Company Registration No: 03901943

PARAGON DEVELOPMENT 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 Development 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 (CONTINUED)

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Development Finance Limited ('the Company') is a wholly owned subsidiary of Paragon Bank Plc, which itself is a wholly owned subsidiary of Paragon Banking Group PLC ('the Group') and was set up to provide finance for its development finance loan assets.

The Company was set up to originate development finance loans funded by borrowing from a fellow group company. This continues to be the principal activity of the Company. During the year the Company operated in the United Kingdom. The Company is currently engaged in loan relationships with other group companies. Paragon Bank PLC provided funding to the Company to purchase its original loan book and provides funding for further advances. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

As shown in the Company's profit and loss account on page 13, the profit after tax for the year was £35,157,000 (2021: £29,943,000). This was due to an increase in interest receivable on development finance loans as loans to customers increased by 24%.

The balance sheet on page 14 of the Financial Statements shows the Company's financial position at the year end. Loans to customers was £719,931,000 (2021: £604,869,000); as a result, the balance owed to group companies as at 30 September 2022 was £471,658,000 (2021: £377,087,000). Net assets have increased due to the profit during the year being more than the interim dividend paid.

The directors recommend no final dividend (2021: £nil) which, given the interim dividend of £48.78 per share (2021: £nil per share), means a total dividend for the year of £48.78 per share (2021: £nil per share).

The directors of the Company consider the results for the year to be satisfactory and are regularly monitoring the current market environment, including the impact of the Covid pandemic, 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 mortgage lending operation, which includes the Company, is discussed in the Annual Report of Paragon Banking Group PLC which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The assets of the Company 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 development properties 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.

STRATEGIC REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

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, a discussion of critical accounting judgements is set out in note 20 and a discussion of critical accounting estimates is set out in note 21.

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 Group'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.

STRATEGIC REPORT (CONTINUED)

BOARD AND STAKEHOLDERS (CONTINUED)

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, with a view to promoting the long-term success of the Company, taking into account those factors set out in section 172 of the Companies Act 2006 insofar as they are relevant, and the stakeholders impacted by such decisions.

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, 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 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

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in the Paragon Banking Group PLC Annual Report with supplementary information included in the Group's 2022 Responsible Business Report, neither of which forms part of this Report. Both documents are available on the Group's website.

STRATEGIC REPORT (CONTINUED)

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

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

17 February 2023

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Paragon Development Finance Limited, a company registered in England and Wales with registration no: 03901943, for the year ended 30 September 2022.

DIRECTORS

The directors throughout the year and subsequently were:

K G Allen

R J Woodman

D Newcombe

AUDITOR

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

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

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

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company, including events taking place after the balance sheet date, is included in the Strategic Report
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 16 to the accounts
- Disclosure of any dividends paid during the year is included in the Strategic Report

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

17 February 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.

K G Allen

Director

17 February 2023

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

Opinion

We have audited the Financial Statements of Paragon Development Finance Limited ("the Company") for the year ended 30 September 2022 which comprise the profit and loss account, the balance sheet, the statement of movements in equity and the related notes 1 to 22, 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.

Our risk assessment procedures included:

- Enquiring of directors, Internal Audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Internal Audit function, and the Company's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that the Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

On this audit we do not believe there is a fraud risk related to revenue recognition, with the exception of the EIR adjustment. The revenue streams are considered non-complex and require limited judgement. However, we have recognised a fraud risk in respect of the EIR adjustment to interest income given the subjectivity inherent in the estimate.

We also identified a fraud risk related to estimation of impairment provisions on loans to customers, specifically relating to the significant estimation uncertainty inherent in the subjective judgements or uncertainties that are difficult to corroborate.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user and those including specific descriptors.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and 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.

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

M Davidson

Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

17 February 2023

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
Interest receivable			
Development finance loans		69,118	55,863
Other		26	24
		69,144	55,887
Interest payable and similar charges	2	(15,353)	(10,968)
Net interest income		53,791	44,919
Other operating income		1,532	139
Total operating income		55,323	45,058
Operating expenses		(10,431)	(10,057)
Provisions for losses	8	(1,486)	1,946
Operating profit, being profit on ordinary activities before taxation	4	43,406	36,947
Tax on profit on ordinary activities	5	(8,249)	(7,004)
Profit on ordinary activities after taxation		35,157	29,943

All activities derive from continuing operations.

Interest receivable arises from financial assets held at amortised cost.

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	2022 £000	2021 £000	2021 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Tangible fixed assets	6	11		17	
Financial assets	7	284,331		588,344	
Investments – loans to group companies	9	50,415		50,426	
			334,757		638,787
CURRENT ASSETS					
Financial assets	7	435,600		16,525	
Debtors falling due within one year	10	301		1,291	
Cash at bank		2,422		6,022	
			438,323		23,838
			773,080		662,625
FINANCED BY					
EQUITY SHAREHOLDER'S FUNDS					
Called up share capital	12	410		410	
Share premium account	13	204,590		204,590	
Reserves	14	87,812		72,655	
			292,812		277,655
CREDITORS					
Amounts falling due within one year	15		480,268		384,970
			773,080		662,625

These Financial Statements were approved by the Board of Directors on 17 February 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	Share premium	Capital redemption reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
Total comprehensive income for the year					
Profit for the year	-	-	-	35,157	35,157
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	35,157	35,157
Transactions with owners					
Dividends	-	-	-	(20,000)	(20,000)
Net movement in equity in the year	-	-	-	15,157	15,157
Opening equity	410	204,590	712	71,943	277,655
Closing equity	410	204,590	712	87,100	292,812

YEAR ENDED 30 SEPTEMBER 2021

	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
Total comprehensive income for the year					
Profit for the year	-	-	-	29,943	29,943
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	29,943	29,943
Transactions with owners					
Issue of shares	250	-	-	-	250
Share premium	-	124,750	-	-	124,750
Capital redemption	-	-	712	-	712
Net movement in equity in the year	250	124,750	712	29,943	155,655
Opening equity	160	79,840	-	42,000	122,000
Closing equity	410	204,590	712	71,943	277,655

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2022

1. GENERAL INFORMATION

Paragon Development 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 03901943. 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 three sections:

- Analysis – providing further analysis and information on the amounts shown in the primary financial statements
- Financial Risk – providing information on the Company’s management of its principal financial risks
- Basis of preparation – providing details of the Company’s accounting policies and of how they have been applied in the preparation of the financial 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 PAYABLE AND SIMILAR CHARGES

	2022 £000	2021 £000
Interest payable to other group companies	15,353	10,968

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

3. DIRECTORS AND EMPLOYEES

Directors received no remuneration for the services provided to the Company during either the current or the preceding year.

The Company had no employees in the current or preceding year. All administration is performed by employees of the Group. The directors of the Company are all employed by Paragon Finance PLC, a fellow group company, and their remuneration is disclosed within the financial statements of that company, which do not form part of this Report.

4. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2022 £000	2021 £000
Operating profit is after charging:		
Depreciation on operating assets (note 6)	6	6
Auditor remuneration - audit services	16	14

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 - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2022 £000	2021 £000
Current tax		
Corporation tax	8,248	7,018
Adjustment in respect of prior periods	(1)	(4)
Total current tax	8,247	7,014
Deferred tax (note 11)		
Origination and reversal of timing differences	2	3
Recognition of previously unrecognised tax losses	-	(9)
Rate change	-	(4)
Total deferred tax	2	(10)
Tax charge on profit on ordinary activities	8,249	7,004

b) Factors affecting the tax charge for the year

	2022 £000	2021 £000
Profit before tax	43,406	36,947
UK corporation tax at 19% (2021: 19%) based on the profit for the year	8,247	7,020
Effects of:		
Non-deductable expenses	3	1
Prior year credit	(1)	(13)
Change in rate of taxation on deferred tax balances	-	(4)
Tax charge for the year	8,249	7,004

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.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

6. TANGIBLE FIXED ASSETS

	Computer equipment £000	Fixtures and fittings £000	Total £000
Cost			
At 1 October 2021	44	-	44
Additions	-	-	-
Disposals	-	-	-
At 30 September 2022	44	-	44
Accumulated depreciation			
At 1 October 2021	27	-	27
Charge for the year	6	-	6
Disposals	-	-	-
At 30 September 2022	33	-	33
Net book value			
At 30 September 2022	11	-	11
At 30 September 2021	17	-	17

7. FINANCIAL ASSETS

	2022 £000	2021 £000
Loans to customers (note 8)	719,931	604,869

The development finance loans have an average term of 20 months (2021: 20 months). Settlement of principal and accrued interest takes place once the development is sold or refinanced following its completion and the customer is not normally required to make payments during the term of the loan. The loans are secured by a legal charge over the site and / or property together with other charges and warranties related to the build.

Loans to customers is analysed as follows:

	2022 £000	2021 £000
Fixed assets	284,331	588,344
Current assets	435,600	16,525
	719,931	604,869

Other debits include primarily interest charged to customers on loans outstanding on these loans and other changes in the amortised cost of the assets caused by the effective interest rate method.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

This note sets out information on the Company's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 7, which are classified as loans held at amortised cost, under IFRS 9.

The disclosures are set out under the following headings:

- Basis of provision
- Impairments by stage and division
- Movements in impairment provision in the period
- Impairments charged to income

Basis of provision

IFRS 9 requires that impairment is evaluated on an expected credit loss ('ECL') basis. ECLs are based on an assessment of the probability of default ('PD') and loss given default ('LGD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. Provision may be based on either twelve month or lifetime ECL, dependant on whether an account has experienced a significant increase in credit risk ('SICR').

The Company's process for determining its provisions for impairments is summarised below. This includes:

- The methods used for the calculation of ECL
- How it defines SICR
- How it defines default
- How it identifies which loans are credit impaired, as defined by IFRS 9
- How the ECL estimation process is monitored and controlled
- How the Group develops and enhances the models it uses in the ECL estimation process
- How the Group uses judgemental adjustments to ensure all elements of credit risk are fully addressed

Calculation of expected credit loss ('ECL')

The loan book of the company contains a relative small number of loans and its historical loss level is such that a probability based model for defaults can not be derived. Due to the structure of the product, with no monthly payments required, days past due is also not a useful measure. Therefore the company's estimation of likely default relies on internal credit monitoring practices and professional credit judgement.

LGD for each account is derived by calculating a value for exposure at the point of default (which will include consideration of future interest, account charges and receipts) and reducing this for security values and costs of recovery. These calculations allow for the Company's potential case management activities. This evaluation includes the potential impact of economic conditions at the time of any future default or enforcement. The derivation of the significant assumptions used in these calculations is discussed below.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Calculation of expected credit loss ('ECL') (continued)

Notwithstanding the mechanical procedures discussed above, the Company will always consider whether the process generates sufficient provision for particular loans, especially large exposures, and will provide additional amounts as appropriate.

In extreme or unprecedented economic conditions, such as the Covid pandemic, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of present conditions. In these circumstances, management carefully review all outputs to ensure provision is adequate.

At 30 September 2022 the UK economy was subject to levels of inflation and interest rates not seen for some considerable time and not represented sufficiently in the data sets used to create the Group's models. There was also a level of uncertainty as to the direction of government policy which was unusual for the UK. The situation was evolving rapidly at the year end, meaning that there was a risk that credit metrics and external credit bureau data might not fully reflect increasing risks, which would lead to a potential understatement of PDs.

During 2021 the management concluded that Group's models do not fully represent loss expectations, and Post Model Adjustments ('PMA's) have been made to compensate for these weaknesses. However, for the year ending 30 September 2022 no model adjustments are required.

Significant Increase in Credit Risk ('SICR')

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

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

As part of its determination of whether model outputs form a reliable basis for impairment provisioning, the Company considered whether it had any evidence of groups of accounts demonstrating factors indicating a higher level of credit risk than other accounts in the same portfolios. No such evidence was noted at 30 September 2022, and hence no additional accounts were identified as having an SICR.

While no requirement to identify additional SICR cases has arisen in 2022, the approach is consistent with that adopted at 30 September 2021, and will be kept under review in future periods.

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Definitions of default

The Company's definition of default for its loan portfolio is aligned to its internal operational procedures and the regulatory definitions of default used internally.

IFRS 9 provides a rebuttable presumption that an account is in default when it is ninety days overdue, however, as the company's accounts do not generally require regular payments to be made this is of limited application. A combination of qualitative and quantitative measures were used in developing the definition, including account management activities and internal statuses.

Credit Impaired loans

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

Credit impaired assets are identified either through quantitative measures or by operational status. Designations of accounts for regulatory capital purposes are also taken into account. Assets may also be assigned to Stage 3 if they are identified as credit impaired as a result of management review processes. All default cases are considered to be credit impaired, even where such cases are being managed in the expectation of realising all of the carrying balance.

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

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

All default cases are considered to be credit impaired, including all receiver of rent cases and all cases with at least one payment more than ninety days overdue, even where such cases are being managed in the expectation of realising all of the carrying balance. In order to provide better information for users, additional analysis of credit impaired accounts has been presented below distinguishing between receiver of rent accounts, accounts subject to realisation / enforcement procedures and long term managed accounts, all of which are treated as credit impaired.

Monitoring of ECL estimation processes

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

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

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

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Monitoring of ECL estimation processes (continued)

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

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

Model development

The models used by the Group are updated from time to time to allow for changes in the business, developments in best practice and the availability of additional data with the passing of time. During the year ended 30 September 2021 a major update to the buy-to-let PD model took place.

All revised models and model enhancements are carefully reviewed and tested before adoption, and are subject to a governance process for their approval.

As a result of the reanalysis of updated historical data, the economic inputs identified as most predictive of future PD performance were changed, with the UK unemployment rate being substituted for UK GDP in the model as the indicator of general UK economic activity levels.

The impacts of the adoption of the new PD model on the calculated provision were not significant.

Impairments by Stage

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

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

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

For assets which were 'Purchased or Originated as Credit Impaired' ('POCI') accounts (i.e. considered as credit impaired at the point of first recognition) the carrying valuation is based on expected cash flows discounted by the EIR determined at the point of acquisition.

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Stage 1	Stage 2	Stage 3	POCI	Total
	£000	£000	£000	£000	£000
30 September 2022					
Gross loan book	675,738	41,825	-	6,906	724,469
Impairment provision	(2,649)	(418)	-	(1,471)	(4,538)
Total	673,089	41,407	-	5,435	719,931
Coverage ratio	0.39%	0.10%	0.00%	21.30%	0.63%
30 September 2021					
Gross loan book	550,067	50,698	-	6,923	607,688
Impairment provision	(2,100)	(507)	-	(212)	(2,819)
Total	547,967	50,191	-	6,711	604,869
Coverage ratio	0.38%	1.00%	0.00%	3.06%	0.46%

Movements in impairment provision by stage

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

	2022	2021
	£000	£000
At transition – 1 October 2021	2,819	6,926
Provided / (released) in period	1,964	(1,592)
Amounts written off	(245)	(2,515)
At 30 September 2022	4,538	2,819

Accounts are considered to be written off for accounting purposes when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. This has no effect on the net carrying value, only on the amounts reported as gross loan balances and accumulated impairment provisions.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

At 30 September 2022 enforceable contractual balances of £nil (2021: £nil) were outstanding on non-POCI assets written off in the period. This will exclude those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances will be kept under review for operational purposes but no amounts will be recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

A more detailed analysis of these movements by IFRS 9 stage for the year ended 30 September 2021 is set out below.

	Stage 1	Stage 2 *	Stage 3 *	POCI	Total
	£000	£000	£000	£000	£000
Loss allowance at 1 October 2021	2,100	507	-	212	2,819
New assets originated or purchased	1,884	-	-	-	1,884
Changes in loss allowance					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	(183)	183	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes on stage transfer	-	-	-	-	-
Changes due to credit risk	(1,152)	(272)	-	1,504	80
Write offs	-	-	-	(245)	(245)
Loss allowance at 30 September 2022	2,649	418	-	1,471	4,538
Loss allowance at 1 October 2020	3,797	1,022	2,107	-	6,926
New assets originated or purchased	859	-	-	-	859
Changes in loss allowance					
Transfer to stage 1	162	(162)	-	-	-
Transfer to stage 2	(257)	257	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes on stage transfer	(116)	108	-	-	(8)
Changes due to credit risk	(2,345)	(718)	408	212	(2,443)
Write offs	-	-	(2,515)	-	(2,515)
Loss allowance at 30 September 2021	2,100	507	-	212	2,819

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Balances at 1 October 2021	550,067	50,698	-	6,923	607,688
New assets originated or purchased	409,867	-	-	-	409,867
Changes in staging					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	(36,237)	36,237	-	-	-
Transfer to stage 3	-	-	-	-	-
Redemptions, repayments and drawings	(313,139)	(49,144)	-	(254)	(362,537)
Assets derecognised	-	-	-	-	-
Write offs	-	-	-	-	-
Other changes	65,180	4,034	-	237	69,451
Balance at 30 September 2022	675,738	41,825	-	6,906	724,469
Loss allowance	(2,649)	(418)	-	(1,471)	(4,538)
Carrying value	673,089	41,407	-	5,435	719,931
Balances at 1 October 2020	500,232	54,631	5,284	6,332	566,479
New assets originated or purchased	313,748	-	-	-	313,748
Changes in staging					
Transfer to stage 1	8,109	(8,109)	-	-	-
Transfer to stage 2	(21,769)	21,769	-	-	-
Transfer to stage 3	-	-	-	-	-
Redemptions, repayments and drawings	(302,974)	(22,423)	(2,769)	-	(328,166)
Assets derecognised	-	-	-	-	-
Write offs	-	-	(2,515)	-	(2,515)
Other changes	52,721	4,830	-	591	58,142
Balance at 30 September 2021	550,067	50,698	-	6,923	607,688
Loss allowance	(2,100)	(507)	-	(212)	(2,819)
Carrying value	547,967	50,191	-	6,711	604,869

Other charges includes interest and similar charges.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

8. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments charged / (credited) to income

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

	2022 £000	2021 £000
Provided / (released) in period	1,230	(4,461)
Written off	245	2,515
Impairment on investments	11	-
	1,486	(1,946)

9. INVESTMENTS – LOANS TO GROUP COMPANIES

	2022 £000	2021 £000
Shares in subsidiaries at cost and valuation:		
Balance at 1 October 2021 and 30 September 2022	-	-
Loans:		
Balance at 1 October 2021	50,426	50,426
Advances during the year	-	-
Impairment (note 8)	(11)	-
Balance at 30 September 2022	50,415	50,426
Total investments	50,415	50,426

The loans are to a subsidiary of the Company.

The subsidiary of the Company is Paragon Development Finance Services Limited. The principal activity of this subsidiary, which is wholly owned and registered in England and Wales, is the provision of servicing the loan book.

Group accounts have not been prepared as the Company is itself a wholly owned subsidiary and its results are consolidated by the parent company (note 22). The directors consider the investment to be worth at least the amount stated.

10. DEBTORS

	2022 £000	2021 £000
Amounts falling due within one year:		
Deferred tax (note 11)	18	20
Prepayments and accrued income	283	1,271
	301	1,291

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

11. DEFERRED TAX

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

	2022 £000	2021 £000
Balance at 1 October 2021	20	10
Profit and loss credit prior period (note 5)	-	9
Profit and loss charge (note 5)	(2)	(3)
Rate change (note 5)	-	4
Balance at 30 September 2022	18	20

The net deferred tax asset recognised is analysed as follows:

	2022 £000	2021 £000
Accelerated tax depreciation	10	12
Other timing differences	8	8
Net deferred tax asset	18	20

12. CALLED UP SHARE CAPITAL

The share capital of the Company consists of a single class of £0.02 ordinary shares.

Movements in the issued share capital in the year were:

	2022 £	2021 £
Ordinary shares		
At 1 October 2021	410,001	160,001
Shares issued	-	250,000
At 30 September 2022	410,001	410,001

In the preceding year the Company issued share capital, issuing 125,000,000 new A ordinary shares of £0.002 each at a subscription price of £1.00 per share (note 13).

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

13. SHARE PREMIUM

	2022 £000	2021 £000
Ordinary shares		
At 1 October 2021	204,590	79,840
Increase in share premium (note 12)	-	124,750
At 30 September 2022	204,590	204,590

14. RESERVES

	2022 £000	2021 £000
Capital redemption reserve	712	712
Profit and loss account	87,100	71,943
	87,812	72,655

15. CREDITORS

	2022 £000	2021 £000
Amounts falling due within one year:		
Amounts due to group companies	471,658	377,087
Corporation tax	8,248	7,082
Accruals and deferred income	362	801
	480,268	384,970

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

The Company's operations are financed principally by loans from other group companies. The principal risks arising from the Company's financial instruments is credit risk. The board of the Company's holding company reviews and agrees policies for all companies in the Group managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year and since the year end. The Company's primary financial liabilities are with other group companies; therefore, the directors do not consider that the Company is exposed to any significant cash flow or liquidity risks.

Credit risk

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

	Note	**2022**	**2021**
		£000	**£000**
Loans to customers	8	719,931	604,869
Cash		2,422	6,022
Investments	9	50,415	50,426
Maximum exposure to credit risk		772,768	661,317

Development finance loans are secured by the development property and various charges over the build.

Development finance loans do not require customers to make payments during the life of the loan, therefore arrears and past due measures cannot be used to monitor credit risk. Instead, cases are monitored on an individual basis by management and Credit Risk. The average loan to gross development value ('LTGDV') ratio for the portfolio at year end, a measure of security cover, is analysed below.

	2022	**2022**	**2021**	**2021**
	By value	**By number**	**By value**	**By number**
LTGDV	**%**	**%**	**%**	**%**
50% or less	7.9	5.1	2.9	5.3
50% to 60%	17.0	21.7	27.4	20.8
60% to 65%	45.0	39.1	44.0	49.0
65% to 70%	22.2	27.2	23.0	22.0
70% to 75%	5.8	6.2	1.4	1.6
Over 75%	2.1	0.7	1.3	1.3
	100.0	100.0	100.0	100.0

The average LTGDV cover at the year end was 62.10% (2021: 61.70%).

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

LTGDV is calculated by comparing the current expected end of term exposure with the latest estimate of the value of the completed development based on surveyors' reports.

At 30 September 2022 the development finance portfolio comprised 276 accounts (2021: 245) with a total carrying value of £719,900,000 (2021: £604,869,000).

Currency risk

The Company has no material exposure to foreign currency risk.

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

The Company had no financial assets or liabilities in the year ended 30 September 2022 or the year 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 – FINANCIAL RISK

YEAR ENDED 30 SEPTEMBER 2022

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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. Given the mixture of observable and non-observable inputs these are considered to be level 2 measurements. Market prices are not, however, available for certain financial assets and liabilities held or issued by the Company. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 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 and the critical accounting judgements and estimates which have been regarded in preparing these financial statements are described in notes 20 and 21 respectively.

Adoption of new and revised reporting standards

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

Standards not yet adopted

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

19. ACCOUNTING POLICIES

The particular accounting policies applied are described below.

Accounting convention

The Financial Statements are prepared under the historical cost convention. except as required in the valuation of certain financial instruments which are carried at fair value.

19. ACCOUNTING POLICIES (CONTINUED)

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.

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.

The Company is dependent on Group funding, principally provided by Paragon Bank PLC ('the Bank'), in order to support its lending activities and working capital. The Company is therefore dependent on the future support of the Group and, in particular on the Bank not seeking repayment of the amounts currently due, which at 30 September 2022 amounted to £471,658,000. The Bank has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts, and the forecasts have been prepared on the basis that no such repayment is demanded.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

In addition to the above, the directors consider that the company remains an integral part of the Group and the forecasts have been prepared on that basis.

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.

Loans to customers

Loans to customers includes assets accounted for as financial assets. The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and its business model for managing the asset. The Company has concluded that its business model for its customer loan assets is of the type defined as 'Hold to collect' by IFRS 9 and the contractual terms of the asset should give rise to cash flows that are solely payments of principal and interest ('SPPI'). Such loans are therefore accounted for on the amortised cost basis.

19. ACCOUNTING POLICIES (CONTINUED)

Loans to customers (continued)

Loans advanced are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter, all loans to customers are valued at this initial amount less the cumulative amortisation calculated using the EIR method. The loan balances are then reduced where necessary by an impairment provision.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payments and receipts arising from the loan to the initial carrying amount.

Where financial assets are credit-impaired at initial recognition the EIR is calculated on the basis of expected future cash receipts allowing for the effect of credit risk. In other cases, the expected contractual cash flows are used.

Impairment of loans and receivables

The carrying values of all loans to customers, whether accounted for under IFRS 9 or IAS 17, are reduced by an impairment provision based on their expected credit loss ('ECL'), determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

With the exception of 'Purchased or Originated as Credit Impaired' ('POCI') financial assets (which are discussed separately below), all assets are assessed to determine whether there has been a significant increase in credit risk ('SICR') since the point of first recognition (origination or acquisition).

Assets are also reviewed to identify any which are 'Credit Impaired'. SICR and credit impairment are identified on the basis of pre-determined metrics including qualitative and quantitative factors relevant to each portfolio, with a management review to ensure appropriate allocation.

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

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

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

In establishing an ECL allowance, the Company assesses its probability of default, loss given default and exposure at default for each reporting period, discounted to give a net present value. The estimates used in these assessments must be unbiased and take into account reasonable and supportable information including forward-looking economic inputs.

While the Company uses statistical models as the basis for its calculation of ECLs where appropriate, expert judgement will always be used to assess the adequacy of any calculated amount and additional provision made if required.

19. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables (continued)

For loan portfolios acquired at a discount, the discounts take account of future expected impairments and such assets are treated as POCI. For these assets, the Company recognises all changes in future cash flows arising from changes in credit quality since initial recognition as a loss allowance with any changes recognised in profit or loss.

For financial accounting purposes, provisions for impairments of loans to customers are held in an impairment allowance account from the point at which they are first recognised. These balances are released to offset against the gross value of the loan when it is written off for accounting purposes. This occurs when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. Any further gains from post-write off salvage activity are reported as impairment gains.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset, on a straight line basis, over its expected useful life, as follows:

Fixtures, fittings and equipment	3 -5 years straight line
Computer equipment	3 years straight line

Current tax

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

Deferred taxation

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

Revenue

The revenue of the Company comprises of interest receivable on loans to customers and other operating income. The accounting policy for the recognition of revenue is described separately within these accounting policies. Interest receivable on loans to customers is recognised in accordance with the effective interest rate method.

Fee and commission income

Other operating income includes administration fees charged to borrowers, which are credited to the profit and loss account when the related service is performed.

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 – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

19. ACCOUNTING POLICIES (CONTINUED)

Borrowings

Borrowings are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance.

Interest and all other costs of the funding are expensed to the profit and loss account as interest payable over the term of the borrowing on an Effective Interest Rate basis.

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 13 – 'Fair Value Measurement'

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

20. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 19 relate to:

Significant Increase in Credit Risk ('SICR')

Under IFRS 9, the directors are required to assess where a credit obligation has suffered a Significant Increase in Credit Risk ('SICR'). The directors' assessment is based primarily on changes in the calculated probability of default, but also includes consideration of other qualitative indicators and the adoption of the backstop assumption in the Standard that all cases which are more than 30 days overdue have a SICR, for account types where days overdue is an appropriate measure.

As part of its consideration of the adequacy of its impairment provisioning, management have considered whether there are any factors not reflected in its normal approach which indicate that a group, or groups of accounts should be considered as having an SICR. No such accounts were identified.

If additional accounts were determined to have an SICR, these balances would attract additional impairment provision, as such cases are provided on the basis of lifetime expected loss, rather the 12-month expected loss, and the overall provision charge would be higher. Conversely, if cases are incorrectly identified as SICR, impairment provisions will be overstated. Furthermore, adjustments to current PD estimates in the Group's models may also have the effect of identifying more or less accounts as having an SICR.

More information on the definition of SICR adopted is given in note 8.

Definition of default

In applying the impairment provisions of IFRS 9, the directors have used models to derive the probabilities of default. In order to derive and apply such models, it is required to define 'default' for this purpose. The Company's definition of default is aligned to its internal operational procedures. IFRS 9 provides a rebuttable presumption of default when an account is 90 days overdue and this was used as the starting point for this exercise. Other factors include account management activities or enforcement procedures.

A combination of qualitative and quantitative measures was considered in developing the definition of default.

If a different definition of default had been adopted the expected loss amounts derived might differ from those shown in the accounts.

More information on the Company's definition of default adopted is given in note 8.

Classification of financial assets

The classification of financial assets under IFRS 9 is based on two factors:

- The company's 'business model' – how it intends to generate cash and profit from the assets;
- The nature of the contractual cash flows inherent in the assets

Financial assets are classified as held at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

20. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

For an asset to be held at amortised cost, the cash flows received from it must comprise solely payments of principal and interest ('SPPI'). In effect, this restricts this classification to 'normal' lending activities, excluding arrangements where the lender may have a contingent return or profit share from the activities funded. The Company has considered its products and concluded that, as standard lending products, they fall within the SPPI criteria.

This is because all the Group's lending arrangements involve the advancing of amounts to customers, either as loans or finance lease products and the receipt of repayments of principal and charges, where those charges are calculated based on the amount loaned. There are no 'success fee' or other compensation arrangements not linked to the loan principal.

The use of amortised cost accounting is also restricted to assets which a company holds within a business model whose object is to collect cash flows arising from them, rather than seek to profit by disposing of them (a 'Held to Collect' model). The Company's strategy is to hold loan assets until they are repaid or written off. Loan disposals are rare, and the Company does not manage its assets in order to generate profits on sale. On this basis, it has categorised its business model as Held to Collect.

Therefore, the Company has classified its customer loan assets as carried at amortised cost. There were no significant changes in the nature of the Group's products, nor in the business models in which they are held, during the year.

21. CRITICAL ACCOUNTING ESTIMATES

Certain balances reported in the Financial Statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most important of these, those which could, if revised significantly in the next financial year, have a material impact on the carrying amounts of assets or liabilities are:

Impairment losses on loans to customers

Impairment losses on loans are calculated based on statistical models, applied to the present status, performance and management strategy for the loans concerned which are used to determine each loan's PD and LGD.

Internal information used will include number of months arrears and qualitative information, such as information on corporate performance or intended or current enforcement activity.

External information used includes customer specific data, such as credit bureau information as well as more general economic data.

Key internal assumptions in the models relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property or other charged assets. These cash flows will include payments received from the customer. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition, the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect current and expected conditions.

21. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Impairment losses on loans to customers (continued)

In evaluating the potential impact of the economic situation at 30 September 2022 this process is made more complex by both the elevated level of uncertainties and the lack of recent experience of similar situations against which to benchmark. At the same time, the level to which Covid-related 'scarring' has yet to manifest itself in credit metrics is still unclear.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

In order to provide forward looking economic inputs to the modelling of the ECL, the Company must derive a set of scenarios which are internally coherent. The Company addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes. These scenarios at 30 September 2022 have been derived in light of the current economic situation, at that date, modelling a variety of possible outcomes as described in note 8. It should be noted, however, that there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK, which have diverged again over the period since September 2021, with both UK economic and geopolitical uncertainties building.

The variables are used for two purposes in the IFRS 9 calculations:

- They are applied as inputs in the models which generate PD values, where those found by statistical analysis to have the most predictive value are used
- They are used as part of the calculation where the variable has a direct impact on the expected loss calculation, such as the house price index

The economic variables will also inform assumptions about the Company's approach to account management given a particular scenario.

In addition to uncertainty created by the economic scenarios, the Group recognises that the present situation lies outside the range of situations considered when it originally derived its IFRS 9 approach to impairment. It is considered that the current forecast scenarios, which include higher rates of interest and inflation than in the historically observed data, represent situations where its models may not be able to fully allow for potential economic impacts on its loan portfolios. It therefore assessed, for each class of asset, whether any adjustment to the normal approach was required to ensure sufficient provision was created and also reviewed other available data, both from account performance and customer feedback to form a view of the underlying reasons for observed customer behaviours and of their future intentions and prospects.

As a result of this exercise additional requirements for provision were identified for the year ended 30 September 2021, to compensate for potential model weakness and to allow for economic pressures in the wider economy which cannot be identified by a modelled approach. By their nature such adjustments are less systematic and therefore subject to a wider range of outturns. No adjustments were required for the year ended 30 September 2022.

The position after considering all these matters is set out in note 8.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

21. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Impairment losses on loans to customers (continued)

Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each loan and hence the cash flows relating thereto, including those relating to early redemption charges. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. For each portfolio a model is in place to ensure that income is appropriately spread.

The underlying estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and those predicted, which in turn would depend directly or indirectly (in the case of borrowings) on customer behaviour.

22. ULTIMATE PARENT COMPANY

The Company's immediate parent undertaking is Paragon Bank PLC. The Company's ultimate parent company and ultimate controlling party is Paragon Banking Group PLC. The smallest and largest group into which the Company is consolidated is that of Paragon Banking Group PLC, registered in England and Wales.

Copies of the financial statements of the Company and Paragon Banking Group PLC may be obtained from the Company Secretary, 51 Homer Road, Solihull, West Midlands, B91 3QJ.