

PARAGON COMMERCIAL FINANCE LIMITED

Report and Financial Statements

Year ended 30 September 2020

PARAGON COMMERCIAL FINANCE LIMITED

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Commercial Finance Limited ('the Company') became a subsidiary of Paragon Banking Group PLC ('the Group') when it was acquired by Paragon Bank PLC ('Paragon Bank') in November 2015 as part of the development of an asset finance business within Paragon Bank. As a result, the Company benefits from the focus and investment that Paragon Bank brings to the development of its asset finance business.

The principal activity of the Company is the financing of heavy-duty equipment such as plant and construction equipment.

The Company's net interest income has increased from £3,429,000 to £3,913,000 due to the increasing loan book. The Company made a profit before tax of £593,000 (2019: £2,125,000) mainly due to provisions for losses provided for in the current year compared to a recovery in the preceding year. The Company enjoys a strong balance sheet and remains well funded which has resulted in a consistent approach to lending in a period of uncertainty.

Total loans and advances to customers decreased by 4% from £153m to £148m.

No interim dividend was paid during the year (2019: £nil). No final dividend is proposed (2019: £nil).

The directors of the Company consider the results for the year to be satisfactory and are regularly monitoring the current market environment, including the impact of the Novel Coronavirus 19 ('Covid-19') pandemic, to assess likely changes in the level of performance in the coming year.

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

The Company does not utilise derivative financial instruments.

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out in note 7, a discussion of critical accounting judgements is set out in note 5 and a discussion of critical accounting estimates is set out in note 6.

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, at Group level by the ability to access Bank of England schemes designed to support lending to SME businesses. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

BOARD AND STAKEHOLDERS

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

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

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

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

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

Board meetings may be held periodically where necessary for the directors to consider Company business. The Board considers and discusses information from across the organisation to help it understand the impact of the Group's operations, and the interests and views of key stakeholders. It also reviews strategy, financial, and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance.

SHAREHOLDERS

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

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with group policies, which are described in the Group's Annual Report, which does not form part of this Report (s172 (1)(d)).

STRATEGIC REPORT (CONTINUED)

EMPLOYEES

The directors recognise the benefit of keeping employees informed of the progress of the business. Employees have been provided with regular information on the performance and plans of the Group and the financial and economic factors affecting it, through both information circulars and management presentations (s172 (1)(b)).

The directors encourage employee involvement at all levels through the staff appraisal process, the Group's People Forum, employee engagement surveys and regular communication between directors, managers, teams, and individual employees. The Group's People Forum also contributed towards changing the supplier of recognition awards and supported the introduction of a new HR system.

The Company participates in a Sharesave share option scheme and a profit-sharing scheme, both of which enable eligible employees to benefit from the performance of the business.

The Company operates in accordance with group employment policies which, together with additional information on the operations of the People Forum, employee consultation arrangements and key metrics on the workforce, are described in the Group's Annual Report, which does not form part of this Report.

EMPLOYMENT OF DISABLED PERSONS

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The Company has continued its policy of providing appropriate training and career development to such persons.

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



K G Allen

Director

1 March 2021

PARAGON COMMERCIAL FINANCE LIMITED

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 Commercial Finance Limited, a company registered in England and Wales with registration no: 07036669, for the year ended 30 September 2020.

DIRECTORS

The directors throughout the year and subsequently were:

K McKeating
J Taplin
K Allen
G Leitch (resigned 4 October 2019)

AUDITOR

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

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

INFORMATION PRESENTED IN OTHER SECTIONS

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

- Commentary on the likely future developments in the business of the Company, including events taking place after the balance sheet date, is included in the Strategic Report.
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 7 to the accounts.
- Disclosure of any dividends paid during the year is included in the Strategic Report.

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



K G Allen

Director

1 March 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 Strategic Report, the Directors' 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 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 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 judgements 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- 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 company and enable them to ensure that the 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.

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



K G Allen

Director

1 March 2021

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

Opinion

We have audited the Financial Statements of Paragon Commercial Finance Limited (“the company”) for the year ended 30 September 2020 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 29, including the accounting policies in note 4.

In our opinion:

- the financial statements give a true and fair view of the state of the company’s affairs as at 30 September 2020 and of the company’s profit for the year then ended;
- the company’s financial statements have been properly prepared in accordance with International accounting standards in conformity with the requirements of the companies act 2006.
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

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

Strategic report and directors’ report

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

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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



Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

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

1 March 2021

PARAGON COMMERCIAL FINANCE LIMITED

PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Interest receivable and similar income	9		7,517		6,706
Interest payable and similar charges	10		(3,604)		(3,277)
Net interest income			<u>3,913</u>		<u>3,429</u>
Other leasing income	11	484		414	
Related costs	11	(379)		(333)	
Net leasing income		<u>105</u>		<u>81</u>	
Other income	12	592		531	
Other operating income			<u>697</u>		<u>612</u>
Total operating income			<u>4,610</u>		<u>4,041</u>
Operating expenses	13		(2,146)		(2,135)
Provision for losses	20		(1,871)		219
Operating profit, being profit on ordinary activities before taxation			<u>593</u>		<u>2,125</u>
Tax on profit on ordinary activities	16		(53)		(454)
Profit on ordinary activities after taxation	28		<u><u>540</u></u>		<u><u>1,671</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.

PARAGON COMMERCIAL FINANCE LIMITED

BALANCE SHEET

30 SEPTEMBER 2020

	Note	2020 £000	2019 £000
ASSETS			
Cash at bank		1,141	778
Financial assets	17	147,668	153,039
Tangible assets	21	1,991	1,505
Debtors	22	101	5
Deferred tax assets	23	672	458
Total assets		<u>151,573</u>	<u>155,785</u>
LIABILITIES			
Current tax liabilities		571	589
Creditors	24	146,709	151,423
Accruals		52	72
Total liabilities		<u>147,332</u>	<u>152,084</u>
SHAREHOLDER'S EQUITY			
Called up share capital	27	-	-
Profit and loss account	28	4,241	3,701
Total shareholder's equity		<u>4,241</u>	<u>3,701</u>
Total equity and liabilities		<u>151,573</u>	<u>155,785</u>

The financial statements of were approved by the Board of Directors on 1 March 2021.

Signed on behalf of the Board of Directors:



K G Allen
Director

PARAGON COMMERCIAL FINANCE LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2020

	Share capital	Profit and loss	Total
	£000	account	equity
		£000	£000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	540	540
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	540	540
<i>Transactions with owners</i>			
Dividends	-	-	-
Net movement in equity in the year	-	540	540
Opening equity	-	3,701	3,701
Closing equity	-	4,241	4,241

YEAR ENDED 30 SEPTEMBER 2019

	Share capital	Profit and loss	Total
	£000	account	equity
		£000	£000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	1,671	1,671
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,671	1,671
<i>Transactions with owners</i>			
Dividends	-	-	-
Net movement in equity in the year	-	1,671	1,671
Opening equity	-	2,673	2,673
Change in accounting policy on adoption of IFRS9		(643)	(643)
As restated		2,030	2,030
Closing equity	-	3,701	3,701

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

1. GENERAL INFORMATION

Paragon Commercial 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 07036669. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

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

2. BASIS OF PREPARATION

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

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

Adoption of new and reviewed reporting standards

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.

Accounting changes at 1 October 2018

The accounting changes affecting equity at 1 October 2018 relate to the adoption of IFRS 9 – 'Financial Instruments' and are described in detail in note 3 to the accounts for the year ended 30 September 2019.

3. CHANGES IN ACCOUNTING STANDARDS

a) IFRS 16 – 'Leases'

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

Lessor accounting

The provisions for lessor accounting under IFRS 16 are little changed from those in IAS 17 and so the accounting for the Company's finance lease receivables, shown in note 19 is not materially changed.

4. ACCOUNTING POLICIES

The particular accounting policies applied are described below.

As comparative financial information relating to the year ended 30 September 2019 and earlier periods has not been restated for IFRS 9, as permitted by that standard, the accounting policies applied differ to those used in the accounts for the year ended 30 September 2020. Where this is significant both policies are shown.

Accounting convention

The Financial Statements have been prepared under the historical cost convention.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. ACCOUNTING POLICIES (CONTINUED)

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.

The Company is dependent on Group funding, principally provided by Paragon Bank PLC ('the Bank'), in order to support its lending activities and working capital. The Company is therefore dependent on the future support of the Group and, in particular on the Bank not seeking repayment of the amounts currently due, which at 30 September 2020 amounted to £145,755,000. The Bank has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts, and the forecasts have been prepared on the basis that no such repayment is demanded.

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

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

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 to continue as a going concern for a period of not less than twelve months from the date of approval of these financial statements. They therefore concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the Annual Report and Accounts and these Financial Statements have been prepared on that basis.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. ACCOUNTING POLICIES (CONTINUED)

Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for impairment.

Income from finance lease contracts is governed by IFRS 16 – 'Leases' and accounted for on the actuarial basis.

Residual Values

Management use a combination of historic experience and future projections to estimate the appropriate residual value for particular vehicles or items of plant and equipment.

Revenue

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Interest receivable arises on other loans, finance agreements and commercial mortgages classified as loans and receivables and is recognised in the statement of comprehensive income using the effective interest rate method.

Financing costs

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.

Other operating income

Other operating income is generated from profits on the sale of fixed assets.

Financial liabilities

All financial liabilities are carried at amortised cost.

Impairment of loans and receivables

The carrying values of all loans to customers, whether accounted for under IFRS 9 or IFRS 16, are reduced by an impairment provision based on their expected credit loss ('ECL'), determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

All assets are assessed to determine whether there has been a significant increase in credit risk ('SICR') since the point of first recognition (origination or acquisition). Assets are also reviewed to identify any which are 'Credit Impaired'. SICR and credit impairment are identified on the basis of pre-determined metrics including qualitative and quantitative factors relevant to each portfolio, with a management review to ensure appropriate allocation.

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

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

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables (continued)

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

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

Leases

Year ended 30 September 2020 under IFRS 16

For leases where the Company is the lessee a right of use asset is recognised in property plant and equipment on the inception of the lease based on the discounted value of the minimum lease payments at inception. A lease liability of the same amount is recognised at inception, with the unwinding of the discount included in the interest payable.

Leases where the Company is lessor are accounted for as operating or finance lease in accordance with IFRS 16 – ‘Lease’. A finance lease is one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

Rental income and costs on operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease term. The associated assets are included within property plant and equipment.

Year ended 30 September 2019 under IAS 17

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

Tangible Assets

All tangible assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is calculated using the straight-line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

Cars	3-4 years
Commercial vehicles	2-7 years
Computer & Office Equipment	2-5 years
Furniture and fittings	2-5 years
Plant and machinery	3-5.33 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These gains and losses are recognised in the profit and loss.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, tangible assets are assessed for indications of impairment. If such indications are present, these assets are subject to an impairment review. If impaired, the carrying values of assets are written down by the amount of any impairment and the loss is recognised in the statement of comprehensive income in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset is only increased up to the amount that it would have been had the original impairment not been recognised.

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.

Pensions

The Company does not operate its own pension scheme. It does make contributions to the Paragon Asset Finance Stakeholder defined contribution scheme and other external defined contribution schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The contributions payable by the Company to the independently administered funds are charged through the profit and loss as they arise.

Current tax

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

Deferred taxation

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

Share Based Payments

In accordance with IFRS 2 – 'Share based payments' ('IFRS 2'), the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date. National Insurance on share based payments is accrued over the vesting period, based on the share price at the balance sheet date. Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

**NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020**

4. ACCOUNTING POLICIES (CONTINUED)

Disclosures

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

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

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

- Certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company.

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

5. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 4 relate to:

Significant Increase in Credit Risk ('SICR')

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

If additional accounts were determined to have an SICR, these balances would attract additional impairment provision and the overall provision charge would be higher.

In determining whether an account has a SICR in the Covid-19 environment the granting of Covid-19 reliefs, including payment holidays and similar arrangements, may mean that a SICR may exist without this being reflected in either arrears performance or credit bureau data. The Group has accepted the advice of UK regulatory bodies that the grant of Covid-19 relief does not, of itself, indicate an SICR, but has carefully considered internal credit and customer data to determine whether there might be any accounts with SICR not otherwise identified by the process.

More information on the definition of SICR adopted is given in note 20.

Definition of default

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

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

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

More information on the Company's definition of default adopted is given in note 20.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

6. CRITICAL ACCOUNTING ESTIMATES

Certain balances reported in the Financial Statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most significant of these are:

Impairment losses on loans to customers

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

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

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

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

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

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

In order to provide forward looking economic inputs to the modelling of the ECL, the Company must derive a set of scenarios which are internally coherent. The Company addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes.

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

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

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

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

6. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. These estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and that predicted, which in turn would depend directly or indirectly on customer behaviour.

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Company provides a range of leasing and lending products to its clients and funds these activities by means of intercompany borrowings. The intercompany loans are made available to the Company at a fixed rate which minimises the interest rate risk. As follows:

The principal risks arising from the Company's financial instruments are credit risk, 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. 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.

Credit risk

Credit risk arises from all exposures to customers on the Company's leasing and lending activities. The Company Board establishes underwriting limits, reviews concentrations and establishes procedures on credit decisions. Transactions that exceed the Company's own limits are then passed to the immediate parent for a decision. Regular meetings review major exposures and levels of default together with other credit issues. Concentration limits are set for exposure by asset type.

Exposure to credit risk is managed by detailed analysis of the customer's position prior to entering into an exposure, and by continued monitoring thereafter. The Company places significant emphasis on the value of the assets involved in the transaction; the Company monitors the value of the assets. For internal monitoring purposes, credit exposure on leases and loans are measured as the principal amount outstanding plus accrued interest.

The Company reviews credit exposures on leases and other lending products on a quarterly basis and for this purpose they are classified as 'Impaired' or 'Up to date', reflecting the risk of default and the estimate of loss in the event of default. The circumstances in which a financial asset is considered to be impaired are described in note 4.

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 30 SEPTEMBER 2020

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

	Note	2020 £000	2019 £000
Financial assets	17	147,668	153,039
Cash		1,141	778
Trade debtors	22	60	-
Maximum exposure to credit risk		148,869	153,817

The Company has title to the plant and equipment that it leases. The fair value of the equipment on the lease is not considered to be significantly different to the net investment in the leases.

The Company monitors concentrations of credit risk by exposure to asset type. All of the Company's credit exposure is in the United Kingdom. The table below shows an analysis of loans and advances to customers by asset type.

	Past due but not impaired 2020 £000	Past due but not impaired 2019 £000
Plant and equipment	3,069	3,466
Total	3,069	3,466

Interest rate risk

The Company's assets are effectively fixed rate exposures and it is funded through fixed rate borrowings from other Group entities. Its interest rate risk is therefore immaterial.

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

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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

	Repayable on demand	1 year or less	5 years or less but over 1 year	Over 5 years	Total
	£000	£000	£000	£000	£000
At 30 September 2020					
Assets					
Cash and cash equivalents	1,141	-	-	-	1,141
Loans and advances to customers	-	52,896	91,421	3,351	147,668
Other financial assets	60	-	-	-	60
	<u>1,201</u>	<u>52,896</u>	<u>91,421</u>	<u>3,351</u>	<u>148,869</u>
Total assets					
Liabilities					
Other borrowed funds	145,755	-	-	-	145,755
Other liabilities	-	954	-	-	954
	<u>145,755</u>	<u>954</u>	<u>-</u>	<u>-</u>	<u>146,709</u>
Total liabilities					
Net liquidity surplus	<u>(144,554)</u>	<u>51,942</u>	<u>91,421</u>	<u>3,351</u>	<u>2,160</u>
	Repayable on demand	1 year or less	5 years or less but over 1 year	Over 5 years	Total
	£000	£000	£000	£000	£000
At 30 September 2019					
Assets					
Cash and cash equivalents	778	-	-	-	778
Loans and advances to customers	-	58,318	92,135	2,586	153,039
Other financial assets	-	-	-	-	-
	<u>778</u>	<u>58,318</u>	<u>92,135</u>	<u>2,586</u>	<u>153,817</u>
Total assets					
Liabilities					
Other borrowed funds	150,661	-	-	-	150,661
Other liabilities	-	762	-	-	762
	<u>150,661</u>	<u>762</u>	<u>-</u>	<u>-</u>	<u>151,423</u>
Total liabilities					
Net liquidity surplus	<u>(149,883)</u>	<u>57,556</u>	<u>92,135</u>	<u>2,586</u>	<u>2,394</u>

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital management

The Company defines capital as total shareholders' equity which was £4,241k (2019: £3,701k). The Company's capital resource policy is to maintain a strong capital base. It seeks to maintain at all times a prudent relationship between total capital and the varied risks of its business. There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

	2020 Carrying Value £000	2020 Fair Value £000	2019 Carrying Value £000	2019 Fair Value £000
Financial assets				
Cash and cash equivalents	1,141	1,141	778	778
Loans and advances to customers	147,668	147,668	153,039	153,039
Other financial assets	60	60	-	-
	<u>148,869</u>	<u>148,869</u>	<u>153,817</u>	<u>153,817</u>
Financial liabilities				
Other borrowed funds	145,755	145,755	150,661	150,661
Other liabilities	954	954	762	762
	<u>146,709</u>	<u>146,709</u>	<u>151,423</u>	<u>151,423</u>

The Company had no financial assets or liabilities in the year ended 30 September 2020 or the year ended 30 September 2019 valued using level 3 measurements.

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

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

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Cash and bank loans

The fair values of cash and cash equivalents, bank loans and overdrafts 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, little difference arises. This also applies to the parent company's loans to its subsidiaries.

Loan assets

To assess the likely fair value of the Company's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Company's investments in its loans to customers based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. The directors consider that the fair value of the loan assets is not materially different from the carrying value. Given the mixture of observable and non-observable inputs these are considered to be level 2 measurements.

Market prices are not, however, available for certain financial assets and liabilities held or issued by the Company. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020	2019
	£000	£000
Interest earned on loans and advances	7,517	6,706

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2020	2019
	£000	£000
On loans from parent undertakings	3,604	3,277

11. NET OPERATING LEASE INCOME

	Note	2020	2019
		£000	£000
Operating lease rentals		484	414
Depreciation of lease assets	21	(379)	(333)
Net operating lease income		105	81

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 30 SEPTEMBER 2020

12. OTHER OPERATING INCOME

	2020	2019
	£000	£000
Fee and commission income	45	65
Other operating income	547	466
	<u>592</u>	<u>531</u>

13. OPERATING EXPENSES

	2020	2019
	£000	£000
Staff Costs (note 14)	1,510	1,545
Administrative expenses	602	561
Audit fees relating to the Company	32	26
Depreciation (note 21)	2	3
	<u>2,146</u>	<u>2,135</u>

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

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

14. DIRECTORS AND EMPLOYEES

a) Directors

	2020	2019
	£000	£000
Directors' emoluments:		
Other emoluments	294	322
Long term incentives	-	-
	<u>294</u>	<u>322</u>
Pension contributions paid in respect of directors	<u>48</u>	<u>44</u>
Emoluments of the highest paid director:		
Excluding pension contributions	164	164
Pension contributions	26	22
	<u>190</u>	<u>186</u>

The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was two (2019: two). The number of the directors during the year in respect of whose service shares were received or receivable under the Group's long-term incentive schemes was four (2019: three). One director not including the highest paid director exercised awards during the year.

b) Employees

The average number of persons (including directors) employed by the Company during the year was 17 (2019: 17). The costs incurred during the year in respect of these employees were:

	2020	2020	2019	2019
	£000	£000	£000	£000
Share based remuneration	21		8	
Other wages and salaries	1,182		1,238	
Total wages and salaries	<u>1,203</u>	1,203	<u>1,246</u>	1,246
National insurance on share based remuneration	-		-	
Other social security costs	180		174	
Total social security costs	<u>180</u>	180	<u>174</u>	174
Defined contribution pension cost	127		125	
Total pension costs	<u>127</u>	127	<u>125</u>	125
Total staff costs	<u>1,510</u>	<u>1,510</u>	<u>1,545</u>	<u>1,545</u>

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

15. SHARE BASED REMUNERATION

During the period, the Company had various share based payment arrangements with employees. They are accounted for by the Company as shown below.

The effect of the share based payment arrangements on the Company's profit is shown in note 14.

(a) Share option schemes

The Group operates an All Employee Share Option ('Sharesave') scheme under which employees of the Company are eligible to benefit. Grants under this scheme vest, in the normal course, after the completion of the appropriate service period and subject to a savings requirement.

Options currently outstanding under the Sharesave schemes to purchase ordinary shares in the parent company are as follows:

Grant date	Period exercisable	Exercise price	Number 2020	Number 2019
<i>Sharesave Schemes</i>				
20/06/2016	01/08/2019 to 01/02/2020	249.44p	-	-
20/06/2016	01/08/2021 to 01/02/2022	249.44p	2,405	7,215
28/07/2017	01/09/2020 to 01/03/2021	341.76p	8,740	9,793
31/07/2018	01/09/2021 to 01/03/2022	408.80p	5,853	6,425
30/07/2019	01/09/2022 to 01/03/2023	360.16p	7,744	7,744
27/07/2020	01/09/2023 to 01/03/2024	278.56p	21,319	-
27/07/2020	01/09/2025 to 01/03/2026	278.56p	1,076	-
			47,137	31,177

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

The fair value of options granted is determined using a Binomial model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2020 and the year ended 30 September 2019, which were all made under the Sharesave scheme, are shown below.

Grant date	20/07/20	20/07/20	31/07/19	31/07/19
Number of awards granted	21,319	1,076	7,744	-
Market price at date of grant	343.20p	343.20p	422.00p	422.00p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	0.62	0.55	0.51	0.53
Inputs to valuation model				
Expected volatility	34.24%	32.98%	22.58%	26.44%
Expected life at grant date (years)	3.45	5.45	3.48	5.47
Risk-free interest rate	(0.13) %	(0.11) %	0.36%	0.40%
Expected dividend yield	4.34%	4.34%	4.95%	4.95%
Expected annual departures	5.00%	5.00%	5.00%	5.00%

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the six years preceding the grant date. The five-year schemes use share price data for the preceding five years.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

15. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan

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

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

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

Grant date	Period Exercisable	Number 2020	Number 2019
06/07/2020	07/12/2022* to 05/07/2030 ϕ	11,641	-
		<u>11,641</u>	<u>-</u>

* Estimated date

ϕ These awards are subject to performance criteria, similar to those described at β above, except that:

- The TSR condition related to 25% of the grant, not 50%.
- The EPS condition is measured against an absolute target. Full vesting occurs if EPS for the third year of the test period is at least 67p, 25% vesting if EPS in this year is 60p and vesting between those points on a straight line basis.
- The risk condition comprises two components. 50% of the risk element is based on an assessment by the Chief Risk Officer of the six key measures of the Group's risk appetite: regulatory breaches; customer service performance; conduct; operational risk incidents; capital and liquidity; and credit losses. The remaining 50% is based on a strategic risk assessment reflecting the management of risk as it impacts on the delivery of the Group's medium term strategy.
- 12.5% of the grant is determined based on a customer service test assessed by the Chair of the Risk and Compliance Committee. The customer service test is based on the performance of the Group against its most significant customer service metrics including insight feedback on key product lines and complaint levels. 50% of this tranche will vest for on-target performance.
- 12.5% of the grant is determined based on a people test. The people test is based on the performance of the Group against its most significant employment metrics including employee engagement, voluntary attrition and gender diversity levels. 50% of this tranche will vest for on-target performance.
- Due to the volatility of the share price at the time of grant, the Remuneration Committee may adjust the vesting levels at the vesting date if it believes that the use of this share price has created a potential windfall gain.

No CSOP grants were made in conjunction with this award, therefore no adjustment on vesting will take place.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

15. SHARE BASED REMUNERATION (CONTINUED)

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2020 and the year ended 30 September 2021 are shown below:

Grant date	06/07/20
Number of awards granted	15,509
Market price at date of grant	360.60p
Fair value per share at date of grant	<u>301.32p</u>
Inputs to valuation model	
Expected volatility	33.93%
Risk-free interest rate	<u>(0.06)%</u>

For all of the above grants the contractual life and expected life at grant date is 2.4 years (2019: 3 years) and no departures are expected. The expected volatility is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date.

The effect of the CSOPs is not allowed for in the IFRS 2 market values of the 2016, 2017 and 2018 grants.

16. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2020	2019
	£000	£000
Current tax		
Corporation tax	544	562
Adjustment in respect of prior periods	(277)	16
Total current tax	<u>267</u>	<u>578</u>
Deferred tax (note 23)		
Origination and reversal of timing differences	(431)	(154)
Adjustment in respect of prior periods	243	(27)
Rate change	(26)	57
	<u>(214)</u>	<u>(124)</u>
Tax charge on profit on ordinary activities	<u>53</u>	<u>454</u>

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 30 SEPTEMBER 2020

16. TAX ON PROFIT ON ORDINARY ACTIVITIES

b) Factors affecting the tax charge for the year

	2020	2019
	£000	£000
Profit before tax	593	2,125
UK corporation tax at 19.0% (2019: 19.0%) based on the profit for the year	113	404
Effects of:		
Expenses not deductible for tax purposes	-	4
Change in tax rate	(26)	57
Prior period adjustments	(34)	(11)
Tax charge for the year	53	454

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.

17. FINANCIAL ASSETS

	2020	2019
	£000	£000
Loan accounts (note 18)	4,426	-
Finance lease receivables (note 19)	143,242	153,039
Loans to customers (note 20)	147,668	153,039

18. LOAN ACCOUNTS

Loan accounts at 30 September 2020 and 30 September 2019, which are all denominated and payable in sterling, were:

	2020	2019
	£000	£000
Loan accounts	4,426	-
	4,426	-

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 30 SEPTEMBER 2020

19. FINANCE LEASE RECEIVABLES

With effect from 1 October 2019, the Company's finance leases have been accounted for in accordance with IFRS 16 (note 3). Balance shown in preceding periods are accounted for in accordance with IAS 17, however both standards require the same accounting treatment.

The minimum lease payments due under these loan agreements are:

	2020	2019
	£000	£000
Amounts receivable under finance leases		
Within one year	59,881	89,527
Within one to two years	43,799	40,233
Within two to three years	29,004	20,605
Within three to four years	16,430	9,219
Within four to five years	5,912	2,477
After five years	3,023	783
	158,049	162,844
Less: future finance income	(12,637)	(8,896)
	145,412	153,948

The present values of those payments, net of provisions for impairment, carried in the accounts are:

	2020	2019
	£000	£000
Amounts receivable under finance leases		
Within one year	55,093	84,637
Within one to two years	40,297	38,035
Within two to three years	26,685	19,479
Within three to four years	15,116	8,715
Within four to five years	5,440	2,342
After five years	2,781	740
	145,412	153,948
Allowance for uncollectable amounts	(2,170)	(909)
Present value of lease obligations	143,242	153,039

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

This note sets out information on the Company's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 17, which are accounted for under IAS 17, but are subject to the IFRS 9 impairment requirements.

The disclosures are set out under the following headings:

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

Basis of provision

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

Calculation of expected credit loss ('ECL')

For the majority of the Company's loan assets, the ECL is generated using statistical models applied to account data to generate PD and LGD components.

PD on both a twelve month and lifetime basis is estimated based on statistical models for the Company's most significant asset classes. The PD calculation is a function of current asset performance, customer information and future economic assumptions. The structure of the models was derived through analysis of correlation in historic data, which identified which current and historical customer attributes and external economic variables were predictive of future loss. The Company utilised all reasonably available information in its possession for this exercise.

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

In certain asset classes a fully modelled approach is not possible. This is generally where there are few assets in the class, where there is insufficient historical data on which to base an analysis or where certain measures, such as days past due are not useful. In these cases, which represent a small proportion of the total portfolio, alternative approaches are adopted. These rely on internal credit monitoring practices and professional credit judgement. Notwithstanding the mechanical procedures discussed above, the Company will always consider whether the process generates sufficient provision for particular loans, especially large exposures, and will provide additional amounts as appropriate.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Significant Increase in Credit Risk ('SICR')

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

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

In all cases accounts which are more than one month in arrears, where this is a meaningful measure, are considered to have an SICR.

The Company uses arrears multiples as a proxy for days past due, as this measure is commonly used in its arrears reporting. A loan will generally be one month in arrears from the point it is one day past due until it is thirty days past due.

Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The Company's definitions of default for its various portfolios are aligned to its internal operational procedures and the regulatory definitions of default used internally.

IFRS 9 provides a rebuttable presumption that an account is in default when it is ninety days overdue and this was used as the basis of the Company's definition. A combination of qualitative and quantitative measures were used in developing the definitions. These include account management activities and internal statuses.

Credit Impaired loans

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

Credit impaired assets are identified either through quantitative measures or by operational status. Designations of accounts for regulatory capital purposes are also taken into account. Assets may also be assigned to Stage 3 if they are identified as credit impaired as a result of management review processes.

IFRS 9 Staging

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages, with accounts which were credit impaired on initial recognition representing a fourth class.

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

On initial recognition, and for assets where there has not been an SICR, provisions will be made in respect of losses resulting from the level of credit default events expected in the twelve months following the balance sheet date

Where a loan has experienced an SICR, whether or not the loan is considered to be credit impaired, provisions will be made based on the ECLs over the full life of the loan

For credit impaired assets, provisions will also be made on the basis of ECLs.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments by stage

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

	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
<i>30 September 2020</i>				
Gross loan book	146,847	859	2,263	149,969
Impairment provision	(1,834)	(4)	(463)	(2,301)
Net loan book	<u>145,013</u>	<u>855</u>	<u>1,800</u>	<u>147,668</u>
Coverage ratio	<u>1.25%</u>	<u>0.46%</u>	<u>20.40%</u>	<u>1.53%</u>
	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
<i>30 September 2019</i>				
Gross loan book	148,581	3,813	1,554	153,948
Impairment provision	(209)	(5)	(695)	(909)
Net loan book	<u>148,372</u>	<u>3,808</u>	<u>859</u>	<u>153,039</u>
Coverage ratio	<u>0.14%</u>	<u>0.13%</u>	<u>44.72%</u>	<u>0.59%</u>

* Stage 2 and 3 balances are analysed in more detail below.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

In terms of the Company's credit management processes, Stage 1 cases will fall within the appropriate customer servicing functions and Stage 2 cases will be subject to account management arrangements. Stage 3 cases will include both those subject to recovery or similar processes. However, these broad categorisations may vary between different product types.

Analysis of Stage 2 loans

The table below analyses the accounts in stage 2 between those not more than one month in arrears where an SICR has nonetheless been identified from other information and accounts more than one month in arrears, which are automatically deemed to have an SICR.

	< 1 month arrears	> 1 <= 3 months arrears	Total
	£000	£000	£000
<i>30 September 2020</i>			
Gross loan book	758	101	859
Impairment provision	(4)	-	(4)
Net loan book	754	101	855
Coverage ratio	0.52%	0.00%	0.46%
<i>1 October 2019</i>			
Gross loan book	657	3,156	3,813
Impairment provision	(3)	(2)	(5)
Net loan book	654	3,154	3,808
Coverage ratio	0.46%	0.06%	0.13%

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Analysis of Stage 3 loans

The table below analyses the accounts in Stage 3 between accounts in the process of enforcement or where full recovery is considered unlikely ('Realisations' in the table), loans being managed on a long term basis where full recovery is possible but which are considered in default for regulatory purposes,

	> 3 month arrears £000	Realisations £000	Total £000
<i>30 September 2020</i>			
Gross loan book	1,079	1,184	2,263
Impairment provision	(210)	(253)	(463)
Net loan book	869	931	1,800
Coverage ratio	19.46%	21.30%	20.40%
<i>1 October 2019</i>			
Gross loan book	450	1,104	1,554
Impairment provision	(28)	(667)	(695)
Net loan book	422	437	859
Coverage ratio	6.22%	60.42%	44.72%

The exposure at default in the calculation shown above for stage 3 accounts is reduced by £1,698,000 in respect of the value of security given by customers. The estimated value of the security represents, for each account, the lesser of the valuation estimate and the exposure value in the central economic scenario. Security values are based on the most recent valuation of the relevant asset held by the Company, depreciated as appropriate.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Movements in impairment provision by stage

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

	2020	2019
	£000	£000
At transition – 1 October 2019	909	1,139
Provided / (recovered) in period	1,964	(219)
Amounts written off	(572)	(11)
At 30 September 2020	2,301	909

Accounts are considered to be written off for accounting purposes when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. This has no effect on the net carrying value, only on the amounts reported as gross loan balances and accumulated impairment provisions. At 30 September 2020 enforceable contractual balances of £nil were outstanding on assets written off in the period. This will exclude those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances will be kept under review for operational purposes but no amounts will be recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

A more detailed analysis of these movements by IFRS 9 stage for the year ended 30 September 2020 is set out below.

	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
Loss allowance at 1 October 2019	209	5	695	909
New assets originated or purchased	1,112	-	-	1,112
Changes in loss allowance				
Transfer to stage 1	1	(1)	-	-
Transfer to stage 2	(2)	2	-	-
Transfer to stage 3	(14)	-	14	-
Changes due to credit risk	528	(2)	326	852
Write offs	-	-	(572)	(572)
Assets recognised	-	-	-	-
Loss allowance at 30 September 2020	<u>1,834</u>	<u>4</u>	<u>463</u>	<u>2,301</u>
Loss allowance at 1 October 2018	702	83	354	1,139
New assets originated or purchased	307	-	-	307
Changes in loss allowance	-	-	-	-
Transfer to stage 1	144	(144)	-	-
Transfer to stage 2	(5)	5	-	-
Transfer to stage 3	(1)	(55)	56	-
Changes due to credit risk	(938)	116	296	(526)
Write offs	-	-	(11)	(11)
Assets recognised	-	-	-	-
Loss allowance at 30 September 2019	<u>209</u>	<u>5</u>	<u>695</u>	<u>909</u>

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
Balances at 1 October 2019	148,581	3,813	1,554	153,948
New assets originated or purchased	74,087	-	-	74,087
Changes in staging				
Transfer to stage 1	708	(708)	-	-
Transfer to stage 2	(884)	884	-	-
Transfer to stage 3	(1,327)	(446)	1,773	-
Redemptions and repayments	(73,957)	(2,685)	(602)	(77,244)
Assets derecognised	-	-	-	-
Write offs	-	-	(572)	(572)
Other changes	(361)	1	110	(250)
Balance at 30 September 2020	<u>146,847</u>	<u>859</u>	<u>2,263</u>	<u>149,969</u>
Loss allowance	<u>(1,834)</u>	<u>(4)</u>	<u>(463)</u>	<u>(2,301)</u>
Carrying value	<u><u>145,013</u></u>	<u><u>855</u></u>	<u><u>1,800</u></u>	<u><u>147,668</u></u>
Balances at 1 October 2018	137,019	835	709	138,563
New assets originated or purchased	92,466	-	-	92,466
Changes in staging				
Transfer to stage 1	6,210	(6,210)	-	-
Transfer to stage 2	(11,178)	11,178	-	-
Transfer to stage 3	(605)	(419)	1,024	-
Redemptions and repayments	(73,386)	(1,571)	(30)	(74,987)
Assets derecognised	-	-	-	-
Write offs	-	-	(11)	(11)
Other changes	(1,945)	-	(138)	(2,083)
Balance at 30 September 2019	<u>148,581</u>	<u>3,813</u>	<u>1,554</u>	<u>153,948</u>
Loss allowance	<u>(209)</u>	<u>(5)</u>	<u>(695)</u>	<u>(909)</u>
Carrying value	<u><u>148,372</u></u>	<u><u>3,808</u></u>	<u><u>859</u></u>	<u><u>153,039</u></u>

Other charges includes interest and similar charges.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments charged to income

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

	2020	2019
	£000	£000
Recovered / provided in period	1,299	(219)
Written off amounts	572	-
	<u>1,871</u>	<u>(219)</u>

Economic impacts

Impairment provision under IFRS 9 is calculated on a forward-looking ECL basis, based on expected economic conditions in multiple internally coherent scenarios. The Company uses four distinct economic scenarios chosen to represent the range of possible outcomes and allow for the impact of economic asymmetry in the calculations.

In developing its economic scenarios, the Company considers analysis from reputable external sources to form a general market consensus which inform its central scenario. These sources included forecasts produced by the Office of Budget Responsibility ('OBR') and the PRA as well as private sector economic research bodies.

The central scenario is the economic forecast used within the Company for planning purposes and represents its expectation of the most likely outcome. The upside and downside scenarios are less likely variants developed from this base case. The final scenario represents a protracted slump and is derived from the Bank of England's annual stress testing scenarios. Each scenario comprises a number of economic parameters and while models for different portfolios may not use all of the variables, the set, as a whole, is defined for the Company and must be consistent.

The economic variables comprising each scenario, and their projected average rates of increase (or decrease) for the first five years of the forecast period are set out below.

30 September 2020

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	18.0	(7.6)	18.8	(5.9)	17.8	(15.1)	20.5	(17.9)
HPI	5.0	(4.0)	4.0	0.0	4.0	(10.0)	4.0	(20.0)
BBR	0.8	0.1	1.0	0.1	1.0	0.1	0.8	(0.4)
CPI	2.4	0.6	2.3	0.7	2.3	0.2	2.3	(0.3)
Unemployment	7.6	4.0	7.0	4.0	9.0	4.5	9.0	5.3
Secured lending	3.9	3.5	4.8	4.0	3.8	1.7	3.7	(1.2)
Consumer credit	6.3	6.0	8.8	6.7	5.7	1.5	4.8	(5.2)

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

20. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

30 September 2019

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	1.9	1.2	3.1	1.2	1.6	(1.0)	1.3	(4.7)
HPI	4.3	0.7	9.7	0.9	4.9	(4.7)	5.7	(17.8)
BBR	0.8	0.8	2.5	0.8	0.5	0.5	0.0	0.0
CPI	2.2	2.0	2.2	1.4	3.2	2.0	4.9	2.0
Unemployment	4.1	3.8	3.9	3.5	6.1	4.2	9.2	4.5
Secured lending	3.9	3.2	4.8	3.3	3.8	1.7	3.7	(1.2)
Consumer credit	6.3	6.0	8.8	6.2	6.0	1.5	5.9	(5.2)

21. TANGIBLE FIXED ASSETS

	Cars, fixture and fittings £000	Office and computer equipment £000	Equipment on Operating Lease £000	Total £000
Cost				
At 1 October 2019	13	33	2,135	2,181
Additions	-	1	864	865
Disposals	-	-	(746)	(746)
At 30 September 2020	13	34	2,253	2,300
Accumulated depreciation				
At 1 October 2019	13	31	632	676
Charge for the year	-	2	379	381
Disposals	-	-	(748)	(748)
At 30 September 2020	13	33	263	309
Net book value				
At 30 September 2020	-	1	1,990	1,991
At 30 September 2019	-	2	1,503	1,505

PARAGON COMMERCIAL FINANCE LIMITED

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

22. DEBTORS

	2020	2019
	£000	£000
Amounts falling due within one year:		
Trade debtors	60	-
Other debtors	41	-
Sundry financial assets	101	-
Prepayments and accrued income	-	5
	101	5

23. DEFERRED TAX

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

	2020	2019
	£000	£000
Balance at 1 October 2019	458	184
Prior year profit and loss (charge) / credit (note 16)	(243)	27
Profit and loss credit (note 16)	431	154
Rate change (note 16)	26	(57)
Change in accounting policy on adoption of IFRS9	-	150
Balance at 30 September 2020	672	458

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

Accelerated tax depreciation	670	457
Other timing differences	2	1
	672	458

24. CREDITORS

	2020	2019
	£000	£000
Amounts falling due within one year:		
Amounts due to group companies	145,755	150,661
Trade creditors	258	216
Other tax and social security	316	392
Other creditors	380	154
Sundry financial liabilities	146,709	151,423

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

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

25. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution schemes

	2020	2019
	£000	£000
Defined contribution pension scheme expense	127	125
	127	125

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

26. LEASING ARRANGEMENTS

As Lessor

The Company, through its asset finance businesses, leases assets under both finance and operating leases. In respect of certain of these assets, the Company also provides maintenance services to the lessee.

Accounting for these balances from 1 October 2019 is governed by IFRS 16, while in previous periods IAS 17 applied, however the change in Standards has not had a significant impact on the amounts presented (note 3).

Disclosures in respect of these balances are set out in these financial statements as follows

Disclosure	Note
Investment in finance leases	19
Finance income on net investment in finance leases	9
Assets leased under operating leases	21
Operating lease income	11

The undisclosed future minimum lease payments receivable by the Company under operating lease arrangements may be analysed as follows:

	2020	2019
	£000	£000
Amounts falling due:		
Within one year	1,231	1,206
Within one to two years	494	277
Within two to three years	243	39
Within three to four years	146	26
Within four to five years	5	-
After more than five years	-	-
	2,119	1,548
	2,119	1,548

NOTES TO THE ACCOUNTS
YEAR ENDED 30 SEPTEMBER 2020

27. CALLED UP SHARE CAPITAL

	2020	2019
	£	£
Allotted:		
13,100 ordinary shares of £0.01 each (fully paid)	131	131
	131	131

28. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2018	2,673
Profit for the financial year	1,671
Change in accounting policy on adoption of IFRS9	(643)
At 30 September 2019	3,701
Profit for the financial year	540
At 30 September 2020	4,241

29. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking of the Company is Paragon Asset Finance Limited 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.