Company Registration No: 09580619

PARAGON SEVENTH FUNDING LIMITED

Report and Financial Statements

Year ended 30 September 2020

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Seventh Funding Limited ('the Company') is a special purpose company established to act as a funding vehicle within Paragon Banking Group PLC ('the Group'). During September 2015 the Company entered into a sterling credit facility of £200 million and used the facility to provide funding of mortgage loans acquired or underwritten by the Group. Subsequently, the mortgage loans will be sold to other group companies. During the year the Company operated in the United Kingdom.

On 20 December 2019 the Company purchased £98,384,000 of mortgage loans from Paragon Bank PLC and drew on the sterling credit facility.

On 28 January 2020 the Company purchased £131,806,000 of mortgage loans from Paragon Bank PLC and used the principal cash collected within the month to finance them.

On 08 April 2020 the Company sold mortgage loans for £131,620,000 to a fellow group company and used the proceeds to repay down its credit facility.

On 08 June 2020 the Company sold the remaining of its mortgage loans for £94,827,000 to a fellow group company and used the proceeds to repay down its credit facility. The Company continues to manage its residual assets.

As shown in the Company's profit and loss account on page 9, the net interest income decreased from £1,177,000 to £642,000. This was due to a decrease of mortgage interest income as loans were sold during the year. The result after tax has increased from a loss of £93,000 to a profit of £1,000 due to the fair value gain for the current year compared to a fair value loss in the preceding year.

The balance sheet on page 10 of the Financial Statements shows the Company's financial position at the year end. Net liabilities have improved due to the profit in the year. Loans to customers have decreased to £nil due to the Company selling its mortgage loans with the sale proceeds used to repay the credit facility.

No interim dividend was paid during the year. No final dividend is proposed.

The Company has entered into derivative contracts in order to provide an economic hedge against its exposure to fixed rate loans to customers. Although these instruments provide an economic hedge the prescriptive nature of the requirements of International Accounting Standard 39 – 'Financial Instruments: Recognition and Measurement' (IAS 39), means that hedge accounting cannot always be achieved. This has led to the Company recognising a fair value net gain of £1,002,000 (2019: fair value net loss of £1,002,000) in the year due to the effectiveness of the hedge relationship. This represents a timing difference and cumulative gains and losses recognised will tend to zero over time.

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.

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.

The Company is a securitisation company and has been structured so as to avoid, in as far as is possible, all forms of financial risk with its outstanding loan notes match-funded to maturity. 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 6, a discussion of critical accounting judgements is set out in note 4 and a discussion of critical accounting estimates is set out in note 5.

STRATEGIC REPORT (CONTINUED)

FUTURE PROSPECTS

After considering the 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 discussed in note 3.

BOARD AND STAKEHOLDERS

The Board of the Company is mindful of its duty to act in good faith and to promote the success of the Paragon Banking Group PLC group of companies (the 'Group') for the benefit of its shareholders and with regard to the interests of all of its stakeholders and, in particular, the interests of the Company's noteholders. 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.

As part of the Group, stakeholder engagement, for stakeholder groups where there is substantial common identity between the non-shareholder stakeholders of the Company and of the Group, takes place at a group level and 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.

In its decision making the Board of Directors will also have regard to the rights and interests of the holders of the Mortgage Backed term loan in accordance with the transaction documents under which they were issued.

As a securitisation entity the decision-making powers of the Board of Directors are limited so long as the notes remain outstanding. 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. However, in considering items of business the Board makes autonomous decisions on their 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, including its results and performance. As a special purpose funding vehicle for the Group, the Board also reviews strategy, financial, and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance. This information is presented to the Board through reports sent in advance of each Board meeting and through in person presentations.

More information on the Company's impact on individual stakeholder groups is set out below.

SHAREHOLDERS

The Company has a single shareholder, Intertrust Corporate Services Limited which holds the entire share capital of the Company on a discretionary trust basis for the benefit of certain charities. However, the transaction documents limit this entity to a nominal interest in the risks and rewards of the business of the Company. Those risks and rewards attach to non-equity securities and fall to their holders which are companies within the Group. Hence the Company is considered to the controlled by Paragon Banking Group PLC.

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

Helena Whitaker

per pro Intertrust Directors 1 Limited

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 Paragon Seventh Funding Limited, a company registered in England and Wales with registration no: 09580619, for the year ended 30 September 2020.

GOING CONCERN

After making enquiries, the directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 during the year and subsequently were:

Intertrust Directors 2 Limited

Intertrust Directors 1 Limited

J P Giles

H Whitaker

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the Year and remain in force at the date of this report.

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

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

INDEPENDENT AUDITOR

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.

DIRECTORS' REPORT (CONTINUED)

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 6 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

Helena Whitaker
per pro Intertrust Directors 1 Limited

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 year. 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.

Helena Whitaker

per pro Intertrust Directors 1 Limited

Director

28 January 2021

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PARAGON SEVENTH FUNDING LIMITED

Opinion

We have audited the Financial Statements of Paragon Seventh Funding Limited year ended 30 September 2020 which comprise the profit and loss account, the balance sheet, the statement of movement in equity and the related notes 1 to 20, 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.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

M Davidson

Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

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

28 January 2021

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 £000	2019 £000
Interest receivable			
Mortgages		3,110	3,508
Other	7	127	109
		3,237	3,617
Interest payable and similar charges	8	(2,595)	(2,440)
Net interest income		642	1,177
Other operating income		39	7
		681	1,184
Operating expenses		(1,682)	(275)
Fair value gain / (loss)	10	1,002	(1,002)
Operating profit / (loss), being profit / (loss) on ordinary activities before taxation	11	1	(93)
Tax on profit / (loss) on ordinary activities	12	-	-
Profit / (loss) on ordinary activities after taxation	17	1	(93)

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

BALANCE SHEET

30 SEPTEMBER 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Financial assets	13		-		6
CURRENT ASSETS					
Debtors falling due with one year	15	2,766		1,899	
Cash at bank		286		3,438	
			3,052		5,337
			3,052		5,343
FINANCED BY					
EQUITY SHAREHOLDERS' DEFICIT					
Called up share capital	16	-		-	
Profit and loss account	17	(89)		(90)	
			(89)		(90)
CREDITORS					
Amounts falling due within one year	18	78		102	
Amounts falling due after more than one year	18	3,063		5,331	
			3,141		5,433
			3,052		5,343

These financial statements of the Company (registered number 09580619) were approved by the Board of Directors 28 January 2021.

Signed on behalf of the Board of Directors

Helena Whitaker

per pro Intertrust Directors 1 Limited

Director

STATEMENT OF MOVEMENT IN EQUITY

YEAR ENDED 30 SEPTEMBER 2020

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	1	1
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1	1
Opening equity	-	(90)	(90)
Closing equity	-	(89)	(89)

YEAR ENDED 30 SEPTEMBER 2019

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Loss for the year	-	(93)	(93)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(93)	(93)
Opening equity	-	3	3
Closing equity	-	(90)	(90)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

1. GENERAL INFORMATION

Paragon Seventh Funding 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 09580619. 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. ACCOUNTING POLICIES

Accounting convention

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

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

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.

Loans to customers

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

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

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

Impairment of loans and receivables

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

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.

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables (continued)

Within its buy-to-let portfolio the Company utilises a receiver of rent process, whereby the receiver stands between the landlord and tenant and will determine an appropriate strategy for dealing with any delinquency. This strategy may involve the immediate sale of any underlying security or the short or long term letting of the property to cover arrears and principal shortfalls. Such cases are automatically considered to have an SICR, but where a letting strategy is adopted by the receiver, a tenant is in place and arrears are reduced or cleared, the account will not necessarily be considered to be credit impaired. Properties in receivership are eventually either returned to their landlord owners or sold.

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.

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.

Current tax

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

Borrowings

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

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

Derivative financial instruments

Derivative instruments utilised by the Company comprise interest rate swaps. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Company in line with the Company’s risk management policies (note 6).

The Company does not enter into speculative derivative contracts.

All derivatives are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative. Fair value is based on market prices, where a market exists. If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments. Changes in the fair value of derivatives are recognised in the profit and loss account, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. ACCOUNTING POLICIES (CONTINUED)

Hedging

IFRS 9 paragraph 7.2.21 permits an entity to elect, as a matter of accounting policy, to continue to apply the hedge accounting requirements of IAS 39 in place of those set out in Chapter 6 of IFRS 9. The Company has made this election and the accounting policy below has been determined in accordance with IAS 39.

For all hedges, the Company documents, at inception, the relationship between the hedging instruments and the hedged items, as well as its risk management strategy and objectives for undertaking the transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be ‘highly effective’ as defined by IAS 39.

For a fair value hedge, as long as the hedging relationship is deemed ‘highly effective’ and meets the hedging requirements of IAS 39, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

Where a derivative is used to hedge the variability of cash flows of an asset or liability, it may be designated as a cash flow hedge so long as this relationship meets the hedging requirements of IAS 39. For such an instrument the effective portion of the change in the fair value of the derivative is taken initially to equity, with the ineffective part taken to profit or loss. The amount taken to equity is released to the profit and loss account at the same time as the hedged item affects the profit and loss account. Where a cash flow hedge relationship is terminated, or deemed ineffective, the amount taken to equity will remain there until the hedged transaction is recognised, or is no longer highly probable.

Fee and commission income

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

Revenue

The revenue of the Company comprises interest receivable and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

3. 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
- 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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

4. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 3 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 14.

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 Group'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 Group's definition of default adopted is given in note 14.

Classification of financial assets

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

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

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

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

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

Therefore, the Company has classified its customer loan assets as carried at amortised cost.

5. 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, qualitative information, such as possession by a first charge holder on a second charge mortgage or where a buy-to-let case is under the control of a receiver of rent, the receiver's present and likely future strategy for the property (e.g. keeping current tenants in place, refurbish and relet, immediate sale etc).

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

Key internal assumptions in the models relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property or other charged assets. These cash flows will include payments received from the customer, and, for buy-to-let cases where a receiver of rent is appointed, rental receipts from tenants, after allowing for void periods and running costs. 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 house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

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

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

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

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

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

6. FINANCIAL RISK MANAGEMENT

The Company's operations were financed principally by a sterling credit facility and, to a lesser extent, by a mixture of share capital and loans from other related entities. The Company drew down the facility to acquire loans. In addition, various financial instruments, for example debtors and accruals, arise directly from the Company's operations.

The principal risks arising from the Company's financial instruments were credit risk, liquidity risk and interest rate risk. The board of the Company's controlling company reviews and agrees policies for all companies in the Group managing each of these risks and they are summarised below.

Credit risk

The Company's credit risk was primarily attributable to its loans to customers. The maximum credit risk at 30 September 2029 approximates to the carrying value of loans to customers. There were no significant concentrations of credit risk due to the large number of customers included in the portfolios.

Mortgages acquired by the Company are secured by first charges over residential properties in the United Kingdom. Despite this security, in assessing credit risk an applicant's ability to repay the loan remains the overriding factor in the decision to lend by the originator. Additionally, each mortgage had the benefit of one or more life assurance policies and certain mortgages have the benefit of a mortgage guarantee indemnity insurance policy.

Paragon Mortgages (2010) Limited, a fellow related entity, continued to administer any loans owned by Paragon Seventh Funding Limited on its behalf and the collections process is the same as that utilised for all companies in the Group.

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

Liquidity risk

The Company's assets were principally financed by drawing down on the credit facility. Details of the Company's borrowings are given in note 18.

The securitisation process and the terms of the credit facility effectively limit liquidity risk from the funding of the Group's loan assets. It remains to ensure that sufficient funding was 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 Company's policy was to maintain floating rate liabilities and match these with floating rate assets by the use of interest rate swaps.

The rates payable on the sterling credit facility were reset on the basis of LIBOR. The Company's assets predominantly bear LIBOR linked interest rates or are hedged fixed rate assets. The interest rates charged on the Company's variable rate loan assets were determined by reference to, inter alia, the Company's funding costs and the rates being charged on similar products in the market. Generally this ensured the matching of changes in interest rates on the Company's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

Currency risk

The Company has no material exposure to foreign currency risk.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Use of derivative financial instruments

The Company used derivative financial instruments for risk management purposes. Such instruments were used only to limit the exposure of the Company to movements in market interest or exchange rates, as described above.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken, and hence all of the Company's derivative financial instruments are for commercial hedging purposes. These are used to protect the Company from exposures principally arising from fixed rate lending or borrowing. Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under IAS 39 either because natural accounting offsets are expected, or obtaining hedge accounting would be especially onerous.

The Company had designated a number of derivatives as fair value hedges. In particular this treatment is used for hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis. The Company believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Company to these assets.

7. INTEREST RECEIVABLE - OTHER

	2020 £000	2019 £000
Interest receivable from group companies	112	81
Other interest	15	28
	127	109

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £000	2019 £000
Mortgage backed bank loans	946	1,290
Interest rate swaps	199	158
Subordinated loan interest	941	704
Commitment fee	509	288
	2,595	2,440

9. DIRECTORS AND EMPLOYEES

Directors' fees from the Company during the current year preceding period is listed in note 11.

The Company had no employees in the current year. All administration is performed by employees of related companies under the servicing agreement described in note 20. One director of the Company is employed by Paragon Finance PLC, a related party, and their remuneration is disclosed within the financial statements of that company, which do not form part of this Report.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

10. FAIR VALUE NET GAIN / (LOSS)

The fair value net gain of £1,002,000 (2019 fair value net loss of £1,002,000) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting effectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The gain / (loss) is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

11. OPERATING PROFIT / (LOSS), BEING PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	2020 £000	2019 £000
Operating profit / (loss) is after charging:		
Directors' fees - Intertrust	8	6
Auditor remuneration - audit services	10	10
Deferred purchase consideration	1,430	-

Non audit fees provided to the Group are disclosed in the accounts of Paragon Banking Group Plc 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.

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

a) Tax charge for the year

	2020 £000	2019 £000
Current tax		
Corporation tax	-	-

b) Factors affecting the tax charge for the year

	2020 £000	2019 £000
Profit / (loss) before tax	1	(93)
UK corporation tax at 19% (2019: 19%) based on the profit / (loss) for the year	-	(18)
Effects of:		
Utilisation of losses	-	18
Tax charge for the year	-	-

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.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

13. FINANCIAL ASSETS

	2020 £000	2019 £000
Loans to customers	-	-
Derivative financial assets (note 14)	-	6
	-	6

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Hedge accounting is applied where appropriate, though some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under the IAS 39 rules, particularly where the hedged risk relates to an off balance sheet item. In other cases, hedge accounting has not been adopted either because natural accounting offsets are expected or because complying with the IAS 39 hedge accounting rules would be particularly onerous.

The Company's hedging arrangements can be analysed between fair value hedges of portfolio interest rate risk, which are used to manage the interest rate basis risk inherent in fixed rate lending and deposit taking.

In addition, the Company utilises currency derivatives to hedge its exposure on the small amount of its lending denominated in foreign currencies.

The analysis below splits derivatives between those accounted for as part of the portfolio fair value and those which, despite representing an economic hedge, do not qualify for this treatment. There were no individual interest rate risk hedging arrangements in place either in the year ended 30 September 2020 or the preceding year.

	2020 Assets £000	2020 Liabilities £000	2019 Assets £000	2019 Liabilities £000
Other derivatives				
Interest rate swaps	-	-	6	(1,070)
Total recognised derivative assets / (liabilities)	-	-	6	(1,070)

The credit risk inherent in the derivative financial assets shown above is discussed in note 6.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Fair value hedges

Background and hedging objectives

The Company's fair value hedges of portfolios of interest rate risk ('macro hedges') arise from its management of the interest basis risk inherent in its fixed rate lending and deposit taking activities. These activities would expose the Company to movement in market interest rates if not hedged.

This position arises naturally where fixed rate loans are funded with floating rate borrowings, as in the Company's securitisation transactions, but may also arise where retail deposit funding is used. Where possible the Company takes advantage of natural hedging between fixed rate assets and deposit, but it is unlikely that a precise match for value and tenor of the instruments could be achieved leaving unmatched items on both sides. These net exposures are addressed through portfolio hedging arrangements.

This position arises naturally where fixed rate loans are funded with floating or variable rate borrowings but may also arise where retail deposit funding is used. Where possible the Company takes advantage of natural hedging between fixed rate assets and deposits, but it is unlikely that a precise match for value and tenor of the instruments could be achieved leaving unmatched items on both sides. This is referred to as repricing risk and controlled within limits under the Company's interest rate risk management process, described in note 6. In order to manage these exposures, they are hedged with financial derivatives and form part of the Company's portfolio hedging arrangements. Repricing risk is monitored regularly to ensure mismatches or gaps remain within limits set by policy.

Responsibility to direct and oversee structural risk management has been delegated by the Board to ALCO. A Hedging strategy is developed for each fixed product considering behavioral characteristics, such as whether a customer is likely to prepay before contractual maturity. This is reviewed from time to time with any changes agreed with ALCO.

In order to manage potential exposure to increases in interest rates it may be necessary to undertake pre-hedging of fixed rate assets in the pipeline. Interest rate swaps used to hedge pipeline loan exposures, which are not yet recognised on the balance sheet, can cause unmatched fair value cost or credit to arise until both sides of the hedge can be recognised within the interest rate portfolio hedging arrangement, generally a few months after the inception of the derivative contract.

In managing interest rate exposure, the Treasury function may use interest rate swaps, forward rate agreements, swaptions or interest rate caps and floors. However, interest rate swaps are the most generally used instruments.

The policy creates 'loan hedge' matching fixed rate buy-to-let mortgage assets with interest rate swaps to convert the interest receivable to a floating rate; and

The Company is in the process of changing the principal sterling reference rate used in its interest rate risk management framework from LIBOR to SONIA.

Where fixed rate assets or liabilities have been hedged with interest rate swaps, these currently mostly reference three-month LIBOR. As the Company transitions away from LIBOR it is expected that all new hedging will eventually reference SONIA. For existing swaps referencing LIBOR that have a maturity beyond December 2021 (the date LIBOR is expected to become unavailable), the Company is closely following developments. The International Swaps and Derivative Association ('ISDA'), the trade organisation for derivatives, are consulting in developing fall backs and revisions to documentation that counterparties can sign to transition to SONIA. The proposals are expected to be finalised by calendar year-end, with implementation in 2020.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

The designation of the two macro hedges is updated, on a month by month basis, using software which compares the overall tenor, value and rate positions to match the expected fair value movement of the swaps with the expected interest rate risk related movement in the fair value of the relevant assets or liabilities over the designation period as closely as possible. The software applies regression analysis techniques to the potential impact of changes in expected interest rates over the designation period to maximise expected hedge effectiveness on a prospective basis. The value of the portfolio of loans or deposits selected is then designated, as a monetary amount of interest rate risk, as the hedged item, while the portfolio of swaps selected are designated as the hedging instruments.

Any swaps not selected in this process are disclosed as derivatives not in hedging relationships.

At the end of each designation period the Company will assess the effectiveness of each hedge retrospectively, based on fair value movements (relating to interest rate risk components only) which have actually occurred in the period. Movements are compared to pre-determined test thresholds to determine whether the hedge was effective in the period.

Ineffectiveness

The Company has identified the following possible sources of hedge ineffectiveness in its portfolio hedges of interest rate risk:

- The maturity profile of the hedging instruments may not exactly match that of the hedged items, particularly where hedged items settle early.
- The use of derivatives as a hedge of interest rate additionally exposes the Company to the derivative counterparties' credit risk, which is not matched in the hedged item. This risk is minimised by transacting only with high quality counterparties and through collateralisation arrangements (as described in note 6).
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments.
- Difference in the timing of interest payments on the hedged items and settlements on the hedging instruments.

These sources of ineffectiveness are minimised by the portfolio matching process, which seeks to match the terms of the items as closely as possible.

In addition to the hedging ineffectiveness described above, Company profit will also be affected by the fair value movements of interest rate swap agreements which were entered in to as part of the Company's interest rate risk hedging strategy, but failed to find a match in the hedging portfolio.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Derivatives not in a hedging relationship

The Company's other derivatives comprise interest rate swaps which are economically part of the Company's portfolio hedging arrangements but failed to find a match in the hedge designation.

The principal terms of these derivatives are set out below.

Interest rate swaps

	2020 Pay Fixed	**2019 Pay Fixed**
Average fixed notional interest rate		
Average notional margin over LIBOR	-%	1.03%
	£000	**£000**
Notional principal value		
LIBOR swaps	-	101,000
	-	101,000
Maturing		
Within one year	-	-
Between one and two years	-	44,500
Between two and five years	-	56,500
	-	101,000
Fair value	-	(1,064)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

15. DEBTORS

	2020 £000	2019 £000
Amounts falling due within one year:		
Other debtors	2,760	1,892
Prepayments and accrued income	6	7
	2,766	1,899

16. CALLED UP SHARE CAPITAL

	2020 £	2019 £
Allotted:		
1 ordinary share of £1 (fully paid)	1	1

17. PROFIT AND LOSS ACCOUNT

	£000
At 1 October 2018	3
Loss for the financial year	(93)
At 30 September 2019	(90)
Profit for the financial year	1
At 30 September 2020	(89)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

18. CREDITORS

	2020 £000	2019 £000
Amounts falling due within year:		
Other Creditors	-	38
Accruals and deferred income	78	64
	78	102

	2020 £000	2019 £000
Amounts falling due after more than one year:		
Bank loan	-	-
Derivative financial liabilities (note 14)	-	1,070
Subordinated loan	3,063	4,261
	3,063	5,331

As at 30 September 2020, the Company held a sterling credit facility of £400,000,000. This facility was available for drawing and redrawing until 24 March 2022 for the purpose of funding new first charge mortgage loans. After that the loan has a further one-year workout period for the assets funded to be sold or refinanced. Repayment of the principal drawn is not required unless amounts are realised from the sale or repayment of assets, even after the one-year workout period. The balance outstanding under this credit facility agreement was £nil (2019: £nil). The facility was undrawn at the year end.

Interest is payable at a fixed margin, 1.75% above the London Interbank Offered Rate ('LIBOR') on the loan denominated in sterling.

There is a subordinated loan facility repayable to Paragon Mortgages (2010) Limited, a related company. Interest is charged at a rate of 4% above LIBOR.

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2020

19. RELATED PARTY TRANSACTIONS

The Group has identified the following transactions which are required to be disclosed under the terms of International Accounting Standard 24, ‘Related Party Disclosures’ (‘IAS 24’).

Transactions with Paragon Mortgages (2010) Limited (‘PM2010’)

The subordinated loan made to the Company by PM2010, a company under common control as defined by IAS24, is described in note 20 and interest charged on it is shown in note 8. At the balance sheet date the Company owed £7,000 (2019: £12,000) in relation to subordinated loan interest, which is included in accruals and deferred income.

The Company was owed £2,605,000 (2019: £1,893,000) from PM2010 at the balance sheet date, relating to monies paid to PM2010, which is included in other debtors.

Transactions with Paragon Bank PLC (‘PB’)

At the balance sheet date PB, a company under common control as defined by IAS24, owed the Company £155,000 in relation to monies paid for in relation to PB (2019: The Company owed PB £5,000 in relation to fees and insurance).

On 23 May 2019 the Company sold the remaining mortgage loans to PB and used the proceeds to repay its outstanding credit facility.

Transactions with Paragon Finance PLC (‘PF’)

At the balance sheet date PF, a company under common control as defined by IAS 24, acted as servicer of the mortgages for the Company and earned £210,000 (2019: £241,000) during the year in servicing fees. At the balance sheet date the Company owed £nil (2019: £29,000) to PF in relation to other fees.

20. ULTIMATE PARENT COMPANY

The ultimate parent undertaking is Intertrust Corporate Services Limited who holds the entire share capital of the Company on a discretionary trust basis for the benefit of certain charities. The directors regard Paragon Banking Group PLC as the ultimate controlling party.

The smallest and largest group in which the Company is consolidated is that of the Paragon Banking Group PLC.

Copies of the Group's financial statements are available from that company's registered office at 51 Homer Road, Solihull, West Midlands, B91 3QJ.