of its shareholders (insofar as this is applicable to the Company as a special purpose vehicle company) and to fulfil the Company's purpose, having regard to the interests of all of its stakeholders and, in particular, the interests of the Company's investors. 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 Company's employees
- c. The need to foster the Company's business relationships with suppliers, customers and others
- d. The impact of the Company's operations on the community and the environment
- e. The desirability of the Company maintaining a reputation for high standards of business conduct
- f. The need to act fairly as between members of the Company

In its decision making the Board of Directors will have regard to the rights and interests of the holders of its securities in accordance with the transaction documents under which they were issued.

As a securitisation entity the decision-making powers of the Board of Directors are limited so long as the securities remain outstanding. Key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents. However, in considering items of business the Board makes autonomous decisions on their own merits, after due consideration of the long-term success of the Company, those factors set out in section 172 of the Companies Act 2006, where relevant, and the stakeholders impacted.

Board meetings are held periodically where the directors consider Company business, including its results and performance. As a special purpose funding vehicle, the Board also reviews strategy, financial and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance.

The Company's operations are managed by an outsourced service provider and it has no employees or significant direct suppliers of its own.

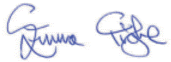
SHAREHOLDERS

The Company is a subsidiary of Residual Interest Paragon Mortgages (No. 12) Holdings Limited. However, the transaction documents limit this entity to a nominal interest in the risks and rewards of the business of the Company (s172(1)(f)).

STRATEGIC REPORT (CONTINUED)

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



Emma Tighe

per pro MaplesFS UK Corporate Director No.1 Limited

Director

27 January 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 Residual Interest Paragon Mortgages (No. 12) PLC, a company registered in England and Wales with registration no: 12005588, for the year ended 30 September 2022.

DIRECTORS

The directors throughout the year and subsequently were:

J L Jones (resigned 8 October 2021)

MaplesFS UK Corporate Director No.1 Limited

MaplesFS UK Corporate Director No.2 Limited

S M H Ellis (appointed 8 October 2021, resigned 1 April 2022)

E M Tighe (appointed 1 April 2022)

DIRECTORS' INDEMNITIES

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

AUDITOR

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

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



Emma Tighe

per pro MaplesFS UK Corporate Director No.1 Limited

Director

27 January 2023

Registered Office: 11th Floor 200 Aldersgate Street, London, EC1A 4HD

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 Company financial statements for each financial year. Under that law they are required to prepare the Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company'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 they have been prepared in accordance with international accounting standards in conformity with the requirements of the UK-adopted international accounting standard
- 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
- 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.



Emma Tighe

per pro MaplesFS UK Corporate Director No.1 Limited

Director

27 January 2023

**INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF RESIDUAL INTEREST PARAGON MORTGAGES (NO. 12) PLC (CONTINUED)**

1 Our opinion is unmodified

We have audited the financial statements of Residual Interest Paragon Mortgages (No. 12) PLC (“the Company”) for the year ended 30 September 2022 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cashflow, the Statement of Movement in Equity, and the related notes, including the accounting policies in note 17.

In our opinion the financial statements:

- give a true and fair view of the state of Company’s affairs as at 30 September 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to Those Charged with Governance.

2 Material uncertainty related to going concern

	The Risk	Our Response
<p>Going concern</p> <p>We draw attention to note 17 of the financial statements which indicates that there is a call option exercisable at any interest payment date, which if exercised will cause Paragon Mortgages (No.12) PLC (‘PM12’) to refinance, resulting in repayment of their notes, and subsequently the repayment of the Company’s residual certificates.</p> <p>If the right is exercised, the Company would have no further entitlement to cash flows from either the PM12 deferred consideration or the PM12 subordinated loan and would therefore have no sources of future income and would hence effectively cease trading.</p> <p>These events and conditions, along with the other matters explained in note 17, constitute a material uncertainty that may cast significant doubt on the company’s</p>	<p><i>Disclosure quality</i></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Company’s business model and how those risks might affect the Company’s financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>There is little judgement involved in the directors’ conclusion that risks and circumstances described in note 17 to the financial statements represent a material uncertainty over the ability of the Company to continue as a going concern for a period of at least a year from the date of approval of the financial statements.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Assessing transparency <ul style="list-style-type: none"> – Assessing the completeness and accuracy of the matters covered in the going concern disclosure by considering the structure of the Company by reference to the prospectus and enquiry of the directors as to the likelihood of exercise of the option. - Assessing the going concern disclosure for adequacy, including that there is a disclosure of a material uncertainty.

**INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF RESIDUAL INTEREST PARAGON MORTGAGES (NO. 12) PLC (CONTINUED)**

<p>ability to continue as a going concern.</p> <p>Our opinion is not modified in respect of this matter.</p>	<p>However, clear and full disclosure of the facts and the directors’ rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.</p>	
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3 Other Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed, in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern is a significant key audit matter and is described in section 2 of our report. We have determined that there are no other key audit matters to communicate in our report (unchanged from 2021).

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

Materiality for the Company financial statements as a whole was set at £237,000 (2021: £240,000), determined with reference to a benchmark of the Company’s total assets as at 30 September 2022, of which it represents 0.90% (2021: 0.75%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75.0% (2021: 75%) of materiality for the financial statements as a whole, which equates to £177,000 (2021: £180,000) for the company.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to Those Charged with Governance any corrected or uncorrected identified misstatements exceeding £11,800 (2021: £12,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

5 Going concern basis of preparation

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 for at least a year from the date of approval of the financial statements (“the going concern period”). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management’s assessment of going concern is set out section 2 of our report.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF RESIDUAL INTEREST PARAGON MORTGAGES (NO. 12) PLC (CONTINUED)**

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 found the going concern disclosure in note 17 to be acceptable.

6 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, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited complexity or judgement applied in the calculation and recognition of revenue since because the calculation of revenue is straightforward with no judgment involved in the calculation, and no pressures or incentives for management to manipulate revenue have been identified.

We did not identify any additional fraud risks.

We also assessed whether the judgements made in making accounting estimates are indicative of 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF RESIDUAL INTEREST PARAGON MORTGAGES (NO. 12) PLC (CONTINUED)**

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: money laundering, financial crime, certain aspects of company legislation and various requirements governing securitisation transactions 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.

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

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

8 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF RESIDUAL INTEREST PARAGON MORTGAGES (NO. 12) PLC (CONTINUED)**

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or 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.

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

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



Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

27 January 2023

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
Interest receivable and similar income	2	(1,124)	(358)
Interest payable and similar charges	3	1,166	394
Net interest income		<u>42</u>	<u>36</u>
Operating expenses	5	(41)	(35)
Operating profit, being profit on ordinary activities before taxation		1	1
Tax on profit on ordinary activities	6	-	-
Profit on ordinary activities after taxation		<u>1</u>	<u>1</u>

All activities derive from continuing operations.

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

RESIDUAL INTEREST PARAGON MORTGAGES (NO. 12) PLC

BALANCE SHEET

30 SEPTEMBER 2022

	Note	2022 £000	2022 £000	2021 £000	2021 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Investments	7		25,663		32,293
CURRENT ASSETS					
Debtors falling due within one year	8	180		127	
Cash at bank		4		3	
			184		130
			<u>25,847</u>		<u>32,423</u>
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called up share capital	9	13		13	
Profit and loss account		3		2	
			16		15
CREDITORS					
Amounts falling due within one year	10	180		125	
Amounts falling due after one year	10	25,651		32,283	
			25,831		32,408
			<u>25,847</u>		<u>32,423</u>

These Financial Statements were approved by the Board of Directors on 27 January 2023.

Signed on behalf of the Board of Directors



Emma Tighe

per pro MaplesFS UK Corporate Director No.1 Limited

Director

STATEMENT OF CASHFLOW

YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
Net cash (utilised) by operating activities	12	(39)	(40)
Net cash generated by investing activities	13	4,525	5,766
Net cash (utilised) by financing activities	14	<u>(4,485)</u>	<u>(5,725)</u>
		1	1
Net increase in cash and cash equivalents			
Opening cash and cash equivalents		3	2
Closing cash and cash equivalents		<u>4</u>	<u>3</u>
Represented by balances within:			
Cash and cash equivalents		<u>4</u>	<u>3</u>
		<u>4</u>	<u>3</u>

STATEMENT OF MOVEMENT IN EQUITY

YEAR ENDED 30 SEPTEMBER 2022

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	1	1
Other comprehensive income	-	-	-
Total comprehensive income for the year	<u>-</u>	<u>1</u>	<u>1</u>
<i>Transactions with owners</i>			
Issue of shares	-	-	-
Net movement in equity in the year	<u>-</u>	<u>1</u>	<u>1</u>
Opening equity	<u>13</u>	<u>2</u>	<u>15</u>
Closing equity	<u><u>13</u></u>	<u><u>3</u></u>	<u><u>16</u></u>

YEAR ENDED 30 SEPTEMBER 2021

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the period</i>			
Profit for the period	-	1	1
Other comprehensive income	-	-	-
Total comprehensive income for the period	<u>-</u>	<u>1</u>	<u>1</u>
<i>Transactions with owners</i>			
Issue of shares	-	-	-
Net movement in equity in the period	<u>-</u>	<u>1</u>	<u>1</u>
On incorporation	<u>13</u>	<u>1</u>	<u>14</u>
Closing equity	<u><u>13</u></u>	<u><u>2</u></u>	<u><u>15</u></u>

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2022

1. GENERAL INFORMATION

Residual Interest Paragon Mortgages (No. 12) PLC ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 12005588. The address of the registered office is 11th Floor 200 Aldersgate Street, London, EC1A 4HD. 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 statement.

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 AND SIMILAR INCOME

	2022	2021
	£000	£000
Subordinated loan interest	981	833
(Loss) / gain on deferred purchase consideration asset	(2,105)	(1,191)
	<u>(1,124)</u>	<u>(358)</u>

The above interest arises from:

	2022	2021
	£000	£000
Financial assets held at amortised cost	981	833
Financial assets held at fair value	(2,105)	(1,191)
	<u>(1,124)</u>	<u>(358)</u>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2022	2021
	£000	£000
Subordinated note interest	981	833
Revaluation of residual certificates	(2,147)	(1,227)
	<u>(1,166)</u>	<u>(394)</u>

The above interest arises from:

	2022	2021
	£000	£000
Financial liabilities held at amortised cost	981	833
Financial liabilities held at fair value	(2,147)	(1,227)
	<u>(1,166)</u>	<u>(394)</u>

NOTES TO THE ACCOUNTS – ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

4. DIRECTORS AND EMPLOYEES

Directors' fees from the Company during the current year and preceding period are stated in note 5. The Company had no employees in the current year or preceding period.

5. OPERATING EXPENSES

	2022 £000	2021 £000
Servicing fees payable	-	-
Auditor remuneration – audit	14	17
Directors' fees	9	9
Other fees	18	9
	<u>41</u>	<u>35</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2022 £000	2021 £000
Current tax		
Corporation tax	-	-
Total current tax	<u>-</u>	<u>-</u>

b) Factors affecting the tax charge for the year

	2022 £000	2021 £000
Profit before tax	<u>1</u>	<u>1</u>
UK corporation tax at 19% (2021: 19%) based on the profit for the year	<u>-</u>	<u>-</u>

The standard rate of corporation tax in the UK applicable to the Company in the year was 19.0%, based on currently enacted legislation.

NOTES TO THE ACCOUNTS – ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

7. INVESTMENTS

	2022 Amortised cost £000	2022 FVTPL £000	2022 Total £000
Valuation			
At 1 October 2020	18,518	20,732	39,250
Investment during the period	-	-	-
Loss on deferred consideration	-	(1,436)	(1,436)
Unwinding of discount on purchase of subordinated loan	245	-	245
Repayment of loans	-	(5,766)	(5,766)
At 30 September 2021	18,763	13,530	32,293
Investment during the year	-	-	-
Loss on deferred consideration	-	(2,351)	(2,351)
Unwinding of discount on purchase of subordinated loan	246	-	246
Repayment of loans	-	(4,525)	(4,525)
At 30 September 2022	19,009	6,654	25,663

The subordinated loan facility was acquired by the Company in 2020. The loan was originally drawn down by PM12 to establish its first loss fund. It is repayable to the Company on the earlier of the last interest payment date in November 2038 or the first day on which there are no notes outstanding in PM12, except that on any interest payment date sums borrowed will be repaid to the extent of any amount released from the first loss fund. Interest is receivable at the rate of 4% above the Sterling Over Night Index Average ('SONIA') rate for three month sterling deposits.

The deferred consideration from the PM12 Mortgage Sale Agreement have been assigned to the Company with the Trustee's consent. Under this the residual cash flows of PM12 are paid to the Company by way of deferred purchase consideration.

The directors consider that the value of the investments is at least equal to the amounts at which they are stated.

8. DEBTORS

	2022 £000	2021 £000
Amounts falling due within one year:		
Amounts due from group undertakings	13	13
Prepayments and accrued income	167	114
	180	127

NOTES TO THE ACCOUNTS – ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

9. CALLED UP SHARE CAPITAL

	2022	2021
	£	£
Allotted:		
49,999 ordinary shares of £1 each (25p called up and paid)	12,500	12,500
1 ordinary shares of £1 each (fully paid)	1	1
	<u>12,501</u>	<u>12,501</u>

The Company was incorporated on 20 May 2019 with £1 share capital fully paid to Residual Interest Paragon Mortgages (No. 12) Holdings Limited. A further 49,999 partly paid ordinary shares of £1 each were also allotted to Residual Interest Paragon Mortgages (No. 12) Holdings Limited on 19 June 2019, these shares were a quarter paid.

10. CREDITORS

	2022	2021
	£000	£000
Amounts falling due within one year:		
Other creditors	5	2
Accruals and deferred income	175	123
	<u>180</u>	<u>125</u>
Amounts falling due after more than one year:		
Residual certificates	6,642	13,519
Subordinated note	19,009	18,764
	<u>25,651</u>	<u>32,283</u>

The Company's securitisation borrowings are denominated in sterling. A maturity analysis and further details of the loan notes are given in note 11.

NOTES TO THE ACCOUNTS – ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

11. BORROWINGS

The Company issued £28,504,000 of Subordinated Notes on inception, which was decreased to £20,504,000 during 2020. During the current and preceding years nothing has been repaid. Interest is payable at the rate of 4% above the Sterling Over Night Index Average ('SONIA')

The Company issued £23,396,000 of Residual Certificates during 2020. The certificates do not bear interest and entitle the holder to the residual cash flows of the Company, payable quarterly. During the year £4,500,000 (2021: £5,800,000) was repaid, with a revaluation decreasing the principal by £2,600,000 (2021: £1,500,000).

All payments in respect of the securities are required to be made in sterling.

Securities in issue at 30 September 2022 were:

Notes	Maturity date	Principal outstanding		Note Margin	
		2022	2021	2022	2021
		£m	£m		
Residual certificates	Nov 2038	6.6	13.5	-	-
Subordinated notes	Nov 2038	19.0	18.8	4.00%	4.00%

All of the above notes are listed on the Channel Island Stock Exchange.

There are no amounts of committed but undrawn facilities at 30 September 2022 or 30 September 2021.

NOTES TO THE ACCOUNTS – ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

12. NET CASH FLOW FROM OPERATING ACTIVITIES

	2022 £000	2021 £000
Profit before tax	1	1
Non-cash items included in profit and other adjustments:		
Other non-cash movements on investments	2,105	1,191
Other non-cash movements on borrowings	(2,147)	(1,227)
Net increase in operating assets:		
Increase in debtors	(53)	(3)
Net increase in operating liabilities:		
(Decrease) / increase in creditors	55	(2)
Cash generated by operations	<u>(39)</u>	<u>(40)</u>
Income taxes (paid)	-	-
	<u>(39)</u>	<u>(40)</u>

13. NET CASH FLOW FROM INVESTING ACTIVITIES

	2022 £000	2021 £000
Expenditure on investments	-	-
Repayments	4,525	5,766
Net cash generated by investing activities	<u>4,525</u>	<u>5,766</u>

14. NET CASH FLOW FROM FINANCING ACTIVITIES

	2022 £000	2021 £000
Shares issued (note 9)	-	-
Issue of notes	-	-
Repayment of notes	(4,485)	(5,725)
Net cash generated by financing activities	<u>(4,485)</u>	<u>(5,725)</u>

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.

15. FINANCIAL RISK MANAGEMENT

The Company's operations are financed principally by a floating rate subordinated note and a residual certificate and, to a lesser extent, by share capital from the parent undertaking. The management of this capital is in accordance with the transaction documents under which it was issued. In addition, various financial instruments, for example debtors and accruals, arise directly from the Company's operations.

The principal risks arising from the company's operations are credit risk, liquidity risk and interest rate risk, the Company is managed within the parameters set out in the administration agreement. These policies have remained unchanged throughout the year.

Credit risk

The Company's credit risk is primarily attributable to its investments in subordinated loan and deferred purchase consideration. The repayment of these loans is dependent on the credit performance of the loan assets in PM12. The credit risk on these balances is managed through the management of the credit risk on loans to customers.

Liquidity risk

The Company's assets are funded by a mixture of loan notes and certificates issued. Details of the securities issued are shown in note 11. The issue of the securities effectively eliminates the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the assets to be funded.

Interest rate risk

The interest rate charged on the Company's subordinated note is determined by reference to sterling the Sterling Over Night Index Average ('SONIA') on notes denominated in sterling with a matching rate earned on the funded subordinated loan. This eliminates the Company's interest rate risk by matching the rate profile on the Company funded debt to assets to be funded.

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.

16. BASIS OF PREPARATION

The Company is required, by the Companies Act 2006 and the Listing Rules of the FCA, to prepare its financial statements for the year ending 30 September 2022 in accordance with UK-adopted international accounting standards. In the financial years reported on this also means, in the Company's circumstances, that the financial statements also accord with IFRS as approved by the International Accounting Standards Board.

In previous periods financial statements had been prepared under EU endorsed IFRS, however the change of framework does not change the substance of the requirements applying to the Company and no prior-year restatement of the financial statements is required.

The particular accounting policies adopted have been set out in note 17.

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.

17. ACCOUNTING POLICIES**Accounting convention**

The Financial Statements are prepared under the historical cost convention.

Going concern

The financial statements have been prepared on the going concern basis, as defined in IAS 1 – 'Presentation of Financial Statements'. In order to prepare financial statements on this basis the directors must conclude that the management does not intend to liquidate the Company or cease trading, and that the Company has the ability to continue to trade and will be able to satisfy its liabilities as they fall due.

The Company was established to hold the residual interests in PM12 (the Residual Interest), via a subordinated loan asset and residual certificates (note 7). It derives income from PM12 and will continue to do so as long as that company continues to trade.

In order to acquire the Residual Interests the Company issued Residual Certificates to an external party. The Residual Certificates give the holder the right to direct PM12 to refinance and repay its notes. Whilst the Company holds the Residual Interests in PM12 the effective exercise of this Option has been passed over to the external party by virtue of the rights issued within the Residual Certificates.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

17. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

If the option was exercised the Company would receive a final cashflow equivalent to the surplus funds of PM12 at that time, but would have no further entitlement to cash flows from either from the PM12 deferred consideration or the PM12 subordinated loan and would therefore have no sources of future income and would hence effectively cease trading.

The intention of the holders of the Residual Certificates in respect of the Option at the date of signing of these accounts is unknown and no decision to exercise the option has been communicated to the directors. The directors have no reason to believe that this option will be exercised.

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

However, the existence of the Option arrangements described above represents a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments which might be necessary if a different basis of preparation had been adopted.

In the paragraph above 'ability to continue as a going concern' is used as it is in IAS (UK) 570. The term 'ability to continue as a going concern' is equivalent to the term 'ability to adopt the going concern basis of accounting in the future'.

Cash at bank

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

Current tax

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

Revenue

The revenue of the Company comprises interest receivable and similar charges, derived from its investments in subordinated loans and deferred consideration. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

Investments*Subordinated loans*

Investments in subordinated loans generate interest at a fixed margin over a reference rate, based on the outstanding principal and are intended to be held to maturity. They are therefore accounted for on the amortised cost basis.

The investments were initially recognised at cost and income from these investments is recognised on the effective interest rate basis.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

17. ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Deferred consideration

Investments in cashflows arising from deferred consideration generate payments which vary with the underlying performance of the PM12 asset portfolio. They therefore do not comprise solely payments of principal and interest (“SPPI”), as defined by IFRS 9 and hence are accounted for at fair value through profit or loss (“FVTPL”).

The asset was originally recognised at cost and fair value is estimated on the basis of the forecast future deferred consideration cash flows arising from the PM 12 loan portfolio discounted using a funding rate derived on the basis of the funding rate implicit in the initial purchase consideration.

Fair value gains or losses on an ongoing basis are recognised as ‘interest receivable and similar charges’ in the profit and loss account.

Borrowings

Subordinated notes 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.

Residual certificates are carried in the balance sheet at fair value.

Amounts owed by or to group companies

The balances owed by the parent undertaking are carried at the current amount outstanding less any provision.

18. ULTIMATE PARENT UNDERTAKING

The Company’s immediate parent undertaking is Residual Interest Paragon Mortgages (No. 12) Holdings Limited.

The ultimate parent undertaking is Maples Fiduciary Services (UK) Limited who holds the entire share capital of Residual Interest Paragon Mortgages (No. 12) Holdings Limited on a discretionary trust basis for the benefit of certain charities.

Copies of Residual Interest Paragon Mortgages (No. 12) PLC and Residual Interest Paragon Mortgages (No. 12) Holdings Limited financial statements are available from those company’s registered office at 11th Floor, 200 Aldersgate Street, London, EC1A 4HD.