Company Registration No: 02189858

PARAGON ASSET FINANCE LIMITED

Report and Financial Statements

Year ended 30 September 2021

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 Paragon Asset Finance Limited. 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. 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 these forward-looking statements other than in accordance with its legal or regulatory obligations (including under the Market Abuse Regulation, UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority).

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 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, such as the Novel Coronavirus 19 ('Covid') pandemic and ongoing challenges and uncertainties posed by the Covid pandemic for businesses and governments around the world, including the duration, spread and any recurrence of the Covid pandemic and the extent of the impact of the Covid pandemic 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 Group operates) and the consequences thereof (including, without limitation, actions taken as a result of the Covid pandemic); actions by the Company's competitors or counterparties; third party, fraud and reputational risks inherent in its operations; the UK's exit from the European Union ('EU'); unstable economic conditions and market volatility, including currency fluctuations; the risk of a global economic downturn; 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 Asset 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.

The principal activities of the Company are to act as the treasury and head office function for the asset finance subsidiaries and the provision of outsourcing services.

The Company recorded a profit for the year before tax of £36,002,000 (2020: £9,404,000). £30,700,000 dividend was received during the year (2020: £5,000,000).

During the year 75,000,000 (2020: nil) Ordinary shares of £1 each were subscribed for at par by the parent company.

An interim dividend of £nil per share was paid during the year (2020: £20.20 per share). No final dividend is proposed (2020: £nil).

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The assets of the Company are located entirely in the United Kingdom and its results are therefore impacted by the economic environment within the UK. A material downturn in economic performance could increase the numbers of customers who default on loans and / or cause the values of the 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 UK economy in the current year has been impacted significantly by the effects of the Covid virus. This has caused major economic disruption within the UK and global economy but has also driven governments and regulators to offer unprecedented levels of support to businesses and consumers, aimed at mitigating its impact.

The Company has put contingency plans in place to ensure that it can continue to service its customers and manage its ongoing business. However, should the pandemic have significant long-term impacts on the UK economy then this would significantly impact the Company's future cash flows and performance.

Together with continuing uncertainty arising the potential impact economic impact of the UK's withdrawal from the European Union, the Covid pandemic has made the long-term economic prospects for the UK and their impacts on the Company much difficult to forecast.

The Company does not utilise derivative financial instruments.

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.

STRATEGIC REPORT (CONTINUED)

GOING CONCERN

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

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

In compiling the most recent forecast, for the period commencing 1 October 2021, particular attention was paid to the potential consequences of Covid on the Group's operations, customers, funding and prospects, both in the short and longer term. This included consideration of a number of different scenarios with impacts of varying duration and severity. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October in light of the continuing development of the Covid crisis, based on updated external projections. Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products. After considering the Company's position, the economic environment and the forecasts described above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. This is further supported, at Group level by the ability to access Bank of England schemes designed to support lending to SME businesses. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

BOARD AND STAKEHOLDERS

The Board is mindful of its duty to act in good faith and to promote the success of the Group for the benefit of its shareholders and with regard to the interests of all its stakeholders. The Board confirms that, for the year ended 30 September 2021, it has acted to promote the success of the Company for the benefit of its members as a whole and continues to have due regard to the following matters (as per section 172 of the Companies Act 2006):

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

b. The interests of the Company's employees

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

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

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

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 as mentioned above, including those relating to fair treatment of customers, standards of business conduct, employees, the environment, the community and other stakeholders. More detail may be found in the Paragon Banking Group PLC 2021 Annual Report and Accounts.

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

STRATEGIC REPORT (CONTINUED)

BOARD AND STAKEHOLDERS (CONTINUED)

Board meetings may be held periodically where necessary 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, and the interests and views of key stakeholders. It also reviews strategy, financial, and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance.

SHAREHOLDERS

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

EMPLOYEES

The directors recognise the benefit of keeping employees informed of the progress of the business. Employees have been provided with regular information on the performance and plans of the Group and the financial and economic factors affecting it, through both information circulars and management presentations (s172 (1)(b)).

The directors encourage employee involvement at all levels through the staff appraisal process, the Group's People Forum, the Group's Equality, Diversity and Inclusion network (launched in October 2020), employee engagement and pulse surveys and regular communication between directors, managers, teams, and individual employees.

The Company participates in a Sharesave share option scheme and a profit-sharing scheme, both of which enable eligible employees to benefit from the performance of the business.

The Company operates in accordance with group employment policies which, together with additional information on the operations of the People Forum, employee consultation arrangements and key metrics on the workforce, are described in the Paragon Banking Group PLC Annual Report, which does not form part of this Report.

EMPLOYMENT OF DISABLED PERSONS

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The Company has continued its policy of providing appropriate training and career development to such persons.

STRATEGIC REPORT (CONTINUED)

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

K G Allen
Director
21 January 2022

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 Asset Finance Limited, a company registered in England and Wales with registration no: 02189858, for the year ended 30 September 2021.

DIRECTORS

The directors throughout the year and subsequently were:

K G Allen

D Newcombe

R D Shelton (resigned 3 February 2021)

J E Phillipou

R J Woodman

AUDITOR

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

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

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

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 19 to the accounts
- Disclosure on any dividends paid during the year is included in the Strategic Report

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

21 January 2022 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 the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) in conformity with the requirements of the Companies Act 2006 and applicable law.

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- 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 Company and enable them to ensure that the 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.

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

K G Allen

Director

21 January 2022

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

Opinion

We have audited the Financial Statements of Paragon Asset Finance Limited ("the company") for the year ended 30 September 2021 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 23, including the accounting policies in note 22.

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2021 and of the company's profit for the year then ended;
- the company's financial statements have been properly prepared in accordance with International accounting standards in conformity with the requirements of the companies act 2006.
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.
- However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

Our risk assessment procedures included:

- Enquiring of directors, Internal Audit and inspection of policy documentation as to the 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.
- Inspecting Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, 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 such as loan loss provisioning.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted and approved by the same user.
- Assessing significant accounting estimates for bias.

We discussed with the Audit Committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of noncompliance 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 licence to operate. We identified the following areas as those most likely to have such an effect: conduct, money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Directors matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PARAGON ASSET FINANCE LIMITED
(CONTINUED)

Directors' responsibilities

As explained more fully in their statement set out on page 7 the directors are responsible for: the preparation of the financial statements 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

21 January 2022

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £000	2020 £000
Interest receivable and similar income	2	14,938	14,821
Interest payable and similar charges	3	(10,176)	(10,384)
Net interest income		4,762	4,437
Other operating income	4	32,301	7,606
Total operating income		37,063	12,043
Operating expenses	5	(1,061)	(2,639)
Operating profit, being profit on ordinary activities before taxation		36,002	9,404
Tax on profit on ordinary activities	6	(965)	(820)
Profit on ordinary activities after taxation		35,037	8,584

All activities derive from continuing operations.

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

BALANCE SHEET

30 SEPTEMBER 2021

	Note	2021 £000	2020 £000
ASSETS			
Cash at bank		51	230
Investments	7	35,151	33,671
Debtors	8	644,009	574,514
Property, plant and equipment	9	-	431
Intangible assets	10	-	116
Deferred tax assets	11	97	79
Total assets		679,308	609,041
LIABILITIES			
Creditors	12	536,799	577,443
Accruals and deferred income		785	67
Current tax liabilities		937	781
Total liabilities		538,521	578,291
SHAREHOLDER'S EQUITY			
Called up share capital	14	75,248	248
Profit and loss account		65,539	30,502
Total shareholder's equity		140,787	30,750
Total equity and liabilities		679,308	609,041

The financial statements were approved by the Board of Directors on 21 January 2022.

Signed on behalf of the Board of Directors:

K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2021

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	35,037	35,037
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	35,037	35,037
Transactions with owners			
Issue of shares	75,000	-	75,000
Dividends	-	-	-
Net movement in equity in the year	75,000	35,037	110,037
Opening equity	248	30,502	30,750
Closing equity	75,248	65,539	140,787

YEAR ENDED 30 SEPTEMBER 2020

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	8,584	8,584
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	8,584	8,584
Transactions with owners			
Dividends	-	(5,000)	(5,000)
Net movement in equity in the year	-	3,584	3,584
Opening equity	248	26,918	27,166
Closing equity	248	30,502	30,750

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2021

1. GENERAL INFORMATION

Paragon Asset 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 02189858. 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
- Employment costs – providing information on employee and key management remuneration arrangements including share schemes
- 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 2021

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

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 £000	2020 £000
On loans to other group companies	14,938	14,821

Interest receivable arises from financial assets held at amortised cost.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £000	2020 £000
On loans from parent undertakings	10,164	10,370
Other interest	2	3
Discounting on lease liabilities	10	11
	10,176	10,384

All interest payable on financial liabilities relates to financial liabilities held at amortised cost.

4. OTHER OPERATING INCOME

	2021 £000	2020 £000
Dividend income	30,707	5,000
Fee and commission income	1,594	2,606
	32,301	7,606

5. OPERATING EXPENSES

	2021 £000	2020 £000
Staff Costs (note 16)	819	1,489
Administrative expenses	(210)	766
Audit fees relating to the Company	-	55
Depreciation on operating assets (note 9)	452	166
Amortisation of intangible assets (note 10)	-	163
	1,061	2,639

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

5. OPERATING EXPENSES (CONTINUED)

The Company's audit fee for the current year of £63,000 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.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2021	**2020**
	£000	**£000**
Current tax		
Corporation tax	992	842
Adjustment in respect of prior periods	(9)	(29)
Total current tax	983	813
Deferred tax (note 11)		
Origination and reversal of timing differences	13	(5)
Adjustment in respect of prior periods	(8)	20
Rate change	(23)	(8)
	(18)	7
Tax charge on profit on ordinary activities	965	820

b) Factors affecting the tax charge for the year

	2021	**2020**
	£000	**£000**
Profit before tax	36,002	9,404
UK corporation tax at 19% (2020: 19%) based on the profit for the year	6,840	1,787
Effects of:		
Tax exempt revenues	(5,835)	(950)
Change in tax rate	(23)	(8)
Prior period adjustments	(17)	(9)
Tax charge for the year	965	820

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The standard rate of corporation tax in the UK applicable to the Company in the period was 19.0% (2020: 19.0%), based on currently enacted legislation. During the previous period, legislation was substantively enacted, reversing the reduction in the tax rate to 17.0% which had been due to come into effect from April 2020. In the current period legislation was substantially enacted that will increase the rate to 25% with effect from 1 April 2023. Consequently, temporary differences which had been expected to reverse at a tax rate of 19% in the current year or in subsequent years, have either reversed or are expected to reverse at 19% in the year ended 30 September 2022, 22% in the year ended 30 September 2023 or 25% in subsequent years. The impact of this change has been accounted for in the year.

7. INVESTMENTS

	Shares in group companies £000	Loans to group companies £000	Total £000
At 1 October 2019	20,170	9,738	29,908
Investments in subsidiaries	-	-	-
Loans advanced	-	3,828	3,828
Loans repaid	-	(65)	(65)
At 30 September 2020	20,170	13,501	33,671
Investments in subsidiaries	1,204	-	1,204
Loans advanced	-	343	343
Loans repaid	-	(67)	(67)
At 30 September 2021	21,374	13,777	35,151

The principal subsidiary undertakings of the Company are detailed below. All the principal subsidiary undertakings are registered in England and Wales except where otherwise indicated.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

7. INVESTMENTS (CONTINUED)

	Percentage held 2021	Percentage held 2020
Paragon Technology Finance Limited	100%	100%
PBAF No.1 Limited	100%	100%
Premier Asset Finance Limited	100%	100%
Homer Management Limited	100%	100%
Lease Portfolio Management Limited	100%	100%
Capital Professions Finance Limited	100%	100%
Fineline Holdings Limited	100%	100%
Fineline Media Finance Limited	100%	100%
Specialist Fleet Services Limited	100%	100%
State Securities Holdings Limited	100%	100%
Paragon Business Finance Plc	100%	100%
State Security Limited	100%	100%
PBAF Acquisitions Limited	0%	100%
City Business Finance Limited	100%	100%
Collet Transport Services Limited	100%	100%
Paragon Commercial Finance Limited	100%	80%

The ordinary shares of Homer Management Limited are held by Paragon Bank Technology Finance Limited, a wholly owned subsidiary of the Company. The ordinary shares of State Security Limited are held by Paragon Business Finance PLC a wholly owned subsidiary of the Company. The ordinary shares of Collett Transport Services Limited are held by Specialist Fleet Services Limited, a wholly owned subsidiary of the Company. The ordinary shares of Premier Asset Finance Limited are held by PBAF No. 1 Limited, a wholly owned subsidiary of the Company.

During the year the shares of PBAF Acquisitions Limited were transferred to another group company, Paragon Bank PLC and the Company acquired the remaining share capital of Paragon Commercial Finance Limited.

The registered office of each of the entities listed in this note is the same as that of the Company (note 1).

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

8. DEBTORS

	2021 £000	2020 £000
Amounts falling due within one year:		
Amounts due from group companies	643,772	573,477
Trade debtors	164	669
Other debtors	1	1
Sundry financial assets	643,937	574,147
Prepayments and accrued income	72	367
	644,009	574,514

The fair value of the above items are not considered to be materially different to their carrying values.

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £000	Cars, fixtures and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 October 2020	493	198	346	1,037
Transfer to group company	-	(198)	(346)	(544)
Additions	70	-	-	70
Disposals	-	-	-	-
At 30 September 2021	563	-	-	563
Accumulated depreciation				
At 1 October 2020	111	198	297	606
Transfer to group company	-	(198)	(297)	(495)
Charge for the year	452	-	-	452
Disposals	-	-	-	-
At 30 September 2021	563	-	-	563
Net book value				
At 30 September 2021	-	-	-	-
At 30 September 2020	382	-	49	431

The carrying values of right of use of assets, in respect of leases where the Company is the lessee, is the balance in land and buildings above.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

10. INTANGIBLE ASSETS

	Computer software £000	Total £000
Cost		
At 1 October 2020	464	464
Transfer to a group company	(464)	(464)
Additions	-	-
Disposals	-	-
At 30 September 2021	-	-
Accumulated amortisation		
At 1 October 2020	348	348
Transfer to a group company	(348)	(348)
Charge for the year	-	-
Disposals	-	-
At 30 September 2021	-	-
Net book value		
At 30 September 2021	-	-
At 30 September 2020	116	116

11. DEFERRED TAX

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

	2021 £000	2020 £000
Balance at 1 October 2020	79	86
Prior year profit and loss credit (note 6)	8	(20)
Profit and loss charge (note 6)	(13)	5
Rate change (note 6)	23	8
Balance at 30 September 2021	97	79

	2021 £000	2020 £000
The net deferred tax asset for which provision has been made is analysed as follows:		
Accelerated tax depreciation	91	79
Other timing differences	6	-
	97	79

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

12. CREDITORS

	2021 £000	2020 £000
Amounts falling due within one year:		
Amounts due to parent undertaking	536,475	575,725
Trade creditors	-	201
Other creditors	324	315
Lease payables (note 13)	-	102
Sundry financial liabilities	536,799	576,343
Amounts falling due after more than one year:		
Lease payables (note 13)	-	255
Contingent consideration	-	845
	536,799	577,443

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

13. LEASE PAYABLES

	2021 £000	2020 £000
Leasing Liabilities fall due		
In more than five years	-	-
In more than two but less than five years	-	153
In more than one year but less than two years	-	102
In more than one year (note 12)	-	255
In less than one year	-	102
	-	357

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2021

14. CALLED UP SHARE CAPITAL

	2021 £	2020 £
Allotted:		
247,500 ordinary shares of £1 each (fully paid)	247,500	247,500
75,000,000 ordinary shares of £1 each issued	75,000,000	-
	75,247,500	247,500

During the year 75,000,000 (2020: nil) Ordinary shares of £1 each were subscribed for at par by the parent company.

15. LEASING ARRANGEMENTS

As Lessee

The Company's use of leases as a lessee, relates to the rent of an office building(s) and company cars. Under IFRS 16 these have been accounted for as right of use assets and corresponding lease liabilities under IFRS 16.

The average term of the current building leases from inception is 15 years (2020: 15 years).

Disclosures relating to these leases are set out in these financial statements as follows.

Disclosure	Note
Depreciation on right of use assets	5
Interest expense on lease liabilities	3
Additions to right of use assets	9
Carrying amount of right of use assets	9

There was no subleasing of any right of use asset and the total cash flows relating to leasing as a lessee were £117,000 (2020 £117,000).

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

The notes set out below give information on the Company's employment costs, including the disclosures on share-based payments and pension schemes required by accounting standards.

16. DIRECTORS AND EMPLOYEES

a) Directors

All of the directors in the current year were remunerated as employees of other group companies.

	2021 £000	2020 £000
Directors' emoluments:		
Other emoluments	-	27
Long term incentives	-	-
	-	27
Pension contributions paid in respect of directors	-	-
Emoluments of the highest paid director:		
Excluding pension contributions	-	27
Pension contributions	-	-
	-	27

The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was none (2020: none). The number of the directors during the year in respect of whose service shares were received or receivable under the Group's long-term incentive schemes was five (2020: six). Two (2020: five) directors exercised awards during the year.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

16. DIRECTORS AND EMPLOYEES

b) Employees

The average number of persons (including directors) employed by the Company during the year was 15 (2020: 27). The costs incurred during the year in respect of these employees were:

	2021	2021	2020	2020
	£000	£000	£000	£000
Share based remuneration	201		42	
Other wages and salaries	490		1,172	
Total wages and salaries		691		1,214
National insurance on share based remuneration	50		2	
Other social security costs	51		158	
Total social security costs		101		160
Defined contribution pension cost	27		115	
Total pension costs		27		115
Total staff costs		819		1,489

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION

During the period, the Company had various share based payment arrangements with employees. They are accounted for by the Company as shown below.

The effect of the share based payment arrangements on the Company's profit is shown in note 16.

A summary of the number of share awards outstanding under each scheme at 30 September 2021 and at 30 September 2020 is set out below.

		Number 2021	Number 2020
(a)	Sharesave Plan	37,606	44,663
(b)	Performance Share Plan	144,243	132,487
(c)	Company Share Option Plan	7,153	18,659
(d)	Deferred Bonus Plan	6,470	-
		195,472	195,809

(a) Share option schemes

The Group operates an All Employee Share Option ('Sharesave') scheme under which employees of the Company are eligible to benefit. Grants under this scheme vest, in the normal course, after the completion of the appropriate service period and subject to a savings requirement.

Options currently outstanding under the Sharesave schemes to purchase ordinary shares in the parent company are as follows:

Grant date	Period exercisable	Exercise price	Number 2021	Number 2020
Sharesave Schemes				
28/07/2017	01/09/2020 to 01/03/2021	341.76p	-	7,687
31/07/2018	01/09/2021 to 01/03/2022	408.80p	880	4,577
31/07/2018	01/09/2023 to 01/03/2024	408.80p	733	733
30/07/2019	01/09/2022 to 01/03/2023	360.16p	9,042	9,042
30/07/2019	01/09/2024 to 01/03/2025	360.16p	832	832
27/07/2020	01/09/2023 to 01/03/2024	278.56p	16,409	16,409
27/07/2020	01/09/2025 to 01/03/2026	278.56p	5,383	5,383
28/07/2021	01/09/2024 to 01/03/2025	424.00p	4,327	-
28/07/2021	01/09/2026 to 01/03/2027	424.00p	-	-
			37,606	44,663

An option holder has the legal right to a payment holiday of up to twelve months without forfeiting their rights. In such cases the exercise period would be deferred for an equivalent period of time and therefore options might be exercised later than the date shown above.

In the event of the death or redundancy of the employee options may be exercised early and the exercise period may also start or end later than stated above (options may be exercised up to twelve months after the decease of the holder).

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION (CONTINUED)

(a) Share option schemes (continued)

The fair value of options granted is determined using a trinomial model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2021 and the year ended 30 September 2020, which were all made under the Sharesave scheme, are shown below.

Grant date	**28/07/21**	**28/07/21**	**27/07/20**	**27/07/20**
Number of awards granted	4,327	-	16,409	5,383
Market price at date of grant	554.50p	554.50p	343.20p	343.20p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	1.41	1.17	0.62	0.55
Inputs to valuation model				
Expected volatility	38.77%	33.10%	34.24%	32.98%
Expected life at grant date (years)	3.42	5.43	3.45	5.45
Risk-free interest rate	0.19 %	0.31 %	(0.13) %	(0.11) %
Expected dividend yield	3.90%	3.90%	4.34%	4.34%
Expected annual departures	5.00%	5.00%	5.00%	5.00%

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date. The five-year schemes use share price data for the preceding five years.

(b) Paragon Performance Share Plan ('PSP')

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and normally vest in the third financial year after the date of grant, to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Company.

Awards vest on the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied. For employees, other than the executive directors, awards may be exercised from the vesting date to the day before the tenth anniversary of the grant date. Executive directors' awards made in 2021 are exercisable from the time of the Group's fifth results announcement after the date of the grant to the day before the tenth anniversary of the grant date. Where performance conditions are not met in full, awards lapse at this point. Awards will also lapse on cessation of employment, other than in 'good leaver' circumstances. Clawback provisions apply to awards granted under the PSP as detailed in the Remuneration Policy of the Group accounts.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan (continued)

The conditional entitlements outstanding under this scheme at 30 September 2021 and 30 September 2020 were:

Grant Date	Period exercisable	Number 2021	Number 2020
01/12/2016	01/12/2019 to 30/11/2026 β	-	6,240
08/12/2017	08/12/2020* to 07/12/2027 β	3,470	33,506
14/12/2018	14/12/2021* to 13/12/2028 ‡	29,636	29,636
06/07/2020	07/12/2022* to 05/07/2030 ϕ	63,103	63,105
11/12/2020	07/12/2025* to 05/07/2031 δ	48,034	-
		144,243	132,487

* Estimated date

β These awards are (or were) subject to performance criteria, assessed over a period of three financial years, starting with the year of grant.

- 50% to a Total Shareholder Return ('TSR') test based on a ranking of the Company's TSR against those of a comparator group of UK listed financial services companies, determined at the date of grant. This tranche vests in full for upper quartile performance, 25% vests for median performance and vesting between those points is determined on a straight line basis.
- 25% to an EPS test. This tranche vests in full if EPS increases by at least 7% more than the retail price index ('RPI') over the test period, 25% vests if this increase is at least 3% more than the RPI and vesting between those points is determined on a straight line basis.
- 25% to a risk test. The risk test is based on an internal scorecard of the Group's performance against its principal risk metrics.

At the point of exercise, the gross number of awards vesting will be reduced so that the gain to the recipient from the PSP and the CSOP described below, evaluated at that point, is equal to the gain from the gross PSP vesting.

‡ These awards are subject to performance criteria, similar to those described at β above, except that:

The EPS condition is measured against an absolute target. Full vesting occurs if EPS for the third year of the test period is at least 68p, 25% vesting if EPS in this year is 60p and vesting between those points on a straight line basis.

ϕ These awards are subject to performance criteria, similar to those described at β above, except that:

- The TSR condition related to 25% of the grant, not 50%.
- The EPS condition is measured against an absolute target. Full vesting occurs if EPS for the third year of the test period is at least 67p, 25% vesting if EPS in this year is 60p and vesting between those points on a straight line basis.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan (continued)

- The risk condition comprises two components. 50% of the risk element is based on an assessment by the Chief Risk Officer of the six key measures of the Group's risk appetite: regulatory breaches; customer service performance; conduct; operational risk incidents; capital and liquidity; and credit losses. The remaining 50% is based on a strategic risk assessment reflecting the management of risk as it impacts on the delivery of the Group's medium term strategy.
- 12.5% of the grant is determined based on a customer service test assessed by the Chair of the Risk and Compliance Committee. The customer service test is based on the performance of the Group against its most significant customer service metrics including insight feedback on key product lines and complaint levels. 50% of this tranche will vest for on-target performance.
- 12.5% of the grant is determined based on a people test. The people test is based on the performance of the Group against its most significant employment metrics including employee engagement, voluntary attrition and gender diversity levels. 50% of this tranche will vest for on-target performance.
- Due to the volatility of the share price at the time of grant, the Remuneration Committee may adjust the vesting levels at the vesting date if it believes that the use of this share price has created a potential windfall gain.
- No CSOP grants were made in conjunction with this award, therefore no adjustment on vesting will take place.

δ These awards are subject to performance criteria, similar to those described at ϕ above, except that:

- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 66p, 25% vesting if EPS in this year is 58p and vesting between those points on a straight line basis.
- The ability of the Remuneration Committee to adjust specifically for windfall gains was not a condition of this grant

For each of the risk, customer and people tests set out above, the Remuneration Committee will determine the extent to which this condition has been met, between 0% and 100%, and vesting for the relevant tranche will occur at that level, subject to a 25% threshold, below which no awards in the tranche will vest.

On exercise, holders of awards granted in February 2013 and thereafter receive a payment equivalent to the dividends accruing on the vested shares during the vesting period.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION (CONTINUED)

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2021 and the year ended 30 September 2020 are shown below:

Grant date	**11/12/20**	**06/07/20**
Number of awards granted	48,034	63,105
Market price at date of grant	446.80p	360.60p
Contractual life (years)	3.0	2.4
Fair value per share at date of grant	407.50p	301.32p
Inputs to valuation model		
Expected volatility	37.85%	33.93%
Expected life (years)	3.0	2.4
Risk-free interest rate	(0.12)%	(0.06)%

For all of the above grants no departures are expected. The expected volatility is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date.

The effect of the CSOPs is not allowed for in the IFRS 2 market values of the 2016, 2017 and 2018 grants.

(c) Company Share Option Plan ('CSOP')

The PSP includes a tax advantaged element under which CSOP options can be granted. The CSOPs may be exercised alongside their accompanying PSPs based upon the exercise price that was set at the grant date. Each member of staff may be granted up to a maximum total value of £30,000 of tax benefitted options. No new CSOP awards were made in the year ended 30 September 2021 or 30 September 2020.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION (CONTINUED)

(c) Company Share Option Plan ('CSOP') (continued)

A reconciliation of movements in the number and weighted average exercise price of CSOP options over £1 ordinary shares during the year ended 30 September 2021 and the year ended 30 September 2020 is shown below.

	2021 Number	2021 Weighted average exercise price p	2020 Number	2020 Weighted average exercise price P
Options outstanding				
At 1 October 2020	18,659	419.97	25,716	397.25
Granted in the year	-	-	-	-
Transferred in	-	-	8,290	361.88
Exercised or surrendered in the year	(6,548)	393.36	(9,681)	361.88
Lapsed during the year	(4,958)	477.76	(5,666)	372.15
At 30 September 2021	7,153	423.57	18,659	419.97
Options exercisable	2,410	477.76	-	-

The weighted average remaining continental life of options outstanding at 30 September 2021 was 89.5 months (2020: 89.5 months). The weighted average market prices at exercise for share options exercised in the year was 365.62p.

The conditional entitlements outstanding under this scheme at 30 September 2021 and 30 September 2020 were:

Grant date	Period Exercisable	Exercise Price	Number 2021	Number 2020
01/12/2016	01/12/2019 to 30/11/2026 †	361.88p	-	4,769
08/12/2017	08/12/2020 to 07/12/2027 β	477.76p	2,410	9,147
14/12/2018	14/12/2021 to 13/12/2028 β	396.04p	4,743	4,743
			7,153	18,659

† These awards, which were conditional on the achievement of performance-based criteria, vested before the start of the financial year. Any reduction in entitlements resulting from the application of those criteria is reflected in the numbers above.

β 66.7% of these awards are subject to a TSR test and 33.3% are subject to an EPS test. These tests operate in the same manner and with the same conditions as those for the PSP grant of the same date.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION (CONTINUED)

(c) Company Share Option Plan ('CSOP')

To the extent that the CSOP awards vest, the vesting of the PSP award granted at the same time will be abated so that the overall gain to the grantee is the same as would be received on the related PSP award had the CSOP not been in place.

No separate fair value has been attributed to the CSOP options for IFRS 2 purposes as the IFRS 2 market values for the CSOP and PSP combined will equate to that calculated for the PSP without allowing for the CSOP. The benefit from the CSOP is in relation to the employees' tax position, which does not affect the IFRS 2 charge.

(d) Deferred Bonus awards

These plans are generally used for the deferral in shares of annual bonus awards made to executive directors and certain other senior managers. Additionally, in 2020 a one-off award was made on an all-employee basis.

Awards under these plans comprise a right to acquire ordinary shares in the Company for nil or nominal payment. The conditional entitlements outstanding under these plans at 30 September 2021 and 30 September 2020 were:

Grant date		Period exercisable	Number 2021	Number 2020
11/12/2020		11/12/2023 to 10/12/2030	1,784	-
11/12/2020	*	11/12/2023 to 10/12/2024	4,686	-
			6,470	-

* All employee award

The Deferred Bonus shares granted under the executive awards can be exercised from the third anniversary of the award date until the day before the tenth anniversary of the date of grant.

The all-employee awards will vest on the third anniversary of the grant date and the shares will be automatically transferred to the participants as soon as reasonably practicable thereafter. The period exercisable shown above therefore illustrates the latest date by which it is anticipated that these transfers will have been made.

In the event of death or redundancy the all-employee awards may vest early. Awards lapse on the cessation of employment, other than in 'good leaver' circumstances. Except in these regards the all-employee awards operate in the same way as the executive awards.

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2021

17. SHARE BASED REMUNERATION (CONTINUED)

(d) Deferred Bonus awards

Details of the awards over £1 ordinary shares made in the year ended 30 September 2021 and the year ended 30 September 2020 are shown below.

Grant date	**11/12/20 All employee**	**11/12/20 Executive**
Number of awards granted	4,686	1,784
Market price at date of grant	446.80p	446.80p
Fair value per share at date of grant	353.62p	353.62p

No departures are expected for grantees under this plan, except for grants under the all-employee grant in 2020, where a departure rate of 7.5% per annum is expected.

18. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution schemes

	2021 £000	**2020 £000**
Defined contribution pension scheme expense	201	115

These amounts represent contributions to the Paragon Asset Finance Group Stakeholder defined contribution scheme and other defined contribution schemes.

NOTES TO THE ACCOUNTS – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2021

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.

19. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

As stated in note 22 the Company funds the asset finance activities of its subsidiaries by way of interest bearing loans. The Company funds these activities by means of borrowings from a parent company Paragon Bank PLC. The loans are made available to the Company at a fixed rate which minimises the interest rate risk.

The principal risks arising from the Company's financial instruments are 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.

Credit risk is not deemed to be a principal risk due to the fact that the majority of lending is intercompany and as such the risk can be sufficiently controlled.

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.

Interest rate risk

As mentioned above the Company is funded by fixed rate loans from a group company Paragon Bank Plc. Interest rate risk is therefore addressed by the operation of Paragon Bank Plc's treasury activity and this is fully disclosed in the notes to the accounts of Paragon Bank Plc.

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 2021

20. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (such as a recognised exchange), as it is the best evidence of the fair value of a financial instrument. 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.

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 period ended 30 September 2021 or the period ended 30 September 2020 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 intercompany borrowings

The fair values of cash and cash equivalents and intercompany borrowings, which are carried at amortised cost 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 and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

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.

21. BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with applicable UK accounting standards. Disclosures have been made in accordance with Financial Reporting Standard 101 – 'Reduced Disclosure Framework' ('FRS 101').

As permitted by FRS 100 – 'Application of Financial Reporting Requirements' ('FRS 100') the Company has applied the measurement and recognition requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of disclosure exemptions provided by FRS 101 has been taken.

The "requirements of the Companies Act 2006" here means accounts being prepared in accordance with "international accounting standards" as defined in section 474(1) of that Act, as it applied immediately before IP Completion Day (the end of the UK's transition period) ('IPCD'), including where the Company also makes use of standards which have been adopted for use within the United Kingdom in accordance with regulation 1(5) of the International Accounting Standards and European Public Limited Liability Company (Amendment etc.) (EU Exit) Regulations 2019, subsequent to the IPCD.
Under the Listing Rules of the FCA, despite the UK's exit from the EU on 31 January 2020, the EU endorsed IFRS regime remains applicable to the Company until its first financial year commencing after the IPCD on 31 December 2020.

Therefore, while EU endorsed IFRS applies to these financial statements, those for the year ending 30 September 2022 will instead be prepared under 'UK-adopted international accounting standards'.

The changes in the way that the basis of preparation is described, as a result of the UK's exit from the EU, including the move to UK-adopted international accounting standards from the Company's financial year commencing 1 October 2021, do not represent a change in the basis of accounting which would necessitate a prior year restatement.

Adoption of new and revised reporting standards

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

- 2020 amendments to IAS 39 – 'Interest Rate Benchmark Reform' and consequential amendments to IFRS 7

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

21. BASIS OF PREPARATION (CONTINUED)

Adoption of new and revised reporting standards (continued)

IAS 39 amendments 'Interest Rate Benchmark Reform'

In August 2020 the IASB issued a further amendment to IAS 39 'Interest Rate Benchmark Reform – Phase 2'. This amendment sets out accounting requirements for the treatment of Interbank Offered Rate ('IBOR') - linked financial assets and liabilities under the amortised cost method when a firm replaces the IBOR linkage in the underlying instruments with a replacement benchmark. It is therefore potentially applicable to the Company's London Interbank Offered Rate ('LIBOR') - linked intercompany loans where interest is charged on the basis of LIBOR or other IBOR rates.

The intention of the standard is that, where the transition is effectively a like for like replacement, no windfall gain or loss should occur on transition.

This amendment is effective from the Company's financial year ending 30 September 2022 but has been endorsed by both the EU and the UK and has been early adopted by the Company as permitted.

The Company has utilised, and will continue to utilise, the provisions of the amendment as it transitions its IBOR-linked assets and liabilities. The impact of the amendment will depend upon the IBOR related assets, and liabilities at the point at which transition occurs.

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.

22. ACCOUNTING POLICIES

The particular accounting policies applied are described below.

Accounting convention

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

Going concern

The financial statements of the Company for the year ended 30 September 2021 have been prepared on the going concern basis, as defined in IAS 1 – 'Presentation of Financial Statements'. In order to prepare financial statements on this basis the directors must conclude that the management does not intend to liquidate the Company or cease trading, and that the Company has the ability to continue to trade and will be able to satisfy its liabilities as they fall due. Particular focus is given to the Group's financial forecasts to ensure the adequacy of resources available for the Company to meet its business objectives on both a short term and strategic basis.

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows on a company-by-company basis. In compiling the most recent forecast, for the period commencing 1 October 2021, particular attention was paid to the potential consequences of Covid on the Group's operations, customers, funding and prospects, both in the short and longer term. This included consideration of a number of different scenarios with impacts of varying duration and severity. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October in light of the continuing development of the Covid crisis, based on updated external projections.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

22. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products.

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

Consolidated accounts

The Company is exempt under Section 400 of the Companies Act 2006 from the obligation to prepare group financial statements, being a wholly-owned subsidiary undertaking of Paragon Banking Group PLC.

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.

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.

Financial assets and liabilities

The Company's principal asset is debtors comprising amounts owed by group undertakings representing the funding provided to support the subsidiary companies' asset finance portfolios. Interest is charged on the amounts outstanding and recognised as interest income in the income statement.

All financial liabilities are carried at amortised cost.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

22. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Land is not depreciated. Depreciation on other assets 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	-	4 years
Fixtures and fittings	-	3 – 5 years
Computer equipment and software	-	3 years

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 property, plant and equipment

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment 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 profit and loss 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.

Intangible assets

Intangible assets comprise purchased computer software. Purchased computer software is capitalised where it has a sufficiently enduring nature and is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

Impairment of tangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, tangible fixed 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 profit and loss 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.

Investment in subsidiaries

The Company's investments in subsidiary companies are shown at cost less provision for impairment.

Current tax

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

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

22. ACCOUNTING POLICIES (CONTINUED)

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.

Pensions

The Company does not operate its own pension scheme. It does make contributions to the Paragon Asset Finance Stakeholder defined contribution scheme and other external schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The contributions payable by the Company to the independently administered funds are charged through the profit and loss.

Interest and similar income

Interest receivable arises on amounts owed by group undertakings and is recognised in the profit and loss using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash flows of a financial instrument to its net carrying amount. It is used to calculate the amortised cost of a financial asset or a financial liability and to allocate the interest over the relevant period (usually the expected life of the instrument). When calculating the effective interest rate, the company considers all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes any premiums or discounts, as well as all fees and transaction costs that are an integral part of the loan.

Interest expense and similar charges

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.

Fee and commission income

The Company earns fee and commission income from services provided to clients. Fee income can be divided into two broad categories:

- fees earned from services that are provided over a period of time, which are recognised over the period in which the service is provided;

- fees that are earned on completion of a significant act or on the occurrence of an event, such as the completion of a transaction, which are recognised when the act is completed or the event occurs.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

22. ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event which can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as of the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. The expense recognised when provisions are established and is recorded in 'operating expenses' in the statement of comprehensive income.

Provisions and contingencies

Provisions are recognised only when the Company has a present obligation (legal or constructive) as a result of past events. In addition, it must be probable that a transfer of economic benefits will be required to settle the obligation, and it must also be possible to make a reliable estimate of the amount of the obligation.

The Company recognises provisions in respect of onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed by one or more uncertain future events not wholly within the Company's control, or present obligations that are not recognised either because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be reliably estimated. Contingent liabilities are disclosed unless the possibility of a transfer of economic benefits is remote.

Share Based Payments

In accordance with IFRS 2 – 'Share based payments' ('IFRS 2'), the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date. National Insurance on share based payments is accrued over the vesting period, based on the share price at the balance sheet date. Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2021

22. ACCOUNTING POLICIES (CONTINUED)

Disclosures

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

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

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

- Certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company
- Certain disclosures required by IFRS 13 – 'Fair Value Measurement'

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

23. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking of the Company is Paragon Bank PLC 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.