

PARAGON ASSET FINANCE LIMITED

Report and Financial Statements

Year ended 30 September 2023

CAUTIONARY STATEMENT

Sections of this Annual Report, including but not limited to the Directors' Report and the Strategic Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Paragon 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.

Throughout the year, the Company operated in the United Kingdom ('UK') and its 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 loss for the year before tax of £10,534,000 (2022: profit of £18,638,000). £1,000,000 dividend was received during the year (2022: £13,000,000). During the year the Company wrote off £16,568,000 of the intercompany loan balance with Paragon Technology Finance Limited, which is included in provision for losses in the profit and loss account.

An interim dividend of £nil per share was paid during the year (2022: £0.10). No final dividend is proposed (2022: £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 current year has seen both inflation and interest rates in the UK reach their highest levels for several years, with interest rates at the year end reaching their highest level since April 2008 and cost pressures on both consumers and business increasing. It is considered likely, that this will have an impact on investment levels and credit performance across the SME sector, however the Group has seen relatively minor impacts on its credit to date.

The Company has established processes in place, 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 14.

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. 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 2023, 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 elevated levels of interest rates and inflation in the UK, with the ongoing pressures of the cost of living and doing business in the UK, and the wider geopolitical impacts of the conflict in Ukraine. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. The economics used in the forecasting process were updated in October 2023 based on updated external projections, consistent with those used in the Group's IFRS 9 impairment provisioning at 30 September 2023.

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 act in good faith and to promote the long-term sustainable success of the Company for the benefit of its shareholders and to fulfil the Company's purpose, having regard to the interests of all of its stakeholders. The Board confirms that, for the year ended 30 September 2023, it has acted to promote the success of the Company for the benefit of its members as a whole and continues to have due regard to the following matters insofar as they are applicable (as per section 172 (1) of the Companies Act 2006):

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

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

As a consequence, engagement with external shareholders takes place at a Group level. The Company looks to Group initiatives for guidance and takes them into account in its decision making. The Company follows Group policies and procedures, including those relating to the fair treatment of customers, standards of business conduct, employees, the environment, the community and other stakeholders. More detail may be found in the 2023 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 results of the survey were analysed in the year and used in the further development of the Group's procurement systems and processes. The Board also reviews the Company's results and operational performance, as well as information covering areas such as dividend payments and legal and regulatory compliance.

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 2023 Annual Report of Paragon Banking Group PLC, which does not form part of this Report. Further information can also be found in the Group's 2023 Responsible Business Report (published on the Paragon Banking Group PLC corporate 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 2023 Annual Report with supplementary information included in the Group's 2023 Responsible Business Report, neither of which forms part of this Report. Both documents are available on the Group's website.

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

02 February 2024

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The directors present the audited Financial Statements of Paragon Asset Finance Limited, a company registered in England and Wales with registration no: 02189858, for the year ended 30 September 2023.

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

02 February 2024

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

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

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

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



K G Allen

Director

02 February 2024

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 2023 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 19, including the accounting policies in note 17.

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2023 and of the company's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue streams are considered non-complex and require limited judgement.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. This included searching for those journals posted and approved by the same user, journals posted to seldom used accounts, unbalanced journal postings and those including specific descriptors.

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

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: conduct, money laundering, 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 the Group's regulatory correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

**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 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.

**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

02 February 2024

PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 SEPTEMBER 2023

	Note	2023 £000	2022 £000
Interest receivable and similar income	2	29,096	19,047
Interest payable and similar charges	3	(22,833)	(12,818)
Net interest income		<u>6,263</u>	<u>6,229</u>
Other operating income	4	1,544	13,532
Total operating income		<u>7,807</u>	<u>19,761</u>
Operating expenses	5	(1,698)	(1,123)
Provision for losses	6	(16,643)	-
Operating (loss) / profit, being (loss) / profit on ordinary activities before taxation		<u>(10,534)</u>	<u>18,638</u>
Tax on (loss) / profit on ordinary activities	7	(1,114)	(1,108)
(Loss) / profit on ordinary activities after taxation		<u><u>(11,648)</u></u>	<u><u>17,530</u></u>

All activities derive from continuing operations.

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

BALANCE SHEET

30 SEPTEMBER 2023

	Note	2023 £000	2022 £000
ASSETS			
Cash at bank		1,759	38
Investments	8	40,564	39,842
Debtors	9	782,129	766,588
Property, plant and equipment	10	-	-
Deferred tax assets	11	37	39
Total assets		<u>824,489</u>	<u>806,507</u>
LIABILITIES			
Creditors	12	684,029	654,150
Accruals and deferred income		171	475
Current tax liabilities		1,120	1,065
Total liabilities		<u>685,320</u>	<u>655,690</u>
SHAREHOLDER'S EQUITY			
Called up share capital	13	75,248	75,248
Profit and loss account		63,921	75,569
Total shareholder's equity		<u>139,169</u>	<u>150,817</u>
Total equity and liabilities		<u>824,489</u>	<u>806,507</u>

The financial statements were approved by the Board of Directors on 02 February 2024.

Signed on behalf of the Board of Directors:



K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2023

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Loss for the year	-	(11,648)	(11,648)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(11,648)	(11,648)
<i>Transactions with owners</i>			
Issue of shares	-	-	-
Dividends	-	-	-
Net movement in equity in the year	-	(11,648)	(11,648)
Opening equity	75,248	75,569	150,817
Closing equity	75,248	63,921	139,169

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2023

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
- Financial Risk – providing information on the Company's management of its principal financial risks
- Basis of preparation – providing details of the Company's accounting policies and of how they have been applied in the preparation of the financial statements

NOTES TO THE ACCOUNTS - ANALYSIS
YEAR ENDED 30 SEPTEMBER 2023

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

	2023	2022
	£000	£000
On loans to other group companies	29,096	19,047

Interest receivable arises from financial assets held at amortised cost.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2023	2022
	£000	£000
On loans from parent undertakings	22,824	12,814
Other interest	9	4
	22,833	12,818

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

4. OTHER OPERATING INCOME

	2023	2022
	£000	£000
Dividend income	1,000	13,000
Fee and commission income	544	532
	1,544	13,532

5. OPERATING EXPENSES

	2023	2022
	£000	£000
Administrative expenses	1,698	1,123
Depreciation on operating assets (note 10)	-	-
	1,698	1,123

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

5. OPERATING EXPENSES (CONTINUED)

The Company's audit fee for the current year of £83,000 (2022: £73,000) 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. PROVISIONS FOR LOSSES

	2023 £000	2022 £000
Impairment of financial assets		
Intercompany loan waiver	16,569	-
Investments (note 8)	74	-
	<u>16,643</u>	<u>-</u>

During the year, Paragon Technology Finance Limited, which owed £16,569k to Paragon Asset Finance, sold the majority of the loan book to a fellow group company. As a result of this decision, the amount due from Group company has been written off.

7. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2023 £000	2022 £000
Current tax		
Corporation tax	1,120	1,065
Adjustment in respect of prior periods	(8)	(15)
Total current tax	<u>1,112</u>	<u>1,050</u>
Deferred tax (note 11)		
Origination and reversal of timing differences	5	6
Adjustment in respect of prior periods	(3)	50
Rate change	-	2
	<u>2</u>	<u>58</u>
Tax charge on (loss) / profit on ordinary activities	<u>1,114</u>	<u>1,108</u>

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2023

7. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

b) Factors affecting the tax charge for the year

	2023 £000	2022 £000
(Loss) / profit before tax	(10,534)	18,638
UK corporation tax at 22% (2022: 19%) based on the (loss) / profit for the year	(2,317)	3,541
Effects of:		
Tax exempt revenues	(220)	(2,470)
Tax exempt expenses	3,662	-
Change in tax rate	-	2
Prior period adjustments	(11)	35
Tax charge for the year	<u>1,114</u>	<u>1,108</u>

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

8. INVESTMENTS

	Shares in group companies £000	Loans to group companies £000	Total £000
At 1 October 2021	21,374	13,777	35,151
Loans advanced	-	5,128	5,128
Loans repaid	-	(437)	(437)
At 30 September 2022	<u>21,374</u>	<u>18,468</u>	<u>39,842</u>
Investments in subsidiaries	19,264	-	19,264
Provisions movement (note 6)	(74)	-	(74)
Loans advanced	-	796	796
Loans repaid	-	(19,264)	(19,264)
At 30 September 2023	<u>40,564</u>	<u>-</u>	<u>40,564</u>

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 2023

8. INVESTMENTS (CONTINUED)

	Percentage held 2023	Percentage held 2022
Paragon Technology Finance Limited	100%	100%
Premier Asset Finance Limited	100%	100%
Homer Management Limited	100%	100%
Lease Portfolio Management Limited	100%	100%
Specialist Fleet Services Limited	100%	100%
Paragon Business Finance Plc	100%	100%
Collet Transport Services Limited	100%	100%
Paragon Commercial Finance Limited	100%	100%

During the year the company acquired the share capital of Premier Asset Finance Limited from PBAF No 1 Limited.

The following subsidiaries of the company were liquidated during the year: PBAF No.1 Limited, Fineline Holdings Limited, Fineline Media Finance Limited, State Securities Holdings Limited, Sate Security Limited, and City Business Finance Limited.

The ordinary shares of Collett Transport Services Limited are held by Specialist Fleet Services 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).

9. DEBTORS

	2023 £000	2022 £000
Amounts falling due within one year:		
Amounts due from group companies	782,019	766,422
Trade debtors	59	115
Other debtors	1	1
Sundry financial assets	<u>782,079</u>	<u>766,538</u>
Prepayments and accrued income	50	50
	<u><u>782,129</u></u>	<u><u>766,588</u></u>

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

NOTES TO THE ACCOUNTS - ANALYSIS
YEAR ENDED 30 SEPTEMBER 2023

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £000	Total £000
Cost		
At 1 October 2022	563	563
Additions	-	-
Disposals	-	-
At 30 September 2023	<u>563</u>	<u>563</u>
Accumulated depreciation		
At 1 October 2022	563	563
Charge for the year	-	-
Disposals	-	-
At 30 September 2023	<u>563</u>	<u>563</u>
Net book value		
At 30 September 2023	<u>-</u>	<u>-</u>
At 30 September 2022	<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.

The Company surrendered the lease on 2nd October 2023.

NOTES TO THE ACCOUNTS - ANALYSIS
YEAR ENDED 30 SEPTEMBER 2023

11. DEFERRED TAX

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

	2023	2022
	£000	£000
Balance at 1 October 2022	39	97
Prior year profit and loss credit / (charge) (note 7)	3	(50)
Profit and loss charge (note 7)	(5)	(6)
Rate change (note 7)	-	(2)
Balance at 30 September 2023	<u>37</u>	<u>39</u>

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

Accelerated tax depreciation	37	39
Other timing differences	-	-
	<u>37</u>	<u>39</u>

12. CREDITORS

	2023	2022
	£000	£000
Amounts falling due within one year:		
Amounts due to parent undertaking	683,866	653,386
Other creditors	163	764
Sundry financial liabilities	<u>684,029</u>	<u>654,150</u>

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

13. CALLED UP SHARE CAPITAL

	2023	2022
	£	£
Allotted:		
75,247,500 (2022: 75,247,500) ordinary shares of £1 each (fully paid)	<u>75,247,500</u>	<u>75,247,500</u>

NOTES TO THE ACCOUNTS – FINANCIAL RISK**YEAR ENDED 30 SEPTEMBER 2023**

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

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

As stated in note 17 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 2023****15. 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 2023 or the period ended 30 September 2022 valued using level 3 measurements.

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

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

Cash and 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 2023**

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

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

16. BASIS OF PREPARATION

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

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

The particular accounting policies adopted have been set out in note 17.

Adoption of new and revised reporting standards

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

Standards not yet adopted

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

Disclosures

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

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

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

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

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

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2023****17. ACCOUNTING POLICIES**

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

Accounting convention

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

Going concern

The financial statements have been prepared on the going concern basis.

The directors have adopted this basis following a going concern assessment for the Group and the Company covering a period of at least twelve months following the date of approval of these financial statements. Details of this assessment are set out in note 18.

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 right of use assets recognised in accordance with IFRS 16 is provided on a straight-line basis over the term of the lease.

Investment in subsidiaries

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

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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2023****17. ACCOUNTING POLICIES (CONTINUED)****Deferred taxation**

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

Interest and similar income

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

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

Interest expense and similar charges

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

Fee and commission income

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

- fees earned from services that are provided over a period of time, which are recognised over the period in which the service is provided;
- fees that are earned on completion of a significant act or on the occurrence of an event, such as the completion of a transaction, which are recognised when the act is completed or the event occurs.

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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**YEAR ENDED 30 SEPTEMBER 2023****17. ACCOUNTING POLICIES (CONTINUED)****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.

18. GOING CONCERN

The financial statements of the Company for the year ended 30 September 2023 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 2023, 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 elevated levels of interest rates and inflation in the UK, with the ongoing pressures of the cost of living and doing business in the UK, and the wider geopolitical impacts of the conflict in Ukraine. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. The economics used in the forecasting process were updated in October 2023 based on updated external projections, consistent with those used in the Group's IFRS 9 impairment provisioning at 30 September 2023.

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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2023

19. 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.