Company Registration No: 07036669

PARAGON COMMERCIAL FINANCE LIMITED

Report and Financial Statements

Year ended 30 September 2023

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 Paragon Commercial Finance 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

Paragon Commercial Finance Limited ('the Company') is a subsidiary of Paragon Banking Group PLC ('the Group'). As a result, the Company benefits from the focus and investment that its parent Paragon Bank PLC ('Paragon Bank') brings to the development of its asset finance business.

During the year the Company operated in the United Kingdom ('UK'). The principal activity of the Company is the financing of heavy-duty equipment such as plant and construction equipment.

Following the year end, on 1 October 2022 the Company sold the entire loan book to a fellow group company at the carrying value.

The Company's profit and loss account is shown on page 12. Net interest income has decreased from £5,096,000 to £90,000 due to a decrease in interest receivable on loans to customers. This is due to the loan book being sold during year. Other operating income has decreased from £286,000 to £nil due to a decrease in other leasing income and commissions. Operating expenses decreased from £3,737,000 to £nil due to a decrease in administrative expenses as the loan book was sold. As a result, the Company's profit before tax decreased from £632,000 to £90,000.

The balance sheet on page 13 of the Financial Statements shows the Company's financial position at the year end. Total loans and advances to customers decreased by 100% from £180,483,000 to £nil as a result amounts due to group companies decreased from £183,860,000 to £nil. Net assets have decreased which was due to the profit for the year being less than the interim dividend paid during the year.

The directors recommend no final dividend (2022: £nil) which, given the interim dividend of £38.00 per share (2022: £76.00 per share), means a total dividend for the year of £38.00 per share (2022: £76.00 per share).

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The assets of the Company were located entirely in the United Kingdom and its results were 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 assets over which the Company enjoys security to fall. It might also reduce the volume of completions and / or the yields achieved on new business.

The current year has seen both inflation and interest rates in the UK reach their highest levels for several years, with interest rates at the year end reaching their highest level since April 2008 and cost pressures on both consumers and business increasing. It is considered likely, that this will have an impact on investment levels and credit performance across the SME sector, however the Group has seen relatively minor impacts on its credit to date.

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.

The Company does not utilise derivative financial instruments.

STRATEGIC REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

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 19, a discussion of critical accounting judgements is set out in note 22 and a discussion of critical accounting estimates is set out in note 23.

GOING CONCERN

The directors' intention is that the Company will be wound up once its existing assets and liabilities are settled. The accounts have therefore been prepared on the basis that the Company is not a going concern. This is further discussed in note 21.

BOARD AND STAKEHOLDERS

The Board is mindful of its duty to act in good faith and to promote the long-term sustainable 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 2023, 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 (1) 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

The principal activity of the Company is to support the asset finance 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.

As a consequence, engagement with external shareholders 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, employees, the environment, the community and other stakeholders. More detail may be found in the 2022 Annual Report and Accounts of Paragon Banking Group PLC.

However, in considering items of business the Company makes autonomous decisions on each decision's own merits, after due consideration of those factors set out in section 172 of the Companies Act 2006, where relevant, and the stakeholders impacted.

Board meetings may be held periodically where appropriate for the directors to consider company business. The Board considers and discusses information from across the organisation to help it understand the impact of the Group's operations on, and the interests and views of, key stakeholders. In September 2022, a supplier satisfaction survey was undertaken to seek the views of third party suppliers on their experience with the Group and any recommendations for improvement. The results of the survey were analysed in the year and used in the further development of the Group's procurement systems and processes. The Board also reviews the Company's results and operational performance, as well as information covering areas such as dividend payments and legal and regulatory compliance.

STRATEGIC REPORT (CONTINUED)

SHAREHOLDERS

The Company has a single shareholder, , which is itself a wholly owned ultimate subsidiary of Paragon Banking Group PLC, the 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 arise from the Group's activities. The Company operates in accordance with group policies, which are described in the 2023 Annual Report of Paragon Banking Group PLC, which does not form part of this Report. Further information can also be found in the Group's 2023 Responsible Business Report (published on the Paragon Banking Group PLC website), which does not form part of this report (s172(1)(d)).

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 2023 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

16 February 2024

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The directors present the audited Financial Statements of Paragon Commercial Finance Limited, a company registered in England and Wales with registration no: 07036669, for the year ended 30 September 2023.

DIRECTORS

The directors throughout the year and subsequently were:

K McKeating	(resigned 1 November 2022)
J Taplin	(resigned 1 November 2022)
K Allen	
J E Phillipou	(appointed 1 November 2022)

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, including events taking place after the balance sheet date, 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 19 to the accounts
- Disclosure of 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

16 February 2024

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

- the strategic report includes a fair review of the development and performance of the business and the position of the issuer, 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 Company'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

16 February 2024

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PARAGON COMMERCIAL FINANCE LIMITED

Opinion

We have audited the Financial Statements of Paragon Commercial Finance Limited ("the Company") for the year ended 30 September 2023 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 24, including the accounting policies in note 21.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2023 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.

Emphasis of matter - non-going concern basis of preparation

We draw attention to the disclosure made in note [21] to the financial statements which explains that the financial statements have not been prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

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 and inspection of policy documentation as to the high-level policies and procedures of the Paragon Group (of which this company is a part) to prevent and detect fraud, including the Internal Audit function, and the Company's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Group Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Involving our forensics specialists in assessing the completeness and appropriateness of the identified fraud risk factors and associated fraud risks.

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 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 allowances on loans to customers, specifically relating to economic scenarios and qualitative adjustments in response to significant estimation that involves subjective judgments or uncertainties that are difficult to corroborate.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. This included searching for those journals posted and approved by the same user, journals posted to seldom used accounts, unbalanced journal postings 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 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 Group regulatory 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

16 February 2024

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2023

	Note	2023 £000	2023 £000	2022 £000	2022 £000
Interest receivable and similar income	2		90		9,900
Interest payable and similar charges	3		-		(4,804)
Net interest income			90		5,096
Other leasing income	4	-		953	
Related costs	4	-		(772)	
Net leasing income		-		181	
Other income	5	-		105	
Other operating income			-		286
Total operating income			90		5,382
Operating expenses	6		-		(3,737)
Provision for losses	11		-		(1,013)
Operating profit, being profit on ordinary activities before taxation			90		632
Tax on profit on ordinary activities	7		(446)		(410)
(Loss) / profit on ordinary activities after taxation			(356)		222

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 2023

	Note	2023 £000	2022 £000
ASSETS			
Cash at bank		-	494
Financial assets	8	-	180,483
Property, plant and equipment	12	-	4,731
Debtors	13	1,182	37
Deferred tax assets	14	-	780
Total assets		1,182	186,525
LIABILITIES			
Current tax liabilities		237	571
Creditors	15	60	184,147
Accruals		-	66
Total liabilities		297	184,784
SHAREHOLDER'S EQUITY			
Called up share capital	17	-	-
Profit and loss account		885	1,741
Total shareholder's equity		885	1,741
Total equity and liabilities		1,182	186,525

The financial statements of were approved by the Board of Directors on 16 February 2024.

Signed on behalf of the Board of Directors:

K G Allen
Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2023

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Loss for the year	-	(356)	(356)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(356)	(356)
Transactions with owners			
Dividends	-	(500)	(500)
Net movement in equity in the year	-	(856)	(856)
Opening equity	-	1,741	1,741
Closing equity	-	885	885

YEAR ENDED 30 SEPTEMBER 2022

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	222	222
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	222	222
Transactions with owners			
Dividends	-	(1,000)	(1,000)
Net movement in equity in the year	-	(778)	(778)
Opening equity	-	2,519	2,519
Closing equity	-	1,741	1,741

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2023

1. GENERAL INFORMATION

Paragon Commercial Finance 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 07036669. 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 four 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 2023

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2023 £000	2022 £000
Interest receivable in respect of		
Loans accounts	-	284
Finance leases	-	9,616
On loans to parent undertakings	90	-
Interest on loans	90	9,900

The above interest arises from:

	2023 £000	2022 £000
Financial assets held at amortised cost	90	284
Finance leases	-	9,616
	90	9,900

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2023 £000	2022 £000
On loans from parent undertakings	-	4,804

All interest payable due to the parent company relates to financial liabilities held at amortised cost.

4. NET OPERATING LEASE INCOME

	Note	2023 £000	2022 £000
Operating lease rentals		-	953
Depreciation of lease assets	12	-	(772)
Net operating lease income		-	181

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

5. OTHER INCOME

	2023 £000	2022 £000
Fee and commission income	-	47
Other operating income	-	58
	-	105

6. OPERATING EXPENSES

	2023 £000	2022 £000
Administrative expenses	-	3,737
	-	3,737

The Company's audit fee for the current year of £25,000 (2022: £43,000) was paid by the ultimate parent company, Paragon Banking Group PLC. 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.

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2023 £000	2022 £000
Current tax		
Corporation tax	20	571
Adjustment in respect of prior periods	(354)	(542)
Total current tax	(334)	29
Deferred tax (note 14)		
Origination and reversal of timing differences	329	(451)
Adjustment in respect of prior periods	421	955
Rate change	30	(123)
	780	381
Tax charge on profit on ordinary activities	446	410

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

b) Factors affecting the tax charge for the year

	2023 £000	2022 £000
Profit before tax	90	632
UK corporation tax at 22.0% (2022: 19.0%) based on the profit for the year	20	120
Effects of:		
Mismatch of timing differences	329	-
Change in tax rate	30	(123)
Prior period adjustments	67	413
Tax charge for the year	446	410

The standard rate of corporation tax in the UK applicable to the Company in the period was 22.0% (2022: 19.0%), based on currently enacted legislation. During the previous period, legislation was substantively enacted, that increased the rate to 25.0% with effect from 1 April 2023 resulting in an effective rate of 22.0% for the current period and 25.0% for future periods. Consequently, temporary differences at the balance sheet date reverse at 25.0%.

8. FINANCIAL ASSETS

	2023 £000	2022 £000
Loan accounts (note 9)	-	3,440
Finance lease receivables (note 10)	-	177,043
Loans to customers (note 11)	-	180,483

On 1 October 2022 the Company sold the entire loan book to a fellow group company at the carrying value.

9. LOAN ACCOUNTS

Loan accounts at 30 September 2023 and 30 September 2022, which are all denominated and payable in sterling, were:

	2023 £000	2022 £000
Government backed loans	-	3,440
Other loan accounts	-	-
	-	3,440

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

10. FINANCE LEASE RECEIVABLES

The minimum lease payments due under these loan agreements are:

	2023 £000	2022 £000
Amounts receivable under finance leases		
Within one year	-	67,589
Within one to two years	-	55,430
Within two to three years	-	41,329
Within three to four years	-	22,986
Within four to five years	-	8,638
After five years	-	2,337
	-	198,309
Less: future finance income	-	(18,467)
	-	179,842

The present values of those payments, net of provisions for impairment, carried in the accounts are:

	2023 £000	2022 £000
Amounts receivable under finance leases		
Within one year	-	61,295
Within one to two years	-	50,268
Within two to three years	-	37,481
Within three to four years	-	20,845
Within four to five years	-	7,833
After five years	-	2,120
	-	179,842
Allowance for uncollectable amounts	-	(2,799)
Present value of lease obligations	-	177,043

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. 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 8, which are accounted for under IFRS 16, but are 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.

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. 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, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of conditions at the balance sheet date. This may be the case where economic indicators at the reporting date and future expectations for those indicators lie outside the range of the observations used to construct the models. In such circumstances, management carefully review all outputs to ensure provision is adequate.

During the current financial year interest rates have risen to their highest levels in some time, and with unusual speed. Rates of inflation in the UK have been subject to significant fluctuations in the year, reaching 9.6% in October 2022, which the ONS suggested was a forty-year high point. This type of economic environment is not significantly represented in the historic data sets used by the Group to construct its IFRS 9 impairment models. It was also noted that the rate of change in the economic situation over the year might lead to a lagging impact on the credit bureau data which forms an input to models of customer behaviour, which may delay the recognition of an account potentially at risk.

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

Significant Increase in Credit Risk ('SICR')

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. 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 2023 or 30 September 2022, and hence no additional accounts were identified as having an SICR.

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 asset-based finance loans, portfolios are assessed on a case-by-case basis, 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.

Credit Impaired loans

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

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Credit Impaired loans (continued)

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

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

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

Monitoring of ECL estimation processes

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

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

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

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

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

Model development

The models used by the Group are updated from time to time to allow for changes in the business, developments in best practice and the availability of additional data with the passing of time.

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.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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.

In the year ended 30 September 2023 the most significant factors in these considerations were the extent to which uncertainties in the UK economy arising from rapidly rising interest rates, increases in the cost of living and doing business in the UK and the impacts of the continuing conflict in Ukraine were reflected in current customer performance at the period end and were being fully addressed by the Group's provision modelling, particularly in view of the lack of recent observations relating to similar conditions.

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.

The Group's approach to impairment modelling is based on the analysis of historical credit data. 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.

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 and broker feedback, insight surveys, industry intelligence, evidence on the wider economy and quantitative and qualitative data and statements from industry, government and regulatory bodies. These were combined with the expert knowledge within the business 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.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments by Stage

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

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

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

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

	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
30 September 2023				
Gross loan book	-	-	-	-
Impairment provision	-	-	-	-
Net loan book	-	-	-	-
Coverage ratio	0.00%	0.00%	0.00%	0.00%

	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
30 September 2022				
Gross loan book	181,719	1,015	620	183,354
Impairment provision	(2,744)	(18)	(109)	(2,871)
Net loan book	178,975	997	511	180,483
Coverage ratio	1.51%	1.77%	17.58%	1.57%

* 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. However, these broad categorisations may vary between different product types.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. 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 and impairment provision in stage 2 have decreased across all categories as a result of the loans being sold to another group company during the year.

	< 1 month arrears	**Recent arrears**	**> 1 <= 3 months arrears**	**Total**
	£000	**£000**	**£000**	**£000**
30 September 2023				
Gross loan book	-	-	-	-
Impairment provision	-	-	-	-
Net loan book	-	-	-	-
Coverage ratio	0.00%	0.00%	0.00%	0.00%
30 September 2022				
Gross loan book	462	-	553	1,015
Impairment provision	(13)	-	(5)	(18)
Net loan book	449	-	548	997
Coverage ratio	2.81%	0.00%	0.90%	1.77%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. 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')
- 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.

The value of accounts and impairment provisions in stage 3 has decreased across all categories as a result of the loans being sold to another group company during the year.

	Probation	**> 3 month arrears**	**Realisations**	**Total**
	£000	**£000**	**£000**	**£000**
30 September 2023				
Gross loan book	-	-	-	-
Impairment provision	-	-	-	-
Net loan book	-	-	-	-
Coverage ratio	0.00%	0.00%	0.00%	0.00%
30 September 2022				
Gross loan book	-	-	620	620
Impairment provision	-	-	(109)	(109)
Net loan book	-	-	511	511
Coverage ratio	0.00%	0.00%	17.58%	17.58%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

The exposure at default in the calculation shown above for stage 3 accounts is reduced by £nil (2022: £466,000) in respect of the value of security given by customers. The estimated value of the security represents, for each account, the lesser of the valuation estimate and the exposure value in the central economic scenario. Security values are based on the most recent valuation of the relevant asset held by the Company, depreciated as appropriate.

Movements in impairment provision by stage

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

	2023	**2022**
	£000	**£000**
At transition – 1 October 2022	2,871	2,060
Assets sold	(2,871)	-
Provided in period	-	1,014
Amounts written off	-	(203)
At 30 September 2023	-	2,871

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 2023 enforceable contractual balances of £nil (2022: £nil) were outstanding on assets written off in the period. This will exclude those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances will be kept under review for operational purposes but no amounts will be recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

A more detailed analysis of these movements by IFRS 9 stage for the year ended 30 September 2023 and 30 September 2022 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 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
Loss allowance at 1 October 2022	2,744	18	109	2,871
New assets originated or purchased	-	-	-	-
Changes in loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Changes on stage transfer	-	-	-	-
Changes due to credit risk	-	-	-	-
Write offs	-	-	-	-
Assets derecognised	(2,744)	(18)	(109)	(2,871)
Loss allowance at 30 September 2023	-	-	-	-
Loss allowance at 1 October 2021	1,792	11	257	2,060
New assets originated or purchased	267	-	-	267
Changes in loss allowance				
Transfer to stage 1	14	(11)	(3)	-
Transfer to stage 2	(33)	33	-	-
Transfer to stage 3	(23)	-	23	-
Changes on stage transfer	(13)	(19)	149	117
Changes due to credit risk	740	4	(114)	630
Write offs	-	-	(203)	(203)
Assets derecognised	-	-	-	-
Loss allowance at 30 September 2022	2,744	18	109	2,871

During the year ended 30 September 2023 the impairment allowance decreased to nil, due to the loans being sold to a fellow group company during the year.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1 £000	Stage 2 * £000	Stage 3 * £000	Total £000
Balances at 1 October 2022	181,719	1,015	620	183,354
New assets originated or purchased	-	-	-	-
Changes in staging				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Redemptions and repayments	-	-	-	-
Assets derecognised	(181,719)	(1,015)	(620)	(183,354)
Write offs	-	-	-	-
Other changes	-	-	-	-
Balance at 30 September 2023	-	-	-	-
Loss allowance	-	-	-	-
Carrying value	-	-	-	-
Balances at 1 October 2021	164,828	1,459	930	167,217
New assets originated or purchased	110,931	-	-	110,931
Changes in staging				
Transfer to stage 1	1,109	(1,045)	(64)	-
Transfer to stage 2	(674)	674	-	-
Transfer to stage 3	(717)	-	717	-
Redemptions and repayments	(104,429)	(56)	(433)	(104,918)
Assets derecognised	-	-	-	-
Write offs	-	-	(203)	(203)
Other changes	10,671	(17)	(327)	10,327
Balance at 30 September 2022	181,719	1,015	620	183,354
Loss allowance	(2,744)	(18)	(109)	(2,871)
Carrying value	178,975	997	511	180,483

Other charges includes interest and similar charges.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments charged to income

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

	2023 £000	2022 £000
Provided in period	-	810
Written off amounts	-	203
	-	1,013

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 the same 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 2023 forecasting cycle (the 'October reforecast'), the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2022, with the starting point of the scenario updated to reflect the actual movements of economic variables in the year.

The general trend of the Group's central forecasts follows that published by the Bank of England in August 2023, however the Group has taken a more pessimistic position than the Bank. Monetary policy is forecast to remain tight, with pressure on real incomes, leading to minimal growth, rising unemployment and a slow decline in inflation. As a result interest rates are forecast to remain stable, with a short-term decline in property values.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Compared to the central scenario adopted at 30 September 2022, the new central forecast is generally more pessimistic across most variables, with a much more severe decline in house prices than in the earlier scenario and a more prolonged period of elevated interest rates. The scenario also begins from the actual September 2023 economic position, so the interest rate rises, increased inflation and house price falls observed in the period are included in the starting position.

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 forecast period, with the upside scenario having a more rapid reduction in inflation, leading to a faster reduction in base rates and a stronger recovery. The downside includes traditional recessionary factors with additional pressure on house prices and rising unemployment, with interest rates being reduced more rapidly in response.

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 ('ACS') being used at 30 September 2023. This scenario is based on a pronounced recession with interest rates remaining high, rising unemployment and a slump in house prices.

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 maintain the scenario weightings used at 30 September 2022. While the economic outlook is more settled than it was twelve months earlier there remains a significant divergence in opinions on the likely outlook for the UK economy, with a potential for serious downside outcomes. This supports the maintenance of the September 2022 weightings.

The weightings attached to each scenario are set out below

	2023	**2022**
Central scenario	40%	40%
Upside scenario	10%	10%
Downside scenario	30%	30%
Severe scenario	20%	20%
	100%	100%

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

11. 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 2023

	Central scenario		**Upside scenario**		**Downside scenario**		**Severe scenario**	
	Max %	**Min %**	**Max %**	**Min %**	**Max %**	**Min %**	**Max %**	**Min %**
Economic driver								
GDP	1.2	0.3	2.3	0.9	1.2	(0.8)	1.2	(5.0)
HPI	4.4	(8.2)	7.4	(3.1)	4.1	(13.4)	7.2	(16.4)
BBR	5.5	4.0	5.3	3.5	5.8	2.0	6.0	3.3
CPI	5.0	1.5	4.3	1.8	6.0	0.4	17.0	2.0
Unemployment	6.0	4.5	4.8	3.8	7.0	5.0	8.5	5.2
Secured lending	3.0	-	3.8	0.8	3.0	(0.8)	3.0	(2.0)
Consumer credit	5.0	2.0	5.8	2.8	5.0	1.3	5.0	-

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)

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

12. PROPERTY, PLANT AND EQUIPMENT

	Cars, fixture and fittings £000	Office and computer equipment £000	Equipment on Operating Lease £000	Total £000
Cost				
At 1 October 2022	-	-	5,688	5,688
Transferred to a fellow group company	-	-	(5,668)	(5,668)
Additions	-	-	-	-
Disposals	-	-	-	-
At 30 September 2023	-	-	-	-
Accumulated depreciation				
At 1 October 2022	-	-	957	957
Transferred to a fellow group company	-	-	(957)	(957)
Charge for the year	-	-	-	-
Disposals	-	-	-	-
At 30 September 2023	-	-	-	-
Net book value				
At 30 September 2023	-	-	-	-
At 30 September 2022	-	-	4,731	4,731

13. DEBTORS

	2023 £000	2022 £000
Amounts falling due within one year:		
Amounts due to group companies	1,182	-
Trade debtors	-	13
Other debtors	-	24
Sundry financial assets	1,182	37
Prepayments and accrued income	-	-
	1,182	37

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

14. DEFERRED TAX

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

	2023 £000	2022 £000
Balance at 1 October 2022	780	1,161
Prior year profit and loss charge (note 7)	(421)	(955)
Profit and loss credit (note 7)	(329)	451
Rate change (note 7)	(30)	123
Balance at 30 September 2023	-	780

The net deferred tax asset for which provision has been made is analysed as follows:		
Accelerated tax depreciation	-	780
Other timing differences	-	-
	-	780

15. CREDITORS

	2023 £000	2022 £000
Amounts falling due within one year:		
Amounts due to group companies	-	183,860
Other creditors	60	287
Sundry financial liabilities	60	184,147

Borrowings from group companies comprises intercompany loans for day to day business and are repayable on demand.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

16. LEASING ARRANGEMENTS

As Lessor

The Company, through its asset finance businesses, leases assets under both finance and operating leases. In respect of certain of these assets.

Disclosures in respect of these balances are set out in these financial statements as follows

Disclosure	Note
Investment in finance leases	10
Finance income on net investment in finance leases	2
Assets leased under operating leases	12
Operating lease income	4

The undisclosed future minimum lease payments receivable by the Company under operating lease arrangements may be analysed as follows:

	2023 £000	2022 £000
Amounts falling due:		
Within one year	-	2,619
Within one to two years	-	1,410
Within two to three years	-	536
Within three to four years	-	307
Within four to five years	-	-
After more than five years	-	-
	-	4,872

17. CALLED UP SHARE CAPITAL

	2023 £	2022 £
Allotted:		
13,100 ordinary shares of £0.01 each (fully paid)	131	131

NOTES TO THE ACCOUNTS – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2023

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.

18. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Company provides a range of leasing and lending products to its clients and funds these activities by means of intercompany borrowings. The intercompany loans are made available to the Company at a fixed rate which minimises the interest rate risk. As follows:

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The board of the Company's holding company reviews and agrees policies for all companies in the group managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period and since the period end.

The identification, measurement and containment of risk is integral to the management of the Company's business. Risk policies and procedures are regularly updated to meet changing business requirements.

Credit risk

Credit risk arises from all exposures to customers on the Company's leasing and lending activities. The Company Board establishes underwriting limits, reviews concentrations and establishes procedures on credit decisions. Transactions that exceed the Company's own limits are then passed to the immediate parent for a decision. Regular meetings review major exposures and levels of default together with other credit issues. Concentration limits are set for exposure by asset type.

Exposure to credit risk is managed by detailed analysis of the customer's position prior to entering into an exposure, and by continued monitoring thereafter. The Company places significant emphasis on the value of the assets involved in the transaction; the Company monitors the value of the assets. For internal monitoring purposes, credit exposure on leases and loans are measured as the principal amount outstanding plus accrued interest.

The Company reviews credit exposures on leases and other lending products on a quarterly basis and for this purpose they are classified as 'Impaired' or 'Up to date', reflecting the risk of default and the estimate of loss in the event of default. The circumstances in which a financial asset is considered to be impaired are described in note 21.

The assets of the Company which are subject to credit risk are set out below:

	Note	**2023** **£000**	**2022** **£000**
Financial assets	8	-	180,483
Cash		-	494
Trade debtors	13	-	13
Maximum exposure to credit risk		-	180,990

NOTES TO THE ACCOUNTS – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2023

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Company has title to the plant and equipment that it leases. The fair value of the equipment on the lease is not considered to be significantly different to the net investment in the leases.

The Company monitors concentrations of credit risk by industry sector and exposure to asset type. The tables below show an analysis of loans and advances to customers by sector and asset type.

Credit risk by industry sector	2023 %	2022 %
Commercial vehicles	-	19.5
Construction plant	-	63.0
Technology	-	0.3
Manufacturing	-	2.4
Other vehicles	-	2.3
Agriculture	-	5.2
Other	-	7.3
Total	-	100.0

RLS, CBILS and BBLS

Loans under these schemes, which were launched in the current and preceding years as a response to the impact of Covid on UK SMEs, have the benefit of guarantees underwritten by the UK Government.

CBILS and BBLS were launched in 2020 and remained open for new applications until March 2021. RLS was launched in April 2021 as a successor scheme and is expected to be available until December 2021.

The Company offered term loans and asset finance loans under the CBIL scheme. Interest and fees are paid by the UK Government for the first twelve months and the government guarantee covers up to 80% of the lender's principal loss after the application of any proceeds from the asset financed (if applicable).

Loans under the BBL scheme are six year term loans at a standard 2.5% per annum interest rate. The UK Government pays the interest on the loan for the first twelve months and provides lenders with a guarantee covering the whole outstanding balance.

The Company offers term loans and asset finance loans under the RLS. Interest and fees are payable by the customer from inception. The Government guarantee covers up to 80% of the lender's principal loss up, after the application of any proceeds from the asset financed (if applicable).

NOTES TO THE ACCOUNTS – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2023

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's outstanding RLS, CBILS and BBLS loans at 30 September 2023 and 30 September 2022 were:

	2023 £000	2022 £000
RLS		
Term loans	-	218
Asset finance	-	8,371
Total RLS	-	8,589
CBILS		
Term loans	-	1,966
Asset finance	-	9,403
Total CBILS	-	11,369
BBLS	-	1,227
Total	-	21,185

At 30 September 2023, all of these accounts were considered to be performing accounts, (2022: all).

Interest rate risk

The Company's assets are effectively fixed rate exposures and it is funded through fixed rate borrowings from other Group entities. Its interest rate risk is therefore immaterial.

Liquidity risk

It is the Company's policy to ensure that adequate resources are available at all times to provide for the day to day activities of the Company and to meet regulatory requirements. Management considers the period end position satisfactorily reflects the policies and objectives set out above.

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

This responsibility rests with the Assets and Liability Committee which sets the Group's liquidity policy and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times

NOTES TO THE ACCOUNTS – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2023

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS 7 – 'Financial Instruments: Disclosures' requires that where assets are measured at fair value these measurements should be classified using a fair value hierarchy reflecting the inputs used, and defines three levels.

- Level 1 measurements are unadjusted market prices,
- Level 2 measurements are derived from observable data, such as market prices or rates,
- Level 3 measurements rely on significant inputs which are not derived from observable data.

As quoted prices are not available for level 2 and 3 measurements, the valuation is derived from cash flow models based, where possible, on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

All financial assets and liabilities in the Company's balance sheet are carried at amortised cost. The carrying values and the fair values are not materially different.

The Company had no financial assets or liabilities in the year ended 30 September 2023 or the year ended 30 September 2022 valued using level 3 measurements.

The Company has not reclassified any of its measurements during the period.

The methods by which fair value is established for each class of financial assets and liabilities is set out below.

Cash and bank loans

The fair values of cash and cash equivalents, bank loans and overdrafts are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets mature within three months of the period end, little difference arises. This also applies to the parent company's loans to its subsidiaries.

Loan assets

To assess the likely fair value of the Company's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Company's investments in its loans to customers based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. The directors consider that the fair value of the loan assets is not materially different from the carrying value. Given the mixture of observable and non-observable inputs these are considered to be level 2 measurements.

Market prices are not, however, available for certain financial assets and liabilities held or issued by the Company. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

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.

20. 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.

The particular accounting policies adopted have been set out in note 21 and the critical accounting judgements and estimates which have been regarded in preparing these financial statements are described in notes 22 and 23 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.

Disclosures

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

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

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

20. BASIS OF PREPARATION (CONTINUED)

Disclosures (continued)

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

- Certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company.

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

21. ACCOUNTING POLICIES

The particular policies applied by the Company in preparing these financial statements in accordance with the measurements and recognition requirements of UK-IAS are described below.

Accounting convention

The financial statements have been prepared under the historical cost convention.

Going concern

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

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

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

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.

Leases

For leases where the Company is the lessee a right of use asset is recognised in property plant and equipment on the inception of the lease based on the discounted value of the minimum lease payments at inception. A lease liability of the same amount is recognised at inception, with the unwinding of the discount included in the interest payable.

Leases where the Company is lessor are accounted for as operating or finance lease in accordance with IFRS 16 – 'Lease'. A finance lease is one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

Finance lease receivables are accounted for as loans to customers, with impairment provisions determined in accordance with IFRS 9.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

21. ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Rental income and costs on operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease term. The associated assets are included within property plant and equipment.

Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for impairment.

Income from finance lease contracts is governed by IFRS 16 – 'Leases' and accounted for on the actuarial basis.

Impairment of loans and receivables

The carrying values of all loans to customers, whether accounted for under IFRS 9 or IFRS 16, are reduced by an impairment provision based on their expected credit loss ('ECL'), determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

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

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

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

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

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

21. 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.

Amounts owed by or to group companies

In the accounts of the Company, balances owed by or to other group companies are carried at the current amount outstanding less any provision. Where balances owing between group companies fall within the definition of either financial assets or financial liabilities given in IAS 32 – 'Financial Instruments: Presentation' they are classified as assets or liabilities at amortised cost, as defined by IFRS 9.

Property, plant and equipment

All tangible assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is calculated using the straight-line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

Cars	3-4 years
Commercial vehicles	2-7 years
Computer & Office Equipment	2-5 years
Furniture and fittings	2-5 years
Plant and machinery	3-5.33 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These gains and losses are recognised in the profit and loss.

Impairment of tangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, tangible assets are assessed for indications of impairment. If such indications are present, these assets are subject to an impairment review. If impaired, the carrying values of assets are written down by the amount of any impairment and the loss is recognised in the statement of comprehensive income in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset is only increased up to the amount that it would have been had the original impairment not been recognised.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

21. ACCOUNTING POLICIES (CONTINUED)

Residual Values

Management use a combination of historic experience and future projections to estimate the appropriate residual value for particular vehicles or items of plant and equipment.

Financial liabilities

All financial liabilities are carried at amortised cost.

Current tax

The charge for taxation represents the expected UK corporation tax and other income taxes arising from the Company's profit for the year. This consists of the current tax which will be shown in tax returns for the year and tax deferred because of temporary differences. This in general, represents the tax impact of items recorded in the current year but which will impact tax returns for periods other than the one in which they are included in the financial statements.

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 interest receivable and similar charges, operating lease income and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

Financing costs

Interest payable arises on borrowings used to fund the Company's business and is recognised in the profit and loss using the effective interest rate method.

Other income

Other income, which is accounted for in accordance with IFRS 15, includes:

- Event-based administration fees charged to borrowers (other than the initial fees included in amortised cost), which are credited when the related service is performed
- Profit generated on the sale of fixed assets

Broker fees receivable on the arrangement of loans funded by third parties, on an agency basis, which are taken to profit at the point of completion of the related loan

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

22. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 21 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 11.

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 Company'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 Company's definition of default adopted is given in note 11.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

23. 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 and qualitative information, such as information on corporate performance or intended or current enforcement activity.

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 charged assets. These cash flows will include payments received from the customer. 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 2023 there is little recent history against which to benchmark likely customer behaviour. Interest rates have risen to higher levels, at a more rapid rate than at any time in recent history. UK base rates had reached 5.25% at the balance sheet date, a level they had not touched since April 2008, since when significant regulatory intervention in the UK's lending markets has taken place.

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 asset values, over and above any assumed by the model might increase the provision required in respect of accounts currently provided. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

In order to provide forward looking economic inputs to the modelling of the ECL, the Group must derive a set of scenarios which are internally coherent. The Group addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes. As noted above, there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK, although these have converged, to some extent, over the twelve months since 30 September 2022, when the impact of the September 2022 mini-budget had significantly broadened the range of plausible outcomes.

23. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Impairment losses on loans to customers (continued)

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

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, 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. The nature and amounts of these judgemental adjustments are set out in note 11.

The position after considering all these matters is set out in note 11.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

23. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

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.

24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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