Company Registration No: 02189858

PARAGON ASSET FINANCE LIMITED

Report and Financial Statements

Year ended 30 September 2020

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

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

The principal 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 £9,404,000 (2019: profit of £25,397,000). £5,000,000 dividend was received during the year (2019: £22,700,000).

An interim dividend of £20.20 per share was paid during the year (2019: £99.80). No final dividend is proposed (2019: £nil).

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The 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-19 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-19 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 5.

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-19 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 2020, particular attention was paid to the potential consequences of Covid-19 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-19 crisis, based on updated external projections. Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products.

STRATEGIC REPORT (CONTINUED)

GOING CONCERN (CONTINUED)

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 2020, 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; and

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 Group's 2020 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.

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 Group's Annual Report, which does not form part of this Report (s172 (1)(d)).

STRATEGIC REPORT (CONTINUED)

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, employee engagement surveys and regular communication between directors, managers, teams, and individual employees. The Group's People Forum also contributed towards changing the supplier of recognition awards and supported the introduction of a new HR system.

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 Group's 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.

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

25 February 2021

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 2020.

DIRECTORS

The directors throughout the year and subsequently were:

K G Allen	
G Leitch	(resigned 4 October 2019)
D Newcombe	(appointed 21 October 2019)
R D Shelton	(appointed 21 October 2019, resigned 3 February 2021)
J E Phillipou	(appointed 21 October 2019)
R J Woodman	(appointed 21 October 2019)

AUDITOR

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

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

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 5 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

25 February 2021

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year. In preparing these financial statements, the directors are required to:

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of their profit or loss for that period.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets, for the Company's systems of internal control and for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a strategic report and directors' report which comply with the applicable requirements of the Companies Act 2006.

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

K G Allen

Director

25 February 2021

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 2020 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 25, including the accounting policies in note 4.

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2020 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").

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

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

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 that report 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.

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

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 5, 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

25 February 2021

PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 £000	2019 £000
Interest receivable and similar income	7	14,821	12,582
Interest payable and similar charges	8	(10,384)	(8,961)
Net interest income		4,437	3,621
Other operating income	9	7,606	25,639
Total operating income		12,043	29,260
Operating expenses	10	(2,639)	(3,863)
Operating profit, being profit on ordinary activities before taxation		9,404	25,397
Tax on profit on ordinary activities	13	(820)	(421)
Profit on ordinary activities after taxation	24	8,584	24,976

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 2020

	Note	2020 £000	2019 £000
ASSETS			
Cash at bank		230	1,586
Investments	14	33,671	29,908
Debtors	15	574,514	594,090
Tangible fixed assets	16	431	74
Intangible assets	17	116	159
Deferred tax assets	18	79	86
Total assets		609,041	625,903
LIABILITIES			
Creditors	19	577,443	597,839
Accruals and deferred income		67	424
Current tax liabilities		781	474
Total liabilities		578,291	598,737
SHAREHOLDER'S EQUITY			
Called up share capital	23	248	248
Profit and loss account	24	30,502	26,918
Total shareholder's equity		30,750	27,166
Total equity and liabilities		609,041	625,903

The financial statements were approved by the Board of Directors on 25 February 2021.

Signed on behalf of the Board of Directors:

K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

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

YEAR ENDED 30 SEPTEMBER 2019

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the period			
Profit for the year	-	24,976	24,976
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	24,976	24,976
Transactions with owners			
Dividends	-	(24,700)	(24,700)
Net movement in equity in the period	-	276	276
Opening equity	248	26,642	26,890
Closing equity	248	26,918	27,166

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

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.

2. BASIS OF PREPARATION

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

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

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.

- IFRS 16 – 'Leases'

The effect on the Company's accounting of the adoption of these standards is discussed in note 3.

Comparability of information

IFRS 16 does not require that the balance sheet information at 30 September 2019 and the profit and loss information for the year ended on that date is restated on the adoption of the Standard. The information presented for those periods in these financial statements is derived in accordance with IAS 17 - 'Leases' ('IAS 17'), and therefore may not be directly comparable with the balance sheet at 30 September 2020 and the profit and loss account for the year then ended which are prepared under IFRS 16.

3. CHANGES IN ACCOUNTING STANDARDS

a) IFRS 16 – 'Leases'

The Company is required to adopt IFRS 16, which replaces IAS 17, the standard currently governing the accounting for operating and finance leases, in preparing its financial statements for the year ended 30 September 2020. It has transitioned to the new standard with effect from 1 October 2019, in accordance with the transitional provisions set out in the standard, using the modified retrospective approach. The standard addresses accounting by lessees and lessors which are considered separately below.

Lessee accounting

Accounting by lessees is changed significantly under IFRS 16, with a right of use asset recognised on the balance sheet for all leases, representing the economic benefit of controlling the underlying asset over the term of the lease. This includes leases previously treated as operating leases and not recognised on the balance sheet under IAS 17. The right of use asset on initial recognition is based on the discounted value of future minimum lease payments. It is recognised within fixed assets and depreciated over the term of the lease.

A corresponding liability arises representing the present value of future lease commitments and this is recognised within other liabilities. This balance is reduced over the life of the lease by lease payments made and the unwinding of the initial discount is recognised in interest expense.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. CHANGES IN ACCOUNTING STANDARDS (CONTINUED)

Under IAS 17, the Company disclosed arrangements to lease office buildings, equipment and motor vehicles as operating leases and these have been restated in accordance with IFRS 16. Additionally, the Company has undertaken an exercise to identify potential lease agreements arising from service contracts. No such arrangements were identified. The Company had no involvement as a lessee in finance leases, as defined by IAS 17.

The Company has made use of practical expedients within IFRS 16 when performing its transition accounting. These include the right to exclude contracts that have not previously been classified as leases before the implementation date, and the ability to exclude leases of low value and those with a short term.

At transition, on 1 October 2019, the Company recognised a right of use asset of £493,000 and a corresponding liability of £464,000, in accordance with the provisions of IFRS 16 paragraph C5(b), referred to as the modified respective approach. Under this approach, there is no impact on equity on transition.

The difference between the asset and liability on recognition represents amounts prepaid or accrued in respect of lease rentals in the Company's balance sheet at 30 September 2019.

The discount rate used to derive the right of use asset was 2.5% based on a 5-year corporate bond yield, while the minimum lease payments used were materially similar to those disclosed as operating lease commitments at 30 September 2019 in note 20 to the annual accounts for the year then ended, except that irrecoverable VAT was excluded.

There was no immediate tax impact from transition and the Group's regulatory capital is unaffected. Under IFRS 16, the amount charged to profit and loss represents depreciation on the ROU asset and a finance charge on the liability instead of rents or similar charges. While this is a change of classification, the overall effect on profit is insignificant. There is no impact on reported cash flows, nor on earnings per share.

IFRS 16 does not require the restatement of comparative information and therefore all balance sheets and results for periods on or before 30 September 2019 are presented in accordance with IAS 17.

4. 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

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

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 2020, particular attention was paid to the potential consequences of Covid-19 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-19 crisis, based on updated external projections. Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

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

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.

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.

Current tax

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

Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. As required by IAS 12 – 'Income Taxes', deferred tax assets and liabilities are not discounted to take account of the expected timing of realisation.

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

YEAR ENDED 30 SEPTEMBER 2020

4. ACCOUNTING POLICIES (CONTINUED)

Leases

Year ended 30 September 2020 under IFRS 16

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.

Year ended 30 September 2019 under IAS 17

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the period of the leases.

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.

Tangible fixed assets

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 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.

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. ACCOUNTING POLICIES (CONTINUED)

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.

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

YEAR ENDED 30 SEPTEMBER 2020

4. 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

5. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

As stated in note 4 above 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

The Company's principal liquidity risk is to maintain sufficient levels of borrowing to fund the leasing and lending portfolio of its subsidiaries over the period that the leases and loans remain outstanding. The portfolio is solo consolidated within its intermediate parent Paragon Bank Plc and the Company is dependent upon the provision of funds from this entity. The full disclosure of Paragon Bank Plc strategy for the management of liquidity risk can be found in the annual accounts of Paragon Bank Plc.

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period, at the balance sheet date, to the contractual maturity date.

	Repayable on demand	1 year or less	5 years or less but over 1 year	Over 5 years	Total
	£000	£000	£000	£000	£000
At 30 September 2020					
Assets					
Cash and cash equivalents	230	-	-	-	230
Other financial assets	573,477	670	-	-	574,147
Total assets	573,707	670	-	-	574,377
Liabilities					
Other borrowed funds	575,725	-	-	-	575,725
Other liabilities	-	516	-	-	516
Lease liabilities	-	102	255	-	357
Total liabilities	575,725	618	255	-	576,598
Net liquidity surplus	(2,018)	52	(255)	-	(2,221)

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period, at the balance sheet date, to the contractual maturity date.

	Repayable on demand	1 year or less	5 years or less but over 1 year	Over 5 years	Total
	£000	£000	£000	£000	£000
At 30 September 2019					
Assets					
Cash and cash equivalents	1,586	-	-	-	1,586
Other financial assets	593,189	552	-	-	593,741
Total assets	594,775	552	-	-	595,327
Liabilities					
Other borrowed funds	596,356	-	-	-	596,356
Other liabilities	-	638	-	-	638
Total liabilities	596,356	638	-	-	596,994
Net liquidity surplus	(1,581)	(86)	-	-	(1,667)

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
YEAR ENDED 30 SEPTEMBER 2020

6. 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.

The following table presents the fair values of financial instruments, including those not recognised in the financial statements at fair value.

	2020		2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	£000	**£000**	£000	£000
Financial assets				
Cash and cash equivalents	230	230	1,586	1,586
Other financial assets	574,147	574,147	594,090	594,090
	574,377	574,377	595,676	595,676
Financial liabilities				
Other borrowed funds	575,725	575,725	596,356	596,356
Other liabilities	873	873	1,112	1,112
	576,598	576,598	597,468	597,468

The Company had no financial assets or liabilities in the period ended 30 September 2020 or the period ended 30 September 2019 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 £000	2019 £000
On loans to other group companies	14,821	12,582

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £000	2019 £000
On loans from parent undertakings	10,370	8,957
Other interest	3	4
Discounting on lease liabilities	11	-
	10,384	8,961

9. OTHER OPERATING INCOME

	2020 £000	2019 £000
Dividend income	5,000	22,700
Fee and commission income	2,606	2,903
Other operating income	-	8
Profit on disposal of fixed assets	-	28
	7,606	25,639

10. OPERATING EXPENSES

	2020 £000	2019 £000
Staff Costs (note 11)	1,489	2,589
Administrative expenses	766	1,023
Audit fees relating to the Company	55	44
Depreciation on operating assets (note 16)	166	74
Amortisation of intangible assets (note 17)	163	133
	2,639	3,863

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

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

11. DIRECTORS AND EMPLOYEES

a) Directors

	2020 £000	2019 £000
Directors' emoluments:		
Other emoluments	27	221
Long term incentives	-	-
	27	221
Pension contributions paid in respect of directors	-	-
Emoluments of the highest paid director: Excluding pension contributions	27	221
Pension contributions	-	-
	27	221

The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was none (2019: 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 six (2019: six). Five (2019: two) directors not including the highest paid director exercised awards during the year.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

11. DIRECTORS AND EMPLOYEES

b) Employees

The average number of persons (including directors) employed by the Company during the year was 27 (2019: 38). The costs incurred during the year in respect of these employees were:

	2020	2020	2019	2019
	£000	£000	£000	£000
Share based remuneration	42		3	
Other wages and salaries	1,172		2,174	
Total wages and salaries		1,214		2,177
National insurance on share based remuneration	2		1	
Other social security costs	158		265	
Total social security costs		160		266
Defined contribution pension cost	115		146	
Total pension costs		115		146
Total staff costs		1,489		2,589

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

12. 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 11.

(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 2020**	**Number 2019**
Sharesave Schemes				
28/07/2017	01/09/2020 to 01/03/2021	341.76p	7,687	5,581
31/07/2018	01/09/2021 to 01/03/2022	408.80p	4,577	7,217
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	10,539
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	-
27/07/2020	01/09/2025 to 01/03/2026	278.56p	5,383	-
			44,663	24,902

A number of the above options were granted to former employees whose rights terminate at the later of twelve months following redundancy or forty-two months after the issue of the options.

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 2020 and the year ended 30 September 2019, which were all made under the Sharesave scheme, are shown below.

Grant date	**27/07/20**	**27/07/20**	**31/07/19**	**31/07/19**
Number of awards granted	16,409	5,383	10,539	832
Market price at date of grant	343.20p	343.20p	422.00p	422.00p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	0.62	0.55	0.51	0.53
Inputs to valuation model				
Expected volatility	34.24%	32.98%	22.58%	26.44%
Expected life at grant date (years)	3.45	5.45	3.48	5.47
Risk-free interest rate	(0.13) %	(0.11) %	0.36%	0.40%
Expected dividend yield	4.34%	4.34%	4.95%	4.95%
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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

12. SHARE BASED REMUNERATION (CONTINUED)

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

Awards under this plan comprise a right to acquire ordinary shares in the parent company for nil or nominal payment and will vest on the third anniversary of their granting, to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by a group company. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

Awards are exercisable from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied to the day before the tenth anniversary of the grant date. Clawback provisions apply to awards granted under the PSP as detailed in the remuneration policy.

The conditional entitlements outstanding under this scheme at 30 September 2020 and 30 September 2019 were:

Grant date	Period exercisable	Number 2020	Number 2019
01/12/2016	01/12/2019 to 30/11/2026 β	6,240	15,769
08/12/2017	08/12/2020* to 07/12/2027 β	33,506	16,022
14/12/2018	14/12/2021* to 13/12/2028 ‡	29,636	20,155
06/07/2020	07/12/2022* to 05/07/2030 φ	63,105	-
		132,487	51,946

* 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

12. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan (continued)

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.
- 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.

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 2020 and the year ended 30 September 2019 are shown below:

Grant date	**06/07/20**	**14/12/18**
Number of awards granted	63,105	20,155
Market price at date of grant	360.60p	401.00p
Fair value per share at date of grant	301.32p	307.32p
Inputs to valuation model		
Expected volatility	33.93%	28.86%
Risk-free interest rate	(0.06)%	1.20%

For all of the above grants the contractual life and expected life at grant date is 2.4 years (2019: 3 years) and 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

12. SHARE BASED REMUNERATION (CONTINUED)

(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 2020.

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 2020 and the year ended 30 September 2019 is shown below.

	2020 Number	2020 Weighted average exercise price p	2019 Number	2019 Weighted average exercise price p
Options outstanding				
At 1 October 2019	25,716	397.25	20,973	412.42
Granted in the year	-	-	4,743	396.04
Transferred in	8,290	361.88	-	-
Exercised or surrendered in the year	(9,681)	361.88	-	-
Lapsed during the year	(5,666)	372.15	-	-
At 30 September 2020	18,659	419.97	25,716	397.25
Options exercisable	4,769	361.88	-	-

The conditional entitlements outstanding under this scheme at 30 September 2020 and 30 September 2019 were:

Grant date	Period exercisable	Exercise Price	Number 2020	Number 2019
01/12/2016	01/12/2019 to 30/11/2026 β	361.88p	4,769	11,826
08/12/2017	08/12/2020 to 07/12/2027 β	477.76p	9,147	9,147
14/12/2018	14/12/2021 to 13/12/2028 β	396.04p	4,743	4,743
			18,659	25,716

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.

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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

13. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2020 £000	2019 £000
Current tax		
Corporation tax	842	535
Adjustment in respect of prior periods	(29)	(104)
Total current tax	813	431
Deferred tax (note 18)		
Origination and reversal of timing differences	(5)	(21)
Adjustment in respect of prior periods	20	1
Rate change	(8)	10
	7	(10)
Tax charge on profit on ordinary activities	820	421

b) Factors affecting the tax charge for the year

	2020 £	2019 £
Profit before tax	9,404	25,397
UK corporation tax at 19% (2019: 19%) based on the profit for the year	1,787	4,825
Effects of:		
Expenses not deductible for tax purposes	(950)	(4,311)
Change in tax rate	(8)	10
Prior period adjustments	(9)	(103)
Tax charge for the year	820	421

The standard rate of corporation tax in the UK applicable to the Company in the period was 19.0% (2019: 19.0%), based on currently enacted legislation. During the 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. Consequently, temporary differences which had been expected to reverse at a tax rate of 18% in the current year, or 17% in subsequent years, have either reversed or are expected to reverse at a rate of 19%. The impact of this change has been accounted for in the year.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. INVESTMENTS

	Shares in group companies £000	Loans to group companies £000	Total £000
At 1 October 2018	20,170	5,926	26,096
Investments in subsidiaries	-	-	-
Loans advanced	-	3,862	3,862
Loans repaid	-	(50)	(50)
At 30 September 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

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.

	Percentage held 2020	Percentage held 2019
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	100%	100%
City Business Finance Limited	100%	100%
Collet Transport Services Limited	100%	100%
Paragon Commercial Finance Limited	80%	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.

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

YEAR ENDED 30 SEPTEMBER 2020

15. DEBTORS

	2020 £000	2019 £000
Amounts falling due within one year:		
Amounts due from group companies	573,477	593,189
Trade debtors	669	551
Other debtors	1	1
Sundry financial assets	574,147	593,741
Prepayments and accrued income	367	349
	574,514	594,090

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

16. TANGIBLE FIXED ASSETS

	Land and buildings £000	Cars, fixtures and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 October 2019	-	198	316	514
Adoption of IFRS 16 (note 3)	493	-	-	493
Additions	-	-	30	30
Disposals	-	-	-	-
At 30 September 2020	493	198	346	1,037
Accumulated depreciation				
At 1 October 2019	-	184	256	440
Charge for the year	111	14	41	166
Disposals	-	-	-	-
At 30 September 2020	111	198	297	606
Net book value				
At 30 September 2020	382	-	49	431
At 30 September 2019	-	14	60	74

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
YEAR ENDED 30 SEPTEMBER 2020

17. INTANGIBLE ASSETS

	Computer software £000	Total £000
Cost		
At 1 October 2019	344	344
Additions	120	120
Disposals	-	-
At 30 September 2020	464	464
Accumulated amortisation		
At 1 October 2019	185	185
Charge for the year	163	163
Disposals	-	-
At 30 September 2020	348	348
Net book value		
At 30 September 2020	116	116
At 30 September 2019	159	159

18. DEFERRED TAX

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

	2020 £000	2019 £000
Balance at 1 October 2019	86	76
Prior year profit and loss credit (note 13)	(20)	(1)
Profit and loss charge (note 13)	5	21
Rate change (note 13)	8	(10)
Balance at 30 September 2020	79	86

	2020 £000	2019 £000
The net deferred tax asset for which provision has been made is analysed as follows:		
Accelerated tax depreciation	79	86
Other timing differences	-	-
	79	86

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

19. CREDITORS

	2020 £000	2019 £000
Amounts falling due within one year:		
Amounts due to group companies	575,725	596,356
Trade creditors	201	309
Other tax and social security	-	25
Other creditors	315	304
Lease payables (note 21)	102	-
Sundry financial liabilities	576,343	596,994
Amounts falling due after more than one year:		
Lease payables (note 21)	255	-
Contingent consideration	845	845
	577,443	597,839

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution schemes

	2020 £000	2019 £000
Defined contribution pension scheme expense	115	146

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

21. LEASE PAYABLES

	2020 £000	2019 £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 19)	255	-
In less than one year	102	-
	357	-

22. 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 (2019: 15 years).

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

Disclosure	**Note**
Depreciation on right of use assets	10
Interest expense on lease liabilities	8
Additions to right of use assets	16
Carrying amount of right of use assets	16
Maturity analysis of lease liabilities	5

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

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

22. LEASING ARRANGEMENTS (CONTINUED)

Disclosures made in respect of IAS 17 requirements for 2019 are set out below.

At 30 September 2019, the Company had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

	2019 £000
Land and buildings	
Operating lease agreements expiring:	
Between one and two years	141
Between two and five years	492
More than five years	-
	633

23. CALLED UP SHARE CAPITAL

	2020 £	2019 £
Allotted:		
247,500 ordinary shares of £1 each (fully paid)	247,500	247,500

24. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2018	26,642
Profit for the financial year	24,976
Dividend paid	(24,700)
At 30 September 2019	26,918
Profit for the financial year	8,584
Dividend paid	(5,000)
At 30 September 2020	30,502

An interim dividend of £20.20 per share was paid during the year (2019: £99.80). No final dividend is proposed (2019: £nil).

25. 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.