

PARAGON ASSET FINANCE LIMITED

Report and Financial Statements

Year ended 30 September 2022

CAUTIONARY STATEMENT

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

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

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

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

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon 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 £18,638,000 (2021: £36,002,000). £13,000,000 dividend was received during the year (2021: £30,700,000).

In the preceding year 75,000,000 Ordinary shares of £1 each were subscribed for at par by the parent company.

An interim dividend of £0.10 per share was paid during the year (2021: £nil). No final dividend is proposed (2021: £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 Annual Report of Paragon Banking Group PLC, which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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 16.

STRATEGIC REPORT (CONTINUED)**GOING CONCERN**

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

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

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

After considering the Company's position, the economic environment and the forecasts described above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

BOARD AND STAKEHOLDERS

The Board is mindful of its duty to promote the success of the Company for the benefit of its shareholders and with regard to the interests of all its stakeholders. The Board confirms that, for the year ended 30 September 2022, it has acted to promote the success of the Company for the benefit of its members as a whole and continues to have due regard to the following matters insofar as they are applicable (as per section 172 of the Companies Act 2006):

- a. The likely consequences of any decision in the long-term
- b. The interests of the Company's employees
- c. The need to foster the Company's business relationships with suppliers, customers and others
- d. The impact of the Company's operations on the community and the environment
- e. The desirability of the Company maintaining a reputation for high standards of business conduct
- f. The need to act fairly as between members of the Company

The principal activity of the Company is to support the asset finance loan origination and servicing activities of the Group and therefore, there is substantial common identity between the external non-shareholder stakeholders of the Company and those of the Group.

As a consequence, engagement with external shareholders takes place at a Group level. The Company looks to Group initiatives for guidance and takes them into account in its decision making. The Company follows Group policies and procedures, including those relating to the fair treatment of customers, standards of business conduct, employees, the environment, the community and other stakeholders. More detail may be found in the 2022 Annual Report and Accounts of Paragon Banking Group PLC.

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

STRATEGIC REPORT (CONTINUED)**BOARD AND STAKEHOLDERS (CONTINUED)**

Board meetings may be held periodically where appropriate for the directors to consider company business. The Board considers and discusses information from across the organisation to help it understand the impact of the Group's operations on, and the interests and views of, key stakeholders. In September 2022, a supplier satisfaction survey was undertaken to seek the views of third party suppliers on their experience with the Group and any recommendations for improvement. The Board 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 impacts that might arise from the Group's activities. The Company operates in accordance with group policies, which are described in the 2022 Annual Report of Paragon Banking Group PLC, which does not form part of this Report. Further information can also be found in the Group's 2022 Responsible Business Report (published on the Paragon Banking Group PLC website), which does not form part of this report (s172(1)(d)).

EMPLOYEES, DIVERSITY AND CULTURE

All of the Company's employees were transferred to Paragon Finance PLC, the Group's central services provider during the year.

The directors recognise the benefit of keeping employees informed of the progress of the business, and are committed to building a more diverse and inclusive workforce as part of the Group's people strategy. 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, employee engagement surveys, and regular communication amongst directors, managers, teams, and individual employees. During the year, the Group's People Forum provided input as a hybrid working model was embedded. This offers employees a better balance of office and home working.

In March 2022, employees were invited to complete an anonymous survey as part of the Investors in People ("IIP") triennial assessment, which included specific questions on the Group's culture. Following this, the Group was accredited with a Platinum IIP status in May 2022 and the survey findings provided further recommendations to help the Group improve as an employer.

Through the Group's volunteering scheme, every employee is provided with one paid day a year to volunteer for specific initiatives, supporting the Group's strategy and culture. The Group is also an accredited employer with the Living Wage Foundation, ensuring that all employees are paid the real Living Wage.

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.

STRATEGIC REPORT (CONTINUED)

EMPLOYEES, DIVERSITY AND CULTURE (CONTINUED)

The Company operates in accordance with group employment policies which, together with additional information on the operations of the Group's People Forum, employee consultation arrangements and key metrics on the workforce, are described in the Paragon Banking Group PLC Annual Report, with supplementary information included in the Group's 2022 Responsible Business Report, neither of which forms part of this Report. Both documents are available on the Group's website.

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.

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

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



K G Allen
Director

27 January 2023

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. 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 2022.

DIRECTORS

The directors throughout the year and subsequently were:

K G Allen

D Newcombe

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 16 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

27 January 2023

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

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

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

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

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

A handwritten signature in black ink, appearing to read 'K G Allen', written in a cursive style.

K G Allen

Director

27 January 2023

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 2022 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 20, including the accounting policies in note 19.

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2022 and of the company's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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.
- Reading Board, Audit Committee and Risk Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, 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 the Company management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user and those including specific descriptors.

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: money laundering, financial crime, certain aspects of company legislation recognising the financial nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 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.

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

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.



Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

27 January 2023

PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
Interest receivable and similar income	2	19,047	14,938
Interest payable and similar charges	3	(12,818)	(10,176)
Net interest income		<u>6,229</u>	<u>4,762</u>
Other operating income	4	13,532	32,301
Total operating income		<u>19,761</u>	<u>37,063</u>
Operating expenses	5	(1,123)	(1,061)
Operating profit, being profit on ordinary activities before taxation		18,638	36,002
Tax on profit on ordinary activities	6	(1,108)	(965)
Profit on ordinary activities after taxation		<u><u>17,530</u></u>	<u><u>35,037</u></u>

All activities derive from continuing operations.

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

BALANCE SHEET

30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
ASSETS			
Cash at bank		38	51
Investments	7	39,842	35,151
Debtors	8	766,588	644,009
Property, plant and equipment	9	-	-
Deferred tax assets	10	39	97
Total assets		<u>806,507</u>	<u>679,308</u>
LIABILITIES			
Creditors	11	654,150	536,799
Accruals and deferred income		475	785
Current tax liabilities		1,065	937
Total liabilities		<u>655,690</u>	<u>538,521</u>
SHAREHOLDER'S EQUITY			
Called up share capital	12	75,248	75,248
Profit and loss account		75,569	65,539
Total shareholder's equity		<u>150,817</u>	<u>140,787</u>
Total equity and liabilities		<u>806,507</u>	<u>679,308</u>

The financial statements were approved by the Board of Directors on 27 January 2023.

Signed on behalf of the Board of Directors:



K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2022

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	17,530	17,530
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	17,530	17,530
<i>Transactions with owners</i>			
Issue of shares	-	-	-
Dividends	-	(7,500)	(7,500)
Net movement in equity in the year	-	10,030	10,030
Opening equity	75,248	65,539	140,787
Closing equity	75,248	75,569	150,817

YEAR ENDED 30 SEPTEMBER 2021

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	35,037	35,037
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	35,037	35,037
<i>Transactions with owners</i>			
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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2022

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 2022

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

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2022	2021
	£000	£000
On loans to other group companies	19,047	14,938

Interest receivable arises from financial assets held at amortised cost.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2022	2021
	£000	£000
On loans from parent undertakings	12,814	10,164
Other interest	4	2
Discounting on lease liabilities	-	10
	<u>12,818</u>	<u>10,176</u>

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

4. OTHER OPERATING INCOME

	2022	2021
	£000	£000
Dividend income	13,000	30,707
Fee and commission income	532	1,594
	<u>13,532</u>	<u>32,301</u>

5. OPERATING EXPENSES

	2022	2021
	£000	£000
Staff Costs (note 13)	-	819
Administrative expenses	1,123	(210)
Depreciation on operating assets (note 9)	-	452
	<u>1,123</u>	<u>1,061</u>

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

5. OPERATING EXPENSES (CONTINUED)

The Company's audit fee for the current year of £73,000 (2021: £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

	2022	2021
	£000	£000
Current tax		
Corporation tax	1,065	992
Adjustment in respect of prior periods	(15)	(9)
Total current tax	<u>1,050</u>	<u>983</u>
Deferred tax (note 10)		
Origination and reversal of timing differences	6	13
Adjustment in respect of prior periods	50	(8)
Rate change	2	(23)
	<u>58</u>	<u>(18)</u>
Tax charge on profit on ordinary activities	<u><u>1,108</u></u>	<u><u>965</u></u>

b) Factors affecting the tax charge for the year

	2022	2021
	£000	£000
Profit before tax	<u>18,638</u>	<u>36,002</u>
UK corporation tax at 19% (2021: 19%) based on the profit for the year	3,541	6,840
Effects of:		
Tax exempt revenues	(2,470)	(5,835)
Change in tax rate	2	(23)
Prior period adjustments	35	(17)
Tax charge for the year	<u><u>1,108</u></u>	<u><u>965</u></u>

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

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

7. INVESTMENTS

	Shares in group companies £000	Loans to group companies £000	Total £000
At 1 October 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
Investments in subsidiaries	-	-	-
Loans advanced	-	5,128	5,128
Loans repaid	-	(437)	(437)
At 30 September 2022	21,374	18,468	39,842

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 2022

7. INVESTMENTS (CONTINUED)

	Percentage held 2022	Percentage held 2021
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%
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%
City Business Finance Limited	100%	100%
Collet Transport Services Limited	100%	100%
Paragon Commercial Finance Limited	100%	100%

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 - ANALYSIS
YEAR ENDED 30 SEPTEMBER 2022

8. DEBTORS

	2022	2021
	£000	£000
Amounts falling due within one year:		
Amounts due from group companies	766,422	643,772
Trade debtors	115	164
Other debtors	1	1
Sundry financial assets	<u>766,538</u>	<u>643,937</u>
Prepayments and accrued income	50	72
	<u><u>766,588</u></u>	<u><u>644,009</u></u>

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	Total
	£000	£000
Cost		
At 1 October 2021	563	563
Transfer to group company	-	-
Additions	-	-
Disposals	-	-
At 30 September 2022	<u>563</u>	<u>563</u>
Accumulated depreciation		
At 1 October 2021	563	563
Transfer to group company	-	-
Charge for the year	-	-
Disposals	-	-
At 30 September 2022	<u>563</u>	<u>563</u>
Net book value		
At 30 September 2022	<u>-</u>	<u>-</u>
At 30 September 2021	<u>-</u>	<u>-</u>

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 2022

10. DEFERRED TAX

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

	2022	2021
	£000	£000
Balance at 1 October 2021	97	79
Prior year profit and loss credit (note 6)	(50)	8
Profit and loss charge (note 6)	(6)	(13)
Rate change (note 6)	(2)	23
Balance at 30 September 2022	<u>39</u>	<u>97</u>

The net deferred tax asset for which provision has been made is analysed as follows:

Accelerated tax depreciation	39	91
Other timing differences	-	6
	<u>39</u>	<u>97</u>

11. CREDITORS

	2022	2021
	£000	£000
Amounts falling due within one year:		
Amounts due to parent undertaking	653,386	536,475
Other creditors	764	324
Sundry financial liabilities	<u>654,150</u>	<u>536,799</u>

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

12. CALLED UP SHARE CAPITAL

	2022	2021
	£	£
Allotted:		
75,247,500 (2021: 247,500) ordinary shares of £1 each (fully paid)	75,247,500	247,500
75,000,000 ordinary shares of £1 each issued	-	75,000,000
	<u>75,247,500</u>	<u>75,247,500</u>

During the preceding year 75,000,000 Ordinary shares of £1 each were subscribed for at par by the parent company.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

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.

13. DIRECTORS AND EMPLOYEES

a) Directors

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

The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was none (2021: 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 four (2021: five). Two (2021: two) directors exercised awards during the year.

b) Employees

The average number of persons (including directors) employed by the Company during the year was nil (2021: 15). The costs incurred during the year in respect of these employees were:

	2022	2022	2021	2021
	£000	£000	£000	£000
Share based remuneration	-		201	
Other wages and salaries	-		490	
Total wages and salaries	<u> </u>	-	<u> </u>	691
National insurance on share based remuneration	-		50	
Other social security costs	-		51	
Total social security costs	<u> </u>	-	<u> </u>	101
Defined contribution pension cost	-		27	
Total pension costs	<u> </u>	-	<u> </u>	27
Total staff costs	<u> </u>	<u> </u>	<u> </u>	<u> </u>
		-		819

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

14. SHARE BASED REMUNERATION

During the previous year, the Company had various share based payment arrangements with employees. These represent rights granted to employees which will be satisfied by equity shares of the ultimate parent company. 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 14.

All of these arrangements are operated on a group-wide basis and thus employees transferring between the Company and other parts of the Group may have existing awards outstanding.

A summary of the number of share awards outstanding under each scheme at 30 September 2022 and at 30 September 2021 is set out below.

	Number 2022	Number 2021
(a) Sharesave Plan	-	37,606
(b) Performance Share Plan	-	144,243
(c) Company Share Option Plan	-	7,153
(d) Deferred Bonus Plan	-	6,470
	<u>-</u>	<u>195,472</u>

(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 2022	Number 2021
Sharesave Schemes				
31/07/2018	01/09/2021 to 01/03/2022	408.80p	-	880
31/07/2018	01/09/2023 to 01/03/2024	408.80p	-	733
30/07/2019	01/09/2022 to 01/03/2023	360.16p	-	9,042
30/07/2019	01/09/2024 to 01/03/2025	360.16p	-	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
28/07/2021	01/09/2024 to 01/03/2025	424.00p	-	4,327
			<u>-</u>	<u>37,606</u>

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 2022

14. 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 2022 and the year ended 30 September 2021, which were all made under the Sharesave scheme, are shown below.

Grant date	27/07/22	27/07/22	28/07/21	28/07/21
Number of awards granted	-	-	4,327	-
Market price at date of grant	527.0p	527.0p	554.50p	554.50p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	1.34	1.06	1.41	1.17
Inputs to valuation model				
Expected volatility	39.36%	33.75%	38.77%	33.10%
Expected life at grant date (years)	3.42	5.43	3.42	5.43
Risk-free interest rate	1.69%	1.74%	0.19 %	0.31 %
Expected dividend yield	5.37%	5.37%	3.90%	3.90%
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 2022 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 2022

14. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan (continued)

The conditional entitlements outstanding under this scheme at 30 September 2022 and 30 September 2021 were:

Grant Date	Period exercisable	Number 2022	Number 2021
08/12/2017	08/12/2020* to 07/12/2027 β	-	3,470
14/12/2018	14/12/2021* to 13/12/2028 ‡	-	29,636
06/07/2020	07/12/2022* to 05/07/2030 ϕ	-	63,103
11/12/2020	07/12/2025* to 05/07/2031 δ	-	48,034
		-	144,243

* 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 2022

14. 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 2022

14. 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 2022 and the year ended 30 September 2021 are shown below:

Grant date	11/12/20
Number of awards granted	48,034
Market price at date of grant	446.80p
Contractual life (years)	3.0
Fair value per share at date of grant	<u>407.50p</u>
Inputs to valuation model	
Expected volatility	37.85%
Expected life (years)	3.0
Risk-free interest rate	<u>(0.12)%</u>

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 2021.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

14. 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 2022 and the year ended 30 September 2021 is shown below.

	2022 Number	2022 Weighted average exercise price p	2021 Number	2021 Weighted average exercise price p
Options outstanding				
At 1 October 2020	7,153	423.57	18,659	419.97
Granted in the year	-	-	-	-
Transferred out	(7,153)	423.57	-	-
Exercised or surrendered in the year	-	-	(6,548)	393.36
Lapsed during the year	-	-	(4,958)	477.76
At 30 September 2021	<u>-</u>	<u>-</u>	<u>7,153</u>	<u>423.57</u>
Options exercisable	<u>-</u>	<u>-</u>	<u>2,410</u>	<u>477.76</u>

The weighted average remaining continental life of options outstanding at 30 September 2022 was 89.5 months (2021: 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 2022 and 30 September 2021 were:

Grant date	Period Exercisable	Exercise Price	Number 2022	Number 2021
08/12/2017	08/12/2020 to 07/12/2027 β	477.76p	-	2,410
14/12/2018	14/12/2021 to 13/12/2028 β	396.04p	-	4,743
			<u>-</u>	<u>7,153</u>

† 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 2022

14. 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 2022 and 30 September 2021 were:

Grant date	Period exercisable	Number 2022	Number 2021
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 2022

14. SHARE BASED REMUNERATION (CONTINUED)

(d) Deferred Bonus awards

Details of the awards over £1 ordinary shares made in the year ended 30 September 2022 and the year ended 30 September 2021 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	<u>353.62p</u>	<u>353.62p</u>

No departures are expected for grantees under this plan, except for grants under the all-employee grant in 2021, where a departure rate of 7.5% per annum is expected.

15. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution schemes

	2022 £000	2021 £000
Defined contribution pension scheme expense	<u>-</u>	<u>201</u>

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 2022

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

16. FINANCIAL RISK MANAGEMENT**Strategy in using financial instruments**

As stated in note 19 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 2022****17. 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 2022 or the period ended 30 September 2021 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 2022**

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

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

18. BASIS OF PREPARATION

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

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

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

The particular accounting policies adopted have been set out in note 19.

Adoption of new and revised reporting standards

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

Standards not yet adopted

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

19. 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 2022 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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2022****19. ACCOUNTING POLICIES (CONTINUED)****Going concern (continued)**

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

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

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.

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.

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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2022****19. ACCOUNTING POLICIES (CONTINUED)****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.

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.

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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2022****19. ACCOUNTING POLICIES (CONTINUED)****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.

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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2022****19. ACCOUNTING POLICIES (CONTINUED)****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.

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.

20. 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.