

MORTGAGE TRUST LIMITED

Report and Financial Statements

Year ended 30 September 2020

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Mortgage Trust Limited ('the Company') is a wholly owned subsidiary of Paragon Bank PLC, which is a wholly owned subsidiary of Paragon Banking Group PLC ('the Group'). The Company is a holding company coordinating the activities of its subsidiary companies. During the year the Company operated in the United Kingdom. There have been no significant changes in the Company's principal activities in the year under review. 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 7, the Company's profit has increased from £10,497,000 to £15,615,000. This was mainly due to the dividends received from its subsidiary companies increasing in the current year compared to the preceding year

The balance sheet on page 8 of the Financial Statements shows the Company's financial position at the year end. Net assets increased due to the profit for the year being more than the interim dividend being paid during the year. Details of amounts owed from and to other group companies are shown in notes 12 and 16.

The directors recommend no final dividend (2019: £nil) which, given the interim dividend of 57.7 pence per share (2019: 38.4 pence), means a total dividend for the year of 57.7 pence per share (2019: 38.4 pence per share).

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 Group's Annual Report, which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The assets of the Company are located entirely in the United Kingdom and its results are therefore impacted by the economic environment within the UK. A material downturn in economic performance could increase the numbers of customers who default on loans and / or cause the values of the properties over which the Company enjoys security to fall.

The UK economy in the current year has been impacted significantly by the effects of the Covid-19 virus. This has caused major economic disruption within the UK and global economy but has also driven governments and regulators to offer unprecedented levels of support to businesses and consumers, aimed at mitigating its impact.

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

Together with continuing uncertainty arising the potential impact economic impact of the UK's withdrawal from the European Union, the Covid-19 pandemic has made the long-term economic prospects for the UK and their impacts on the Company much difficult to forecast.

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 4.

GOING CONCERN

The performance of the Company is subject to analysis against plan, with key variances being analysed in detail on a monthly basis. This monitoring, particularly of credit and liquidity measures has been enhanced at Group level in response to the Covid-19 situation.

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

STRATEGIC REPORT (CONTINUED)**GOING CONCERN (CONTINUED)**

In compiling the most recent forecast, for the period commencing 1 October 2020, particular attention was paid to the potential consequences of Covid-19 on the Group's operations, customers, funding and prospects, both in the short and longer term. This included consideration of a number of different scenarios with impacts of varying duration and severity. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October in light of the continuing development of the Covid-19 crisis, based on updated external projections. Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products.

After considering the Company's position, the economic environment and the forecasts described above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. This is further supported by the Group holding sufficient cash resources to support the Company's obligations as they fall due. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

BOARD AND STAKEHOLDERS

The Board is mindful of its duty to act in good faith and to promote the success of the Group for the benefit of its shareholders and with regard to the interests of all of its stakeholders. The Board confirms that, for the year ended 30 September 2020, it has acted to promote the success of the Company for the benefit of its members as a whole and continues to have due regard to the following matters (as per section 172 of the Companies Act 2006):

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

The principal activity of the Company is to support the 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. There are also significant group stakeholders, including the entities to which the Company provides services, support and funding, aside from ownership interests.

As a consequence, engagement with external stakeholders takes place at a group level. The Company looks to group initiatives for guidance and takes them into account in its decision making. The Company follows Group policies and procedures as mentioned above, including those relating to the fair treatment of customers, standards of business conduct, the environment, the community and other stakeholders. More detail may be found in the Group's 2020 Annual Report and Accounts.

However, in considering items of business directors of the Company make autonomous decisions on each decision's own merits, after due consideration of the long-term success of the Company, those factors set out in section 172 of the Companies Act 2006, where relevant, and the stakeholders impacted. Board meetings are held periodically where the directors consider Company business, such as participation in securitisation and other group funding transactions, sales and purchases of mortgage assets, group funding arrangements and dividend payments.

The Board considers and discusses information from across the organisation to help it understand the Group's business and its impact on the Company. It also reviews strategy, financial, and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance.

SHAREHOLDERS

The Company has a single shareholder, Paragon Bank PLC, which is itself a wholly owned subsidiary of Paragon Banking Group PLC, the ultimate parent company of the Group. The interests of the Company's shareholders thus coincide with those of the shareholders of the Group (s172 (1)(f)).

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with group policies, which are described in the Group's Annual Report, which does not form part of this Report.

STRATEGIC REPORT (CONTINUED)

EMPLOYEES

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in its Annual Report, which does not form part of this Report.

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

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

K G Allen

Director

28 January 2021

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Mortgage Trust Limited, a company registered in England and Wales with registration no: 02048895, for the year ended 30 September 2020.

CORPORATE GOVERNANCE

The directors have been charged with governance in accordance with the transactional documentation detailing the mechanism and structure of the transaction. The structure of the Group is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

DIRECTORS

The directors throughout the year and subsequently were:

R D Shelton

R J Woodman

K G Allen

AUDITOR

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

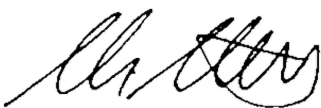
No notice from members under section 488 of the Companies Act 2006 having been received, the directors intend that the auditor, KPMG LLP, shall be deemed to be reappointed in accordance with section 487(2) of the Act.

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 4 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

28 January 2021

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

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

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

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



K G Allen

Director

28 January 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORTGAGE TRUST LIMITED

Opinion

We have audited the Financial Statements of Mortgage Trust Limited for the year ended 30 September 2020 which comprise the profit and loss account, the balance sheet, the statement of movements in equity and the related notes 1 to 17, including the accounting policies in note 3.

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including Financial Reporting Standard 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").

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

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

Strategic report and directors' report

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORTGAGE TRUST LIMITED (CONTINUED)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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



Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA

28 January 2021

MORTGAGE TRUST LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 30 SEPTEMBER 2020**

	Note	2020 £000	2019 £000
Interest receivable	5	1	-
Interest payable and similar charges	6	(1,711)	(1,855)
Net interest expense		<u>(1,710)</u>	<u>(1,855)</u>
Other operating income		17,000	12,000
Operating profit, being profit on ordinary activities before taxation	8	<u>15,290</u>	<u>10,145</u>
Tax on profit on ordinary activities	9	325	352
Profit on ordinary activities after taxation	15	<u><u>15,615</u></u>	<u><u>10,497</u></u>

All activities derive from continuing operations.

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

MORTGAGE TRUST LIMITED**BALANCE SHEET****30 SEPTEMBER 2020**

	Note	2020 £000	2020 £000	2019 £000	2019 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Investments in subsidiaries	10		131,678		131,678
CURRENT ASSETS					
Debtors falling due within one year	12		17,017		16
			<u>148,695</u>		<u>131,694</u>
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called up share capital	13	26,015		26,015	
Share premium account	14	65,250		65,250	
Profit and loss account	15	2,867		2,252	
			<u>94,132</u>	<u>93,517</u>	
CREDITORS					
Amounts falling due within one year	16		54,563		38,177
			<u>148,695</u>	<u>131,694</u>	

These Financial Statements were approved by the Board of Directors on 28 January 2021.

Signed on behalf of the Board of Directors



K G Allen

Director

MORTGAGE TRUST LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2020

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>				
Profit for the year	-	-	15,615	15,615
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	15,615	15,615
<i>Transactions with owners</i>				
Dividends	-	-	(15,000)	(15,000)
Net movement in equity in the year	-	-	615	615
Opening equity	26,015	65,250	2,252	93,517
Closing equity	26,015	65,250	2,867	94,132

YEAR ENDED 30 SEPTEMBER 2019

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>				
Profit for the year	-	-	10,497	10,497
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	10,497	10,497
<i>Transactions with owners</i>				
Dividends	-	-	(10,000)	(10,000)
Net movement in equity in the year	-	-	497	497
Opening equity	26,015	65,250	1,755	93,020
Closing equity	26,015	65,250	2,252	93,517

NOTES TO THE ACCOUNTS**YEAR ENDED 30 SEPTEMBER 2020****1. GENERAL INFORMATION**

Mortgage Trust 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 02048895. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

These financial statements are presented in pounds sterling, which is the currency of the economic environment in which the Company operates.

2. BASIS OF PREPARATION

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

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

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

- IFRS 16 – 'Leases'

This has had no impact upon the balance sheet or the profit and loss account.

3. ACCOUNTING POLICIES**Accounting convention**

The Financial Statements are prepared under the historical cost convention.

Going concern

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

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows on a company by company basis. In compiling the most recent forecast, for the period commencing 1 October 2020, particular attention was paid to the potential consequences of Covid-19 on the Group's operations, customers, funding and prospects, both in the short and longer term. This included consideration of a number of different scenarios with impacts of varying duration and severity. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October in light of the continuing development of the Covid-19 crisis, based on updated external projections. Future business activity was reforecast reflecting the potential impacts of the pandemic on markets and products.

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

Investment in subsidiaries

The investment in the subsidiary companies is shown at cost less provision for impairment.

NOTES TO THE ACCOUNTS**YEAR ENDED 30 SEPTEMBER 2020****3. ACCOUNTING POLICIES (CONTINUED)****Current taxation**

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

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 of Paragon Banking Group PLC.

Amounts owed by or to group companies

The balances owed by or to other group companies are carried at the current amount outstanding less any provision.

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
- 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’
- Certain disclosures required by IFRS 7 – ‘Financial Instruments Disclosures’

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

4. FINANCIAL RISK MANAGEMENT

As the Company only acts as a holding company, its risks are derived from its subsidiary companies, as described below:

The Company’s subsidiaries operations are financed principally by group loans and, to a lesser extent, by a mixture of share capital. In addition, various financial instruments, for example debtors and accruals, arise directly from the Company’s subsidiaries operations.

It is, and has been throughout the year under review, the Company’s subsidiaries policy that no trading in financial instruments shall be undertaken.

The principal risks arising from the Company’s subsidiaries financial instruments are credit risk, liquidity risk and interest rate risk. The board of the Company’s subsidiaries 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

The Company's subsidiaries credit risk is primarily attributable to its subordinated loans to other group companies, deferred purchase consideration. Subordinated loans made to other group companies provide the credit enhancement for the Company subsidiaries to commence trading. The repayment of these loans is dependent on the credit performance of the loan assets in the creditor company and hence the credit risk on these balances is managed through careful management of the credit risk on the Groups loans to customers

Mortgage Trust Services PLC, a fellow group company, administers the mortgages, and the collections process is the same as that utilised for all companies in the group.

The maximum credit risk at 30 September 2019 approximates to the carrying value of loans to customers, deferred purchase consideration and subordinated loans. There are no significant concentrations of credit risk due to the large number of customers included in the portfolios of other group companies.

In order to control credit risk relating to counterparties to the Company's subsidiaries financial instruments, the board of the Company's subsidiaries holding company determines on a Group basis, which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits.

Liquidity risk

It is the Company's subsidiaries 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 consider the year end position satisfactorily reflects the policies and objectives set out above.

The Company's subsidiaries have no external borrowings and liquidity is provided as part of the Group's working capital arrangements. The securitisation process and the terms of the warehouse facility effectively limit liquidity risk from the funding of the Group's loan assets. It remains to ensure that sufficient funding is available to fund the Group's participation in the SPVs, provide capital support for new loans and working capital for the Group. This responsibility rests with the Asset 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.

Interest rate risk

The interest rates charged on the Company's subsidiaries variable rate loan assets are determined by reference to, inter alia, the Company's subsidiaries funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Company's subsidiaries loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

Currency risk

The Company's subsidiaries have no material exposure to foreign currency risk.

5. INTEREST RECEIVABLE

Interest receivable includes £1,000 (2019: £nil) in respect of interest received on loans to other group companies.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2020	2019
	£000	£000
Interest payable to group companies	1,711	1,855

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

7. 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.

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

	2020	2019
	£000	£000
Operating profit is after receiving:		
Dividend income	17,000	12,000
	<u>17,000</u>	<u>12,000</u>

The Company's audit fee of £7,000 (2019: £7,000) has been borne by a fellow subsidiary. Non audit services 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.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax credit for the year

	2020	2019
	£000	£000
Current tax		
Group relief	(325)	(352)
	<u>(325)</u>	<u>(352)</u>

b) Factors affecting the tax credit for the year

	2020	2019
	£000	£000
Profit before tax	15,290	10,145
UK corporation tax at 19% (2019: 19.0%) based on the profit for the year	2,905	1,928
Effects of:		
Tax exempt revenues	(3,230)	(2,280)
Tax credit for the year	(325)	(352)
	<u>(325)</u>	<u>(352)</u>

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The standard rate of corporation tax in the UK applicable to the Company in the period was 19.0% (2019: 19.0%), based on currently enacted legislation. During the period, legislation was substantively enacted, reversing the reduction in the tax rate to 17.0% which had been due to come into effect from April 2020. Consequently, temporary differences which had been expected to reverse at a tax rate of 18% in the current year, or 17% in subsequent years, have either reversed or are expected to reverse at a rate of 19%. The impact of this change has been accounted for in the year.

10. INVESTMENTS

	2020	2019
	£000	£000
Shares in group undertakings		
Cost and valuation:		
Balance at 1 October 2019	131,678	131,678
Additions	-	-
Balance at 30 September 2020	<u>131,678</u>	<u>131,678</u>

11. SUBSIDIARY UNDERTAKINGS

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to the principal subsidiaries of the Company:

Name of undertaking	Country of Incorporation	% of ordinary shares held	Principal activity
Mortgage Trust Services PLC	England and Wales	100%	Provision of secured mortgage lending
First Flexible No.6 PLC	England and Wales	100%	Provision of secured mortgage lending

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

12. DEBTORS

	2020	2019
	£000	£000
Amounts falling due within one year:		
Amounts due from group companies	<u>17,017</u>	<u>16</u>

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

13. CALLED UP SHARE CAPITAL

	2020	2019
	£	£
Called up and allotted:		
26,015,412 ordinary shares of £1 each (fully paid)	26,015,412	26,015,412
	<u>26,015,412</u>	<u>26,015,412</u>

14. SHARE PREMIUM

	2020	2019
	£000	£000
Balance at 1 October 2019 and 30 September 2020	65,250	65,250
	<u>65,250</u>	<u>65,250</u>

15. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2018	1,755
Profit for the financial year	10,497
Dividend paid	<u>(10,000)</u>
At 30 September 2019	2,252
Profit for the financial year	15,615
Dividend paid	<u>(15,000)</u>
At 30 September 2020	<u>2,867</u>

An interim dividend of £0.58 pence per ordinary share (2019: £0.38 pence) was paid during the year. The directors do not propose a final dividend (2019: £nil).

16. CREDITORS

	2020	2019
	£000	£000
Amounts falling due within one year:		
Amounts due to group companies	54,563	38,177
	<u>54,563</u>	<u>38,177</u>

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

17. 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.