

**PARAGON FINANCE PLC**

**Report and Financial Statements**

**Year ended 30 September 2023**

**CAUTIONARY STATEMENT**

Sections of this Annual Report, including but not limited to the Directors' Report and the Strategic Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Paragon Finance PLC ('the Company'). These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as 'anticipate', 'estimate', 'expect', 'intend', 'will', 'project', 'plan', 'believe', 'target' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance but are not the exclusive means of identifying such statements. These have been made by the directors in good faith using information available up to the date on which they approved this report, and the Company undertakes no obligation to update or revise these forward-looking statements for any reason other than in accordance with its legal or regulatory obligations (including under the UK Market Abuse Regulation, UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('FCA')).

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Company and depend upon circumstances that may or may not occur in the future that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. There are also a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. As a result, you are cautioned not to place reliance on such forward-looking statements as a prediction of actual results or otherwise.

These factors include, but are not limited to: material impacts related to foreign exchange fluctuations; macro-economic activity; the impact of outbreaks, epidemics or pandemics, and the extent of their impact on overall demand for the Company's services and products; potential changes in dividend policy; changes in government policy and regulation (including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the Company operates) and the consequences thereof; actions by the Company's competitors or counterparties; third party, fraud and reputational risks inherent in its operations; the UK's exit from the EU; unstable UK and global economic conditions and market volatility, including currency and interest rate fluctuations and inflation or deflation; the risk of a global economic downturn; acts of terrorism and other acts of hostility or war and responses to, and consequences of those acts; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; general changes in government policy that may significantly influence investor decisions (including, without limitation, actions taken in support of managing and mitigating climate change and in supporting the global transition to net zero carbon emissions); societal shifts in customer financing and investment needs; and other risks inherent to the industries in which the Company operates.

Nothing in this Annual Report should be construed as a profit forecast.

## STRATEGIC REPORT

### BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Paragon Finance PLC ('the Company') is a wholly owned subsidiary of Paragon Bank PLC which is a wholly owned subsidiary of Paragon Banking Group PLC ('the Group'). During the year the Company operated in the United Kingdom ('UK'). The principal activities of the Company are the provision of administration and other management services to other group companies and as an investor in special purpose vehicle companies within the Group.

The Company undertakes loan servicing and customer management on behalf of all of the Group's operating companies and certain third parties. To undertake these tasks it holds the Group's fixed assets, other than property, owns the rights to all of its infrastructure and intellectual property and employs the vast majority of the Group's people. There have been no significant changes in the Company's principal activities in the year under review and the directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

During 2016, the Company obtained permission from the Financial Conduct Authority (FCA), for regulatory permission relating to its consumer credit regime. The Company also holds the requisite permission from the FCA to administer both second and first charge residential mortgages. The Company's registration in relation to the administration of consumer Buy to Let loans was also confirmed by the FCA.

As shown in the Company's profit and loss account on page 26, the Company's net interest income increased from £4,966,000 to £5,168,000. This was principally due to an increase in interest receivable and similar income increasing more than the increase of interest payable and similar charges. The return on pension scheme liabilities improved from interest payable of £172,000 to interest receivable of £440,000. In the current year there was a provision release of £11,000 compared to a release of £272,000 for the preceding year. Other operating income has increased from £158,728,000 to £175,219,000. This was principally due to the costs recharged to other group companies increasing during the current year. Some securitisation mortgage loans were sold to fellow group companies in the preceding year, therefore there was a decrease in administration fees received by the Company from various special purpose vehicle companies within the Group, as the Company administered the loans on their behalf. Operating expenses increased from £151,438,000 to £168,054,000 as all costs have increased. As a result of the above, operating profit before taxation has decreased from £12,528,000 to £12,344,000, and the profit after tax has only increased from £8,563,000 to £11,441,000 due to a larger prior year tax charge in the preceding year compared to the current year.

The balance sheet on page 27 of the Financial Statements shows the Company's financial position at the year end. Net assets have decreased by 8.63% (2022: 31.43% increase) due to the net effect of the profit for the year, the actuarial gain on the pension fund and the interim dividend being paid in the year. Details of amounts owed from and to other group companies are shown in notes 13 and 16.

The directors recommend no final dividend (2022: £nil) which, given the interim dividend of 29.5 pence per share (2022: 98.5 pence per share), means a total dividend for the year of 29.5 pence per share (2022: 98.5 pence per share).

The Group manages its operations on a centralised basis and compiles its management information, including key performance indicators, on a consolidated basis. This consolidated information is used in controlling the operations of the Company, which provides services to all Group entities. Given the pervasive involvement of the Company in the Group's activities, the Company's directors believe that further key performance indicators for the Company, compiled on a stand-alone basis, are not necessary or appropriate to provide an understanding of the development, performance or position of the Company's business. Details of the Group's financial performance, including key performance indicators, are given in the Annual Report of its ultimate parent company, which does not form part of this Report.

**STRATEGIC REPORT (CONTINUED)****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 the Group's customers who default on loans and / or cause the values of the properties over which the Group enjoys security to fall with a consequential impact on the Company's investments.

The current year has seen both inflation and interest rates in the UK reach their highest level for several years, with interest rates at the year end reaching the highest level since April 2008 and cost pressures on both customers and businesses increasing. It is considered likely, that this will have an impact on credit and business performance amongst the Group's customers, although the ultimate impact remains uncertain in both the short and medium term.

The Company has established processes in place, proved on a through-the-cycle basis, which will allow it to support its customers through any adverse economic conditions and optimise outcomes for both customers and investors.

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out on pages 7 to 17 and in note 23. A discussion of critical accounting estimates is set out in note 26.

**GOING CONCERN**

The performance of the Company is subject to analysis against plan, with key variances being analysed in detail on a monthly basis. The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows on a company-by-company basis, including the Company.

In compiling the most recent forecast, for the period commencing 1 October 2023, particular attention was paid to the potential consequences of the uncertain economic outlook for the UK on the Group's operations, customers, funding and prospects, both in the short and long term. These considerations include the elevated levels of interest rates and inflation in the UK, with the ongoing pressures of the cost of living and doing business in the UK, and the wider geopolitical impacts of the conflict in Ukraine. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October 2023 based on.

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 supported by the Group holding sufficient cash resources to support the Company's obligations as they fall due. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

**BOARD AND STAKEHOLDERS**

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

**STRATEGIC REPORT (CONTINUED)****BOARD AND STAKEHOLDERS (CONTINUED)**

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

The principal activities of the Company are the provision of administration services to other group companies, including supporting their loan servicing activities and investments in special purpose vehicle companies within the Group. Therefore, there is substantial common identity between the external non-shareholder stakeholders of the Company and those of the Group. The Company also has significant group stakeholders, including the entities to which the Company provides services, support and funding, aside from ownership interests.

As a consequence, engagement with external shareholders takes place at a Group level. The Company looks to Group initiatives for guidance and takes them into account in its decision making. The Company follows Group policies and procedures including those relating to the fair treatment of customers, regulatory requirements, standards of business conduct, employees, the environment, the community and other stakeholders. More detail may be found in the 2023 Annual Report and Accounts of Paragon Banking Group PLC.

However, in considering items of business the Company makes autonomous decisions on each decision's own merits, after due consideration of those factors set out in section 172 of the Companies Act 2006 insofar as they are relevant, and the stakeholders impacted by such decisions.

Board meetings are held periodically where the directors consider Company business, such as external contracts for property and establishment services, employment matters, loan administration arrangements, other management services to other Group companies, the management of its investments in special purpose vehicle companies of the Group, capital and distributions. The Board also considers all matters relevant to the Company's status as an FCA regulated entity and its relationship with the regulator, including those relating to its policies and procedures for dealing with the Group's customers.

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 its 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. This information is presented to the Board through reports sent in advance of each Board meeting and through in person presentations. These included updates of the progress of the implementation of the FCA Consumer Duty, and the outputs of the working group on the provision of support for the customers in financial difficulty.

The executive directors of the Group and the Group's Chief Operating Officer sit on the Board of the Company and ensure that the Board is aware of all Company and Group level information relevant to the consideration of its section 172 duties.

**SHAREHOLDERS**

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

**STRATEGIC REPORT (CONTINUED)****BUSINESS RELATIONSHIPS**

The Company provides facilities and establishment services to other Group companies and therefore is the principal group entity contracting with suppliers of goods and services for use in the business. The Company enters into a number of agreements with suppliers, customers and third parties which enables the Group to provide high standards of conduct.

The Group's Procurement function reviews and considers material contracts and works with key suppliers to maintain long-term and sustainable relationships, whilst identifying solutions to reduce the environmental impact of business activities (s172 (1)(c-e)). In September 2022, a supplier satisfaction survey was undertaken to seek the views of third party suppliers on their experience of the Group and any recommendations for improvement. The results of this survey were analysed in the year and used in the further development of the Group's procurement systems and processes. The Company is a signatory to the Prompt Payment Code operated by the Small Business Commissioner.

The Group has a Supplier Code of Conduct (published on the Paragon Banking Group PLC website), which sets out the Group's overall approach to supplier engagement and corporate responsibility, and importantly, the standards of behaviour expected from suppliers around bribery and corruption, data protection and modern slavery. It also includes important information concerning the Group's employment practices, health and safety, community and environmental matters.

The Group is a signatory to the Prompt Payment Code and the Company is subject to the UK reporting requirements on supplier payment information.

Throughout the year the Group has continued to engage with key suppliers ensuring continuing operational resilience and reduced risk. The Group has also continued to invest in its infrastructure, particularly in customer and broker facing systems. The Group's planned digitalisation programme progressed throughout the year, delivering new technology and operational enhancements which will generate efficiencies and improve customer experiences.

The Group has a Code of Conduct which all employees are required to read and confirm their understanding of on a regular basis. This covers details in respect of customers, suppliers and fellow employees and compliance with the legal and regulatory framework under which the Group operates. This Code of Conduct is published on the Group's website.

The Group's detailed policies on supplier and customer relationships, its support for human rights, and measures taken to prevent bribery, corruption and financial crime, are described in more detail in the 2023 Annual Report of Paragon Banking Group PLC, with further information provided in the Group's 2023 Responsible Business Report. Neither of these documents form part of this Report, and both are available on the Group's corporate website.

**ENVIRONMENT**

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any impacts that might arise from the Group's activities. As the Group entity responsible for the procurement of power, office services and supplies, the Company has a significant impact on the management of the environmental impact of the Group's operations. The Company operates in accordance with Group policies, which are described in the 2023 Annual Report of Paragon Banking Group PLC, which does not form part of this Report (s172 (1)(d)).

Further information can also be found in the Group's 2023 Responsible Business Report (published on the Paragon Banking Group PLC website), which does not form part of this report.

**STRATEGIC REPORT (CONTINUED)****EMPLOYEES, DIVERSITY AND CULTURE**

The directors recognise the benefit of keeping employees informed of the progress of the business, and are committed to building a more diverse and inclusive workforce as part of the people strategy and to develop a sustainable business. Employees have been provided with regular information on the performance and plans of the Company 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, the Group's Equality, Diversity and Inclusion network, employee engagement surveys and regular communication between directors, managers, teams and individual employees. During the year, the Group's People Forum provided input as the Group's hybrid working model for employees was further developed. This offers employees a better balance of home and office working.

Since May 2022, the Group has been accredited with Platinum investors in People status. During the year the Group concluded a full employee engagement survey, with 88% of employees sharing their views and an overall engagement score of 90% being achieved. The Group is also an accredited employer with the Living Wage Foundation, ensuring that all employees are paid the real Living Wage. Through the Group's volunteering scheme, every employee is provided with one paid day a year to volunteer for specific initiatives, supporting the Group's strategy and culture. The Group is also an accredited employer with the Living Wage Foundation, ensuring that all employees are paid the real Living Wage.

Through the Group's volunteering scheme, every employee is provided with one paid day a year to volunteer for specific initiatives, supporting the Group's strategy and culture.

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 Group.

The Company operates in accordance with Group employment policies which, together with additional information on the operations of the Group's People Forum, employee consultation arrangements and key metrics on the workforce are described in the Paragon Banking Group PLC 2023 Annual Report, with supplementary information included in the Group's 2023 Responsible Business Report, neither of which forms part of this report. Both documents are available on the Groups website.

**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.

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

Approved by the Board of Directors

and signed on behalf of the Board



K G Allen

Director

24 January 2024

**PRINCIPAL RISKS AND MITIGATIONS**

The Company is exposed to a number of principal risks and uncertainties that arise from the operation of its business model and strategy. The Company derives almost all of its income from the provision of finance, facilities and services to other Group companies. Its performance would therefore be materially either directly or indirectly affected by any downturn in the performance of the Group resulting from a crystallisation of any of the risks to which the Group is exposed. Therefore the risks to which the Company is exposed are the same as those for the Group as a whole.

A summary of those risks and uncertainties which could prevent the achievement of the Company’s strategic objectives, how the Company seeks to mitigate those risks and the change in the perceived level of each risk in the last financial year are described below.




This summary should not be regarded as a complete statement of all potential risks and uncertainties faced by the Company but rather those which the Company believes have the potential to have a significant impact on its financial performance and future prospects.

The risks are set out in accordance with the Group’s amended classification of its principal risks, approved by the Board in the year.


<b>Capital risk</b>	<b>Liquidity and funding risk</b>	<b>Market risk</b>	<b>Credit risk</b>	<b>Model risk</b>
<b>Reputational risk</b>	<b>Strategic risk</b>	<b>Climate risk</b>	<b>Conduct risk</b>	<b>Operational risk</b>

Further information concerning the systems used to manage risk by the Group are included in section B6.4 of the Annual Report and Accounts of the parent company.



The changes in the perceived level of each risk in the last financial year are indicated using the symbols shown below:

	Risk increasing		Risk decreasing		Risk stable
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PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Capital Risk	
Description	Mitigation
<p>The Group faces the risk that it maintains insufficient capital to operate effectively, including meeting minimum regulatory requirements, operating within board-approved risk appetite, and supporting its strategic goals.</p> <p>The Bank of England have yet to publish their final policy for the implementation of the Basel 3.1 standards in the UK, which is currently intended to be effective from 1 July 2025.</p>	<p>A robust process exists over reporting capital metrics, both internally and to the PRA, with a comprehensive annual ICAAP assessment including all material capital risks.</p> <p>An internal capital buffer is maintained in excess of minimum regulatory requirements to protect against unexpected losses.</p> <p>The Group submitted the second stage of its application for the accreditation of its IRB approach to buy-to-let credit risk for capital adequacy purposes to the PRA in March 2021 and has responded to PRA feedback on various elements of this phase, which now awaits a formal PRA panel assessment. The project continues to progress to plan, and work will continue through the next financial year.</p> <p>The Bank of England Basel 3.1 proposals largely follow the core Basel proposals and, as such, are materially in line with expectations. The Consultation Paper also highlighted enhancements to the IRB accreditation process, which would have a favourable impact on the Group if retained in the ultimate rules.</p>
<p><b>Year-on-year change</b></p> 	<p>While there has been little impact on the overall capital risk framework in the financial year, the global and UK economic outlook has continued to be subject to the pressures which arose following Russia’s intervention in Ukraine, although these have not worsened significantly over the period.</p> <p>Although downside risks will present headwinds, the Group’s strengthening profitability and the progress made in balance sheet management mean that capital ratios remain strong with considerable headroom over requirements. This, in turn, provides significant capacity to support lending to households and businesses.</p>


PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Liquidity and Funding Risk	
Description	Mitigation
<p>The Group is exposed to the risk that it has insufficient funds to meet its obligations as they fall due.</p> <p>Retail deposit taking is central to the Group’s funding plans and therefore changes in market conditions could impact the ability of the business to maintain the level of funding required to sustain normal business activity.</p>	<p>The Group maintains a diversified range of both retail and wholesale funding sources to cover current and future business requirements.</p> <p>Comprehensive treasury policies are in place to ensure sufficient liquid assets are maintained and that all financial obligations can be met as they fall due, even under stressed conditions.</p> <p>The Group has a dedicated Treasury function which is responsible for the day-to-day management of its overall liquidity and wholesale funding. The Board, through the delegated authority provided to the ALCO, sets limits for the level, composition and maturity of funding and liquidity resources.</p> <p>The Group’s holdings of its own mortgage backed securities, together with assets pre-positioned with the Bank of England, mean that it has ready access to wholesale funding or liquidity if required.</p>
<p><b>Year-on-year change</b></p> <p style="text-align: center;"></p>	<p>The Group remains well placed to access funding from a wide range of sources to meet its future funding requirements. Access to the retail savings market has been effective during the year through both direct and intermediated deposit platform distribution channels, resulting in increased levels of liquid assets being held, and higher LCR and OLAR levels year-on-year.</p> <p>Despite a number of market disruptions during the year, including a number of bank failures in March and April 2023, liquidity risk is considered to have reduced from its level at the start of the year, when it was elevated by the fallout from the September 2022 ‘mini-budget’.</p>
Market Risk	
Description	Mitigation
<p>The Group is exposed to the risk that changes in interest rates at which it lends and those at which it borrows may adversely affect its net interest income and profitability.</p>	<p>This risk is managed within Board approved risk appetite limits with comprehensive treasury policies in place to ensure that the risks posed by changes and mismatches in interest rates are effectively managed.</p> <p>Day-to-day management of interest rate risk within board-approved limits is the responsibility of Treasury, with control and oversight provided by ALCO.</p> <p>The Group seeks to match the maturity profile of assets and liabilities and uses financial instruments, such as interest rate swaps, to hedge the exposure arising from repricing mismatches.</p>
<p><b>Year-on-year change</b></p> <p style="text-align: center;"></p>	<p>While the rise in the Bank of England base rate to its highest level in over a decade has increased volatility in pricing levels on both the asset and liability sides of the balance sheet, requiring particular focus on risk management in this area, markets were generally more stable at 30 September 2023 than a year earlier.</p> <p>The Group’s overall market risk profile, relative to its balance sheet, has remained broadly similar to that at the previous year end, and therefore associated risk levels remain generally stable compared to the previous period end.</p>


PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Credit Risk	
Description	Mitigation
<p>Credit risk elements which could expose the Group to the risk of unexpected material losses include:</p> <ul style="list-style-type: none"> <li>• Customer risks through failure to screen potential borrowers, and manage repayments</li> <li>• Concentration risk in credit portfolios through an uneven distribution of exposures of borrowers, asset classes, sectors or geographies</li> <li>• Reduction in value of collateral owned by the Group, or secured against debt owed to it</li> <li>• Wholesale counterparty risk</li> <li>• Outsourcer default risk</li> </ul>	<p>The Group has a robust credit risk framework supported by comprehensive policies in place that set out detailed criteria which must be met before loans are approved. Exceptions to credit policies require approval by the Credit Risk function, operating under a mandate from the Credit Committee.</p> <p>The Group uses a range of sources to inform expectations of key external factors such as interest rate movements and house price inflation which are in turn used to guide policy and underwriting.</p> <p>The Group also continues to develop opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk-focussed specialist lender.</p> <p>The majority of the Group’s loans by value continue to be secured against UK residential property at conservative loan-to-value levels. The primary collateral therefore forms part of a highly mature, sustainable market, demonstrated over many decades of operation.</p> <p>Exposure to wholesale counterparty credit risk is limited to counterparties that meet specific credit rating criteria per the Group’s comprehensive treasury policies. Exposure to approved counterparties is monitored daily by senior management within the Group’s Treasury function with all exposure managed within ALCO-approved limits.</p> <p>Ongoing monitoring of the credit rating and financial performance of all outsourced relationships and critical suppliers is undertaken.</p>
<p><b>Year-on-year change</b></p> <p style="text-align: center;"></p>	<p>Higher interest rates, rising costs, and resource shortages have been a key feature of the lending environment within the last twelve months. However, the Group’s prudent credit policies combined with consistently high lending standards, have ensured that the impact on customer loan repayments has been modest so far. Arrears remain favourable compared with historical levels, with impacts being generally confined to early arrears states as borrowers adjust their cashflows to accommodate the higher costs. Tracking of customer risk profiles across lending areas shows little indication of stress, and asset equity coverage continues to provide significant credit risk mitigation.</p> <p>Whilst current loan performance remains robust, the Group continues to monitor the potential future impacts of the increased interest rate environment, house price movements and higher costs of living and doing business, and has reviewed and adjusted credit policy and affordability models accordingly. As a result of these broader economic movements, in particular the rapid increase in market interest rates, the credit risk profile is considered to have increased compared to 30 September 2022.</p>


PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Model Risk	
Description	Mitigation
<p>Models are used across the Group to inform financial decision making and hence it is imperative that the environment in which the models are designed, implemented and operate is subject to appropriate rigour.</p>	<p>A robust framework of management and governance is in place to manage the risks associated with the use of internally developed models. This includes the MRC which oversees the development, implementation and ongoing monitoring of models across the Group.</p> <p>The Model Risk Management Framework provides a structured and disciplined approach to the management of model risk. It includes clear development, implementation and ongoing oversight principles, together with requirements for independent validation based on model materiality criteria.</p> <p>PRA Supervisory Statement SS 1/23, which addresses model risk management principles for banks and applies to firms with permission to use internal models to calculate regulatory capital, was published in the year. Firms have twelve months from the grant of such permissions to comply with the expectations of the SS. The Group has begun a programme of work to ensure compliance with the principles in advance of the Group receiving IRB accreditation, and is well-placed to meet the requirements within the timeframes required.</p>
<p><b>Year-on-year change</b></p> 	<p>It is recognised that the increasing use of internally developed models will drive a commensurate risk to the Group. However, given the strength of the framework and oversight processes and the Group’s continuing investment in this area, model risk remains within appetite and the outlook remains stable.</p>


PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Reputational Risk	
Description	Mitigation
<p>Maintenance of a strong reputation across all business lines and operational activities is core to the Group’s philosophy.</p> <p>Detrimental reputational impacts may result from crystallisation of other principal risks, but also through failure to safeguard the integrity of the Group’s brand or failing to meet external expectations in its business practices.</p>	<p>The reputational risk policy supports reputational risk management across the Group. Reputational issues are considered at Board and ExCo level and, where relevant, will be identified, reviewed and escalated through risk committee governance.</p> <p>The reputational impacts of changes to strategy, pricing, people, processes or third-party relationships are explicitly considered in the decision-making process and are reviewed by the Director of External Relations. The Group will not undertake any activity it considers might be damaging to its reputation.</p> <p>Employees adhere to defined standards of conduct, encompassing policies, procedures and ways of working. These are defined in the Group’s Code of Conduct.</p> <p>The Group has an experienced External Relations function which manages all Group communications and ensures that the reputational profile of the Group is protected. Reputational risk is monitored through tracking traditional and social media coverage, net promoter scores, review platforms and regular customer surveys.</p> <p>Any material risk events are reviewed for reputational impact, and mitigating actions are initiated as appropriate.</p>
<p><b>Year-on-year change</b></p> <p style="text-align: center;"></p>	<p>The Group continues to manage its reputation effectively in all its dealings. Whilst it is mindful that threats to its reputation can emanate from many sources, the Group remains well-placed to respond quickly and efficiently to any potential reputational issue.</p>


PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Strategic Risk	
Description	Mitigation
<p>The Group’s strategy as a specialist lender is key to its operating model and business planning. However, there is a risk that changes to its business model, or macroeconomic, geopolitical, regulatory, competitive or other external factors may impact delivery of strategic objectives.</p>	<p>The Group closely monitors economic developments in the UK and overseas, with support from leading independent macro-economic and other advisors.</p> <p>Stress testing is performed to assess its expected performance under a range of operating conditions. This provides the Board with an informed understanding and appreciation of the Group’s capacity to withstand shocks of varying severities.</p> <p>The Group continues to exploit opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk focussed lender.</p>
<p><b>Year-on-year change</b></p> 	<p>Whilst the political and economic landscape has stabilised somewhat over the year, there remains some uncertainty around the performance of the UK economy in both the near and longer term. Material increases in the cost of living, interest rates and businesses input costs, continue to put pressure on household and corporate disposable income. The full impacts of this uncertainty, coupled with implications of the UK’s new trading relationships post-Brexit, are still to be fully determined, as are those of any potential change of political direction, with a UK general election due before January 2025.</p> <p>Despite the wider economic challenges, the Group has remained resilient throughout the year, and has made strong progress in meeting the strategic targets in its corporate plan. In particular it has continued to make significant progress in its digitalisation programme which remains a key priority.</p> <p>Notwithstanding the apparently more benign economic situation and its continuing strong activity levels, the Group recognises that the full impact of interest rate rises is unlikely to be immediate, with the potential for further economic and property market disruption into the new financial year presenting a further risk to the execution of the Group’s strategy.</p>

PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Climate Risk	
Description	Mitigation
<p>The Group considers the impact of climate change either directly on the Group or indirectly through its third-party relationships or its lending activities.</p> <p>This includes both the transitional risk to its strategy and profile through external measures to progress to a low carbon environment and any physical risks arising from changes to the natural environment that could impact the calculation and valuation of assets and liabilities.</p>	<p>The Group proactively manages physical risk and has specific underwriting policies aimed at the mitigation of, for example, risks associated with flooding, coastal erosion and subsidence.</p> <p>The potential for transition risk is monitored within the different business lines, with external events prompting consideration of amendments to credit policy and underwriting criteria.</p> <p>The Group continues to actively engage with public forums such as Bankers for Net Zero ('B4NZ'), the Mission Zero Coalition and UK Finance to support the development of future policy and regulation.</p> <p>Ongoing and enhanced climate change analysis, supported by scenario testing, continues to be further embedded throughout the business to inform longer term strategic planning.</p> <p>The Sustainability Committee provides comprehensive oversight of climate initiatives across each business line, whilst the Credit Committee monitors the performance of mortgaged property collateral against EPC data.</p>
<p><b>Year-on-year change</b></p> 	<p>The Group has continued to make progress on its climate change agenda, with activity focused on enhancing its financed emissions balance sheet, continued public policy advocacy through B4NZ, and enhancing its approach to climate change scenario analysis.</p> <p>The levels of regulatory scrutiny and public interest in this area continue to be high. However, the Group's approach has matured in the year, and a proportionate approach to managing the risks and opportunities associated with climate change has been maintained.</p> <p>Although there is significant uncertainty in respect of the direction of government policy and regulation in this area, the Group's scenario analysis assessment indicates that its exposure to climate change impacts is being managed appropriately and does not pose it a significant or increasing risk</p>


PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Conduct Risk	
Description	Mitigation
<p>The commitment to delivering good customer outcomes is at the heart of the Group’s culture and strategy.</p> <p>Conduct risk arises where the culture and behaviours fail to promote the customer’s best interests and avoid foreseeable consumer harm, resulting in unfair outcomes for the customer.</p>	<p>The management of conduct risk within the Group is tailored to the specific product and customer type and includes dedicated quality and control teams which validate process adherence, the delivery of good customer outcomes, and the appropriate management of those customers showing signs of vulnerability, including those in financial difficulties.</p> <p>During the year work was undertaken to review and enhance the Group’s management of conduct risk in preparation for the introduction of the FCA Consumer Duty in the year. All employees are required to undertake conduct risk related training.</p> <p>The Group’s approach to employee remuneration means that very few employees are included in financial incentive schemes. The incentive scheme framework is reviewed by the Remuneration Committee and the CCC annually and individual schemes require approval from the Chief People Officer, CFO and Conduct and Compliance Director before implementation.</p>
<p><b>Year-on-year change</b></p> <p style="text-align: center;"></p>	<p>Whilst the Group is well-placed to provide appropriate support, the current economic environment, including the cost of living crisis, increasing input costs for businesses, and rising interest rates and mortgage payments, is likely to place strain on some of the Group’s customers. This will potentially increase the risk of customer vulnerabilities, particularly in relation to financial resilience.</p> <p>The introduction of the FCA’s Consumer Duty also raises the expectations of firms to proactively seek to prevent causes of foreseeable harm, and to identify harm when it occurs.</p>

PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

Operational Risk	
Description	Mitigation
<p>Operational Risk arises across the Group through the possible inadequacy or failure of internal processes, people and systems or from external events.</p> <p>Operational risk is inherently diverse in nature. All the Group’s activities create various forms of operational risk which need to be managed through a strong control and oversight structure. Exposure to operational risk is exacerbated through any periods of transformation and / or stress.</p>	<p>The Group has an established operational risk framework which enables timely and accurate analysis of operational risk exposures and drives accountability and remedial actions where issues are identified.</p> <p>Operational risk is managed through a comprehensive framework of policies which are designed to ensure that all key operational risks are managed consistently across the business. This includes risk areas such as Information Technology, Data Protection, Change Management, Procurement, Financial Crime and People.</p> <p>The Group is committed to ensuring it remains resilient, particularly in respect of IT capability. Significant investment has been undertaken to ensure that the Group is well-protected in the face of the evolution of cyber threats particularly as it increasingly moves to cloud-based infrastructure and looks to harness digital capability as part of its IT roadmap.</p> <p>Whilst the Group continues to drive through strategic transformation across all its lending lines, there remains a continuing focus on ensuring that these changes do not compromise overall resilience. A well-embedded change framework ensures that changes are managed in a controlled way. Operational resilience remains a key driver and consideration at all stages of the project lifecycle.</p> <p>The Group relies on third party providers for a number of key services including in support of its savings offering, and in respect of material IT services. The robust oversight of third parties is also seen as critical to overall resilience.</p> <p>The Group continues to focus on building an engaged and highly skilled workforce through the delivery of effective reward, succession planning, recruitment, development and retention strategies. In addition, the Group remains committed to the well-being of its employees, and its employee networks play a crucial role in ensuring leadership understand and can act on employee feedback.</p>

## PRINCIPAL RISKS AND MITIGATIONS (CONTINUED)

<p><b>Year-on-year change</b></p> 	<p>The Group does not consider itself to have a higher than average likelihood of being subject to a cyber threat, however the general threat level has significantly increased following the impacts of the conflict in Ukraine. Given the pace at which the external cyber threat level continues to evolve, the Group remains committed to investment in this area on a long-term basis, focussing on key areas such as data loss prevention and vulnerability management. Ongoing assessment of, and response to, the Group's cyber profile remains integral to successful execution of its overall strategy.</p> <p>Recruitment and retention in some specialisms remain challenging given wider skill shortages across the industry. Changing working patterns and economic uncertainty continue to influence the recruitment market. More generally, impacts of the war in Ukraine and the wider cost of living challenges have further increased potential risk exposures across key operational risk categories such as financial crime.</p> <p>Regulatory compliance expectations continue to rise, and the Group is committed to ensuring that it remains compliant in its operational activities. There is potential that as expectations increase, gaps may be identified which will need addressing to reduce inherent operational risk exposures.</p> <p>The Group continues to make strong progress on its strategic transformation programme, which it anticipates will benefit operational risk management in the longer term. However, it is recognised that significant change can exacerbate operational strains in the short term. Potential for such issues is being carefully managed through robust governance and oversight.</p> <p>Whilst the Group continues to maintain a robust control environment and operational risk related losses remain at historically low levels, the present operating environment poses considerable challenges which increase inherent operational risks.</p>
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**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 Finance PLC, a company registered in England and Wales with registration no: 01917566, for the year ended 30 September 2023.

**DIRECTORS**

The directors who served during the year and subsequently were:

N S Terrington

R J Woodman

K G Allen

P E Rowland (resigned 6 January 2023)

Z Khan (appointed 16 February 2023)

**RESEARCH AND DEVELOPMENT**

During the year, the Company undertook certain projects to develop its IT capabilities which met the definition of research and development set out in the guidelines issued by the Department of Business Innovation and Skills. Claims in respect of these activities were made in the Company's tax returns. The amounts involved were modest in the context of the Company's accounts.

**DIRECTORS' INDEMNITY AND INSURANCE**

Under Article 161 of the Articles, the Company has qualifying third party indemnity provisions for the benefit of its directors, for the purposes of section 234 of the Companies Act 2006, which were in place throughout the year and which remain in force at the date of this report, in the form of directors' and officers' liability insurance. The directors' and officers' liability insurance covers directors of all of the Company's subsidiary entities.

**AUDITOR**

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

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

The directors, having considered the requirements for rotation of auditor, the length of service of KPMG LLP and the conduct of the audit concluded there was no present need to retender the audit. Therefore, a resolution for the re-appointment of KPMG LLP as the auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

**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 23 to the accounts.
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in the Strategic report.
- Disclosure on any dividends paid during the year is included in the Strategic Report.

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



K G Allen

Director

24 January 2024

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

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

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

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



K G Allen

Director

24 January 2024

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON FINANCE PLC**

### **Opinion**

We have audited the Financial Statements of Paragon Finance PLC for the year ended 30 September 2023 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of movements in equity and the related notes 1 to 28, including the accounting policies in note 25.

In our opinion the Financial Statements:

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

### **Basis for opinion**

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

### **Going concern**

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

### **Fraud and breaches of laws and regulations – ability to detect**

#### *Identifying and responding to risks of material misstatement due to fraud*

- To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON FINANCE PLC (CONTINUED)**

Our risk assessment procedures included:

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

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

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

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. This included searching for and testing those journals posted and approved by the same user, journals posted to seldom used accounts, unbalanced journal postings and those including specific descriptors.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: conduct, money laundering, financial crime, certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of Group's regulatory correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

**Strategic report and directors' report**

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

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

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

**Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

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

**Directors' responsibilities**

As explained more fully in their statement set out on page 20, 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](http://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

24 January 2024

## PROFIT AND LOSS ACCOUNT

## YEAR ENDED 30 SEPTEMBER 2023

	Note	2023 £000	2023 £000	2022 £000	2022 £000
Interest receivable and similar income	2	9,596		6,247	
Interest payable and similar charges	3	(4,428)		(1,281)	
Net interest income			5,168		4,966
Other leasing income	4	119		-	
Related costs	4	(92)		-	
Net leasing income		27		-	
Other income	5	175,192		158,728	
Other operating income			175,219		158,728
Total operating income			180,387		163,694
Operating expenses			(168,054)		(151,438)
Provision for losses	6		11		272
Operating profit, being profit on ordinary activities before taxation	7		12,344		12,528
Tax on profit on ordinary activities	8		(903)		(3,965)
Profit on ordinary activities after taxation			11,441		8,563

All activities derive from continuing operations.

## STATEMENT OF COMPREHENSIVE INCOME

## YEAR ENDED 30 SEPTEMBER 2023

	Note	2023 £000	2022 £000
Profit for the year		11,441	8,563
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial gain on pension fund	22	2,396	15,293
Deferred tax on actuarial gain	22	(818)	(3,648)
Other comprehensive income for the year net of tax		1,578	11,645
Total comprehensive income for the year		13,019	20,208

## BALANCE SHEET

30 SEPTEMBER 2023

	Note	2023 £000	2023 £000	2022 £000	2022 £000
<b>FIXED ASSETS</b>					
Intangible assets	9	4,431		3,863	
Property, plant and equipment	10	12,598		11,808	
Investments – group companies	12	96,314		174,611	
			113,343		190,282
<b>CURRENT ASSETS</b>					
Debtors falling due within one year	13	117,787		127,678	
Cash at bank		-		-	
			117,787		127,678
Retirement benefit obligations	22		12,658		7,064
<b>TOTAL ASSETS</b>			<u>243,788</u>		<u>325,024</u>
Called up share capital	15	76,164		76,164	
Profit and loss account		83,998		99,134	
<b>TOTAL EQUITY</b>			160,162		175,298
<b>CREDITORS</b>					
Amounts falling due within one year	16	77,667		143,101	
Amounts falling due after more than one year	16	5,959		6,625	
<b>TOTAL LIABILITIES</b>			83,626		149,726
<b>TOTAL LIABILITIES AND EQUITY</b>			<u>243,788</u>		<u>325,024</u>

These Financial Statements were approved by the Board of Directors on 24 January 2024.

Signed on behalf of the Board of Directors



K G Allen

Director

## STATEMENT OF MOVEMENTS IN EQUITY

## YEAR ENDED 30 SEPTEMBER 2023

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	11,441	11,441
Other comprehensive income	-	1,578	1,578
Total comprehensive income for the year	-	13,019	13,019
<i>Transactions with owners</i>			
Issue of shares	-	-	-
Dividend	-	(30,000)	(30,000)
Tax on share based remuneration	-	1,845	1,845
Total Transactions with owners	-	(28,155)	(28,155)
Net movement in equity in the year	-	(15,136)	(15,136)
Opening equity	76,164	99,134	175,298
Closing equity	76,164	83,998	160,162

## YEAR ENDED 30 SEPTEMBER 2022

	Share capital £000	Profit and loss account £000	Total equity £000
<i>Total comprehensive income for the year</i>			
Profit for the year	-	8,563	8,563
Other comprehensive income	-	11,645	11,645
Total comprehensive income for the year	-	20,208	20,208
<i>Transactions with owners</i>			
Issue of shares	-	-	-
Dividend	-	(100,000)	(100,000)
Tax on share based remuneration	-	(565)	(565)
Total Transactions with owners	-	(100,565)	(100,565)
Net movement in equity in the year	-	(80,357)	(80,357)
Opening equity	76,164	179,491	255,655
Closing equity	76,164	99,134	175,298

**NOTES TO THE ACCOUNTS****YEAR ENDED 30 SEPTEMBER 2023****1. GENERAL INFORMATION**

Paragon Finance PLC ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 01917566. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

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

The remaining notes to the accounts are organised into four sections:

- Analysis – providing further analysis and information on the amounts shown in the primary financial statements
- Employment costs – providing information on employee and key management remuneration arrangements including share schemes and pension arrangements
- Financial Risk – providing information on the Company's management of its principal financial risks
- Basis of preparation – providing details of the Company's accounting policies and of how they have been applied in the preparation of the financial statements

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

*The notes set out below give more detailed analysis of the balances shown in the primary financial statements and further information on how they relate to the operations, results and financial position of the Company.*

**2. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
On loans to other group companies	438	858
On loans to related parties	179	185
On loan notes issued by related parties	8,535	5,204
Interest on deposits	4	-
Total interest on financial assets	<u>9,156</u>	<u>6,247</u>
On pension scheme assets (note 22)	440	-
	<u>9,596</u>	<u>6,247</u>
The above amounts relate to:		
	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Financial assets held at amortised cost	9,156	6,247
Other items	440	-
	<u>9,596</u>	<u>6,247</u>

**3. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
On bank loans and overdrafts	132	58
On loans from parent undertaking	3,998	861
On loans from related parties	28	26
Total interest on financial liabilities	<u>4,158</u>	<u>945</u>
On pension scheme deficit (note 22)	-	172
Discounting on lease liabilities	270	164
	<u>4,428</u>	<u>1,281</u>
The above amounts relate to:		
	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Financial liabilities held at amortised cost	4,158	945
Other items	270	336
	<u>4,428</u>	<u>1,281</u>

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 4. NET OPERATING LEASE INCOME

	Note	2023 £000	2022 £000
Operating lease rentals		119	-
Depreciation of lease assets	10	(92)	-
Net operating lease income		<u>27</u>	<u>-</u>

## 5. OTHER INCOME

	2023 £000	2022 £000
Loan account fee income	2	13
Insurance income	3	5
Administration fees	6,564	8,847
Costs recharged to other group companies	168,623	149,863
	<u>175,192</u>	<u>158,728</u>

Administration fees are in respect of income receivable from various special purpose vehicle ('SPV') companies within the group which own mortgage and loan assets administered by the Company. Further details are given in note 11.

All loan account fee income arises from financial assets held at amortised cost.

## 6. PROVISIONS FOR LOSSES

	2023 £000	2022 £000
<b>Release of provision</b>		
First mortgage loans	(11)	(16)
Loans to group companies	-	(245)
Loans to related parties	-	(11)
	<u>(11)</u>	<u>(272)</u>

## 7. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2023 £000	2022 £000
<b>Operating profit is after charging:</b>		
Amortisation of intangible assets (note 9)	1,166	1,202
Depreciation on operating assets (note 10)	3,249	2,439
Auditor remuneration - audit services	125	110
	<u>125</u>	<u>110</u>

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

**7. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)**

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.

**8. TAX ON PROFIT ON ORDINARY ACTIVITIES****a) Tax charge for the year**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Current tax:		
Corporation tax	1,476	1,258
Adjustment in respect of prior periods	(617)	1,534
Total current tax	<u>859</u>	<u>2,792</u>
Deferred tax (note 14):		
Origination and reversal of timing differences	43	1,815
Adjustment in respect of prior periods	636	(261)
Rate change	(635)	(381)
Total deferred tax	<u>44</u>	<u>1,173</u>
	<u>903</u>	<u>3,965</u>

**b) Factors affecting the tax charge for the year**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Profit before tax	<u>12,344</u>	<u>12,528</u>
UK corporation tax at 22% (2022: 19%) based on the profit for the year	2,716	2,380
Effects of:		
Tax exempt expenses / (income)	57	(49)
Timing difference mismatch	(1,254)	742
Prior year charge	19	1,273
Change in rate of taxation on deferred tax balances	(635)	(381)
	<u>903</u>	<u>3,965</u>

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 8. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

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

## 9. INTANGIBLE ASSETS

	<b>Computer software £000</b>	<b>Total £000</b>
<b>Cost</b>		
At 1 October 2022	15,998	15,998
Additions	1,734	1,734
Disposals	(40)	(40)
At 30 September 2023	<u>17,692</u>	<u>17,692</u>
<b>Accumulated amortisation</b>		
At 1 October 2022	12,135	12,135
Charge for the year	1,166	1,166
On disposals	(40)	(40)
At 30 September 2023	<u>13,261</u>	<u>13,261</u>
<b>Net book value</b>		
At 30 September 2023	<u>4,431</u>	<u>4,431</u>
At 30 September 2022	<u>3,863</u>	<u>3,863</u>

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 10. PROPERTY, PLANT AND EQUIPMENT

	Leased assets £000	Land and buildings £000	Plant and machinery £000	Total £000
<b>Cost</b>				
At 1 October 2022	-	13,928	11,205	25,133
Additions	673	1,120	2,413	4,206
Disposals	-	-	(1,854)	(1,854)
At 30 September 2023	<u>673</u>	<u>15,048</u>	<u>11,764</u>	<u>27,485</u>
<b>Accumulated depreciation</b>				
At 1 October 2022	-	4,501	8,824	13,325
Charge for the year	92	1,771	1,478	3,341
On disposals	-	-	(1,779)	(1,779)
At 30 September 2023	<u>92</u>	<u>6,272</u>	<u>8,523</u>	<u>14,887</u>
<b>Net book value</b>				
At 30 September 2023	<u>581</u>	<u>8,776</u>	<u>3,241</u>	<u>12,598</u>
At 30 September 2022	<u>-</u>	<u>9,427</u>	<u>2,381</u>	<u>11,808</u>

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The carrying values of right of use of assets, in respect of leases where the Company is the lessee, included in tangible fixed assets are set out below.

	Leased assets £000	Land and buildings £000	Plant and machinery £000	Total £000
<b>Cost</b>				
At 1 October 2022	-	9,758	1,767	11,525
Additions	673	725	1,403	2,801
Disposals	-	-	(417)	(417)
At 30 September 2023	<u>673</u>	<u>10,483</u>	<u>2,753</u>	<u>13,909</u>
<b>Accumulated depreciation</b>				
At 1 October 2022	-	2,204	1,110	3,314
Charge for the year	92	1,525	720	2,337
On disposals	-	-	(408)	(408)
At 30 September 2023	<u>92</u>	<u>3,729</u>	<u>1,422</u>	<u>5,243</u>
<b>Net book value</b>				
At 30 September 2023	<u>581</u>	<u>6,754</u>	<u>1,331</u>	<u>8,666</u>
At 30 September 2022	<u>-</u>	<u>7,554</u>	<u>657</u>	<u>8,211</u>

## 11. SECURITISATIONS

As part of the Group's financing arrangements, Group companies have sold portfolios of mortgages or other loans to a number of other group companies referred to as 'special purpose vehicles' or SPVs.

The SPVs have issued securities which are secured on the assets acquired, to finance the purchase of those assets. In each case the Company has provided a subordinated loan to the issuer and met its front end expenses which will be recovered over time. In certain cases the Company has also taken a minority shareholding or subscribed for loan stock.

The Company has entered into agreements with the SPVs under which it administers and manages the assets purchased by those companies. Other than its responsibilities with regard to these arrangements and the warranties given in the mortgage sale agreements, the Company has no commitment to repurchase the assets acquired by the SPVs or invest further in the SPVs and has no other liability in respect thereof.

Following the Group's disposal of its residual interest in the Paragon Mortgages (No. 12) PLC securitisation in June 2019, the external securitisation borrowings remain in place with their terms unchanged and the Company continues to act as administrator, for which it charges a fee. It has no other exposure to the profitability of the deal, no exposure to credit risk, other than on the recoverability of its quarterly fee, and no obligation to make further contribution to the entity.

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 11. SECURITISATIONS (CONTINUED)

The Company has identified the following transactions which are required to be disclosed under the terms of IAS 24 - 'Related Party Disclosures' ('IAS 24').

**Transactions with Paragon Mortgages (No. 25) PLC ('PM25')**

The Company acted as servicer of the mortgages for PM25, a company under common control as defined by IAS 24, and earned £503,000 (2022: £1,108,000) during the year in servicing fees. At the balance sheet date PM25 owed £nil (2022: £160,000) to the Company in relation to servicing fees, which is included in prepayments and accrued income.

At the balance sheet date, the Company was owed £nil (2022: £428,000) by PM25 in relation to payments made on behalf of PM25, which is included in other debtors.

The Company is the Fee Letter provider to PM25 which is repaid over a four-year period. At the balance sheet date, the outstanding Fee Letter was £nil (2022: £431,000), which is included within other debtors as mentioned above. During the year the Company earned £15,000 (2022: £36,000) in Fee letter interest and at the balance sheet date PM25 owed £nil (2022: £3,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

At the balance sheet date, the Company held the following asset backed loan notes issued by PM25, which are included in investments. It shows the amount of interest earned during the current and preceding years by the Company from holding the asset backed loan notes and what the Company is owed in interest at the 30 September 2023 and 30 September 2022 which is included in prepayments and accrued income:

Notes	Maturity date	Call date	Principal held		Interest earned		Interest Company was owed	
			2023	2022	2023	2022	2023	2022
			£000	£000	£000	£000	£000	£000
'A'	May 2050	May 2023	-	19,379	426	295	-	68
'B'	May 2050	May 2023	-	1,700	46	29	-	7
'C'	May 2050	May 2023	-	1,500	44	31	-	7
'D'	May 2050	May 2023	-	24,700	774	589	-	117
'Z'	May 2050	May 2023	-	17,600	662	597	-	106
'S'	May 2050	May 2023	-	7,349	321	370	-	57
'SVFN'	May 2050	May 2023	-	-	-	-	-	-

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 11. SECURITISATIONS (CONTINUED)

**Transactions with Paragon Mortgages (No. 26) PLC ('PM26')**

During the year the Company, a company under common control as defined by IAS 24, acted as servicer of the mortgages for PM26 and earned £568,000 (2022: £792,000) in servicing fees. At the balance sheet date, PM26 owed £89,000 (2022: £117,000) to the Company in relation to servicing fees, which is included in prepayments and accrued income.

At the balance sheet date the Company was owed £446,000 (2022: £791,000) from PM26 in relation to payments made on behalf of PM26, which is included in other debtors.

The Company is the Fee Letter provider to PM26 which is repaid over a four-year period. At the balance sheet date, the outstanding Fee Letter was £400,000 (2022: £745,000), which is included in the balances above. During the year the Company earned £44,000 (2022: £43,000) in Fee letter interest and at the balance sheet date PM26 owed £5,000 (2022: £6,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

At the balance sheet date, the Company held the following asset backed loan notes issued by PM26, which are included in investments. It shows the amount of interest earned during the current and preceding years by the Company from holding the asset backed loan notes and what the Company is owed in interest at the 30 September 2023 and 30 September 2022 which is included in prepayments and accrued income:

Notes	Maturity date	Call date	Principal held	notes	Interest earned	Company	Interest	Company
			2023	2022	2023	2022	2023	2022
			£000	£000	£000	£000	£000	£000
'A1'	May 2045	Aug 2024	1,494	5,684	116	138	12	22
'A2'	May 2045	Aug 2024	7,577	7,577	389	145	62	31
'B'	May 2045	Aug 2024	24,741	24,741	1,443	648	227	123
'C'	May 2045	Aug 2024	18,555	18,555	1,147	551	178	100
'D'	May 2045	Aug 2024	20,102	20,102	1,313	667	202	118
'Z'	May 2045	Aug 2024	20,105	20,105	1,514	868	228	144
'S'	May 2045	Aug 2024	3,740	5,571	341	277	44	43
'SVFN'	May 2045	Aug 2024	-	-	-	-	-	-

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 11. SECURITISATIONS (CONTINUED)

**Transactions with Paragon Mortgages (No. 27) PLC ('PM27')**

During the year the Company, a company under common control as defined by IAS 24, acted as servicer of the mortgages for PM27 and earned £1,314,000 (2022: £1,401,000) in servicing fees. At the balance sheet date, PM27 owed £327,000 (2022: £340,000) to the Company in relation to servicing fees, which is included in prepayments and accrued income.

At the balance sheet date the Company was owed £656,000 (2022: £1,140,000) from PM27 in relation to payments made on behalf of PM27, which is included in other debtors.

The Company is the Fee Letter provider to PM27 which is repaid over a four-year period. At the balance sheet date, the outstanding Fee Letter was £656,000 (2022: £875,000), which is included in the balance above. During the year the Company earned £61,000 (2022: £49,000) in Fee letter interest and at the balance sheet date PM27 owed £13,000 (2022: £11,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

**Transactions with Paragon Mortgages (No. 28) PLC ('PM28')**

During the year the Company, a company under common control as defined by IAS 24, acted as servicer of the mortgages for PM28 and earned £1,264,000 (2022: £1,382,000) in servicing fees. At the balance sheet date, PM28 owed £102,000 (2022: £108,000) to the Company in relation to servicing fees, which is included in prepayments and accrued income.

At the balance sheet date the Company was owed £578,000 (2022: £307,000) from PM28 in relation to payments made on behalf of PM28, which is included in other debtors.

The Company is the Fee Letter provider to PM28 which is repaid over a four-year period. At the balance sheet date, the outstanding Fee Letter was £577,000 (2022: £822,000), which is included in the balance above. During the year the Company earned £58,000 (2022: £46,000) in Fee letter interest and at the balance sheet date PM28 owed £2,000 (2022: £2,000) in relation to Fee Letter interest, which is included in prepayments and accrued income.

**Transactions with Paragon Seventh Funding Limited ('P7F')**

The Company acted as servicer of the mortgages for P7F, a company under common control as defined by IAS 24, and earned £270,000 (2022: £1,061,000) during the year in servicing fees. At the balance sheet date P7F owed £nil (2022: £97,000) to the Company in relation to other fees, and £nil (2022: £29,000) in relation to payments made on behalf of the Company, which is included in other debtors.

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 12. INVESTMENTS - GROUP COMPANIES

	2023 £000	2022 £000
At 1 October 2022	174,611	182,890
Investment during the year	-	-
Repayment of loans	(78,297)	(8,279)
At 30 September 2023	<u>96,314</u>	<u>174,611</u>

The investments are loans to the Group companies which are not subsidiaries of the Company. The investments include investments in mortgage-backed floating rate notes amounting to £96,314,000 (2022: £174,611,000).

The investments in mortgage-backed floating rate notes represents the Company's investment in publicly traded, mortgages backed floating rate notes originally issued by:

Paragon Mortgages (No. 26) PLC

During the current year Paragon Mortgages (No. 25) PLC repaid all of the outstanding mortgage-backed floating rate notes.

All companies mentioned above are SPVs. These companies were established and controlled by entities in common control with the Company to purchase pools of mortgage assets.

These investments are denominated in sterling and are considered to be debt investments as defined by IFRS. The underlying assets are mortgage loans made to United Kingdom borrowers. The Company is under no obligation to make any contribution to the SPV and its maximum loss is limited to the carrying value of its investment.

Other debits include primarily interest charged and other changes in the amortised cost of the assets caused by the effective interest rate method.

The Company itself is a wholly-owned subsidiary and, therefore, no consolidated accounts have been prepared.

The directors consider that the value of the investments in subsidiary companies is at least equal to the amounts at which they are stated.

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 13. DEBTORS

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Amounts falling due within one year:		
Amounts due from group companies	7,898	47,826
Current tax assets	85,378	56,977
Deferred tax assets (note 14)	3,954	3,781
Other debtors	19,064	17,406
Sundry financial assets	<u>116,294</u>	<u>125,990</u>
Prepayments and accrued income	1,493	1,688
	<u><u>117,787</u></u>	<u><u>127,678</u></u>

Included in the amount due from group companies is £nil (2022: £44,067,000) which is interest bearing.

## 14. DEFERRED TAX

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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 October 2022	3,781	10,355
Credit / (charge) to reserves	217	(5,401)
Profit and loss charge (note 8)	(43)	(1,815)
Prior year profit and loss (charge) / credit (note 8)	(636)	261
Rate change (note 8)	635	381
Balance at 30 September 2023	<u><u>3,954</u></u>	<u><u>3,781</u></u>

The net deferred tax asset recognised is analysed as follows:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Accelerated tax depreciation	(801)	200
Retirement benefit obligations	(3,173)	(556)
Share based payments	7,534	3,693
Other timing differences	394	444
Net deferred tax asset	<u><u>3,954</u></u>	<u><u>3,781</u></u>

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 15. CALLED UP SHARE CAPITAL

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Allotted:		
101,552,255 ordinary shares of 75p each	76,164	76,164

## 16. CREDITORS

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Amounts falling due within one year:		
Bank loan and overdrafts	187	336
Amounts due to parent undertaking	40,765	105,888
Amounts due to group companies	453	5,398
Other creditors	38	121
Accruals and deferred income	34,349	29,289
Lease payables (note 17)	1,875	2,069
	<u>77,667</u>	<u>143,101</u>

The amounts due to parent undertaking are interest bearing and included in the amount due to group companies is £nil (2022: £4,338,000) which is interest bearing.

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Amounts falling due after one year:		
Lease payables (note 17)	5,959	6,625
	<u>5,959</u>	<u>6,625</u>

## 17. LEASE PAYABLES

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Leasing Liabilities fall due		
In more than five years	480	1,102
In more than two but less than five years	3,157	3,680
In more than one year but less than two years	2,322	1,843
In more than one year (note 16)	5,959	6,625
In less than one year (note 16)	1,875	2,069
	<u>7,834</u>	<u>8,694</u>

## NOTES TO THE ACCOUNTS - ANALYSIS

## YEAR ENDED 30 SEPTEMBER 2023

## 18. LEASING ARRANGEMENTS

*As Lessor*

The Company leases green motor vehicles to its employees under a salary sacrifice scheme.

Disclosures relating to these balances are set out in these financial statements as follows.

Disclosure	Note
Assets leased under operating leases	10
Operating lease income	4

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

	2023 £000	2022 £000
Amounts falling due:		
Within one year	224	-
Within one to two years	224	-
Within two to three years	185	-
Within three to four years	76	-
Within four to five years	19	-
After more than five years	-	-
	728	-
	728	-

*As Lessee*

The Company's use of leases as a lessee, relates to the rent of an office building(s) and company cars. Under IFRS 16 these have been accounted for as right of use assets and corresponding lease liabilities under IFRS 16.

The average term of the current building leases from inception is 8 years (2022: 9 years) with rents subject to review every five years, while the average term of the vehicle leases and office equipment is 3 years (2022: 3 years).

Disclosures relating to these leases are set out in these financial statements as follows.

Disclosure	Note
Depreciation on right of use assets	7
Interest expense on lease liabilities	3
Additions to right of use assets	10
Carrying amount of right of use assets	10

Salary sacrifice amounts of £0.1m in respect of the green car scheme are included within operating lease income (note 4). There was no other subleasing of right of use assets and the total cash flows relating to leasing as a lessee were £2.2m (2022: £1.7m).

**NOTES TO THE ACCOUNTS - ANALYSIS**

**YEAR ENDED 30 SEPTEMBER 2023**

**19. RELATED PARTY TRANSACTIONS**

Related party transactions are discussed in note 11.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

*The notes set out below give information on the Company's employment costs, including the disclosures on share-based payments and pension schemes required by accounting standards.*

## 20. DIRECTORS AND EMPLOYEES

## a) Directors

Two of the directors during the period (2022: two) were also directors of the parent company, Paragon Banking Group PLC. Their remuneration from the Paragon Group is set out in the Directors' Remuneration Report of Paragon Banking Group PLC. No amounts in respect of their emoluments are included in the disclosures below.

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<b>Directors' emoluments:</b>		
Other emoluments	917	804
	<u>917</u>	<u>804</u>
Pension contributions paid in respect of directors	<u>22</u>	<u>33</u>
Emoluments of the highest paid director:		
Excluding pension contributions	484	503
Pension contributions	-	-
	<u>484</u>	<u>503</u>

The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was one (2022: one). 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 (2022: four) two of whom are directors of the parent company (2022: two). Four of these directors (2022: four), including the highest paid director exercised awards during the year.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 20. DIRECTORS AND EMPLOYEES (CONTINUED)

## b) Employees

The average number of persons (including directors) employed by the Company during the year was 1,546 (2022: 1,498). The costs incurred during the year in respect of these employees were:

	2023	2023	2022	2022
	£000	£000	£000	£000
Share based remuneration	9,634		9,184	
Other wages and salaries	86,316		81,945	
Total wages and salaries	<u>95,950</u>	95,950	<u>91,129</u>	91,129
National insurance on share based remuneration	1,885		458	
Other social security costs	9,840		9,686	
Total social security costs	<u>11,725</u>	11,725	<u>10,144</u>	10,144
Defined benefit pension cost	477		866	
Other pension costs	4,636		4,153	
Total pension costs	<u>5,113</u>	5,113	<u>5,019</u>	5,019
Total staff costs	<u>112,788</u>	112,788	<u>106,292</u>	106,292

Details of the pension schemes operated by the Company are given in note 22.

NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2023

21. SHARE BASED REMUNERATION

During the year 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 20.

A summary of the number of share awards outstanding under each scheme at 30 September 2023 and at 30 September 2022 is set out below.

	Number 2023	Number 2022
(a) Sharesave Plan	3,077,077	3,613,777
(b) Performance Share Plan	5,365,646	4,831,871
(c) Company Share Option Plan	56,591	87,716
(d) Deferred Bonus Plan	1,123,936	1,155,638
(e) Restricted Stock Units	412,676	616,709
	<u>10,035,926</u>	<u>10,305,711</u>

Following the year end, the Remuneration Committee agreed the amounts of variable remuneration in respect of the year to be satisfied in the form of share-based awards. These awards will be granted, following the approval of these accounts, based on the amounts approved and market pricing data of the date of grant.

(a) Sharesave plan

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

A reconciliation of movements in the number and weighted average exercise price of options over £1 ordinary shares during the year ended 30 September 2023 and the year ended 30 September 2022 is shown below.

	2023 Number	2023 Weighted average exercise price p	2022 Number	2022 Weighted average exercise price p
<b>Options outstanding</b>				
<b>£1 ordinary shares</b>				
At 1 October 2022	3,613,777	318.46	3,227,430	305.50
Granted in the year	1,235,757	400.40	737,978	391.20
In respect of employees transferring in	-	-	334,245	307.80
Exercised or surrendered in the year	(1,579,263)	285.67	(386,039)	339.22
Lapsed during the year	(193,194)	357.44	(299,837)	316.95
At 30 September 2023	<u>3,077,077</u>	<u>365.76</u>	<u>3,613,777</u>	<u>318.46</u>
Options exercisable	<u>439,546</u>	<u>279.43</u>	<u>109,654</u>	<u>359.92</u>

The weighted average remaining contractual life of options outstanding at 30 September 2023 was 33.1 months (2022: 27.0 months). The weighted average market price at exercise for share options exercised in the year was 515.86p (2022: 507.07p).

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

## (a) Sharesave plan (continued)

Options are outstanding under the Sharesave plans to purchase ordinary shares as follows:

Grant date	Period exercisable	Exercise price	Number 2023	Number 2022
<b>Sharesave Schemes</b>				
28/07/2017	01/09/2022 to 01/03/2023	341.76p	-	1,403
31/07/2018	01/09/2023 to 01/03/2024	408.80p	2,933	20,391
30/07/2021	01/09/2022 to 01/03/2023	360.16p	-	108,251
30/07/2021	01/09/2024 to 01/03/2025	360.16p	4,577	4,577
27/07/2021	01/09/2023 to 01/03/2024	278.56p	436,613	1,925,599
27/07/2021	01/09/2025 to 01/03/2026	278.56p	449,263	478,876
28/07/2022	01/09/2024 to 01/03/2025	424.00p	257,591	278,279
28/07/2022	01/09/2026 to 01/03/2027	424.00p	54,118	63,315
27/07/2022	01/09/2025 to 01/03/2026	391.20p	528,429	622,064
27/07/2022	01/09/2027 to 01/03/2028	391.20p	108,722	111,022
15/09/2023	01/10/2028 to 01/04/2029	400.40p	1,022,746	-
15/09/2023	01/10/2030 to 01/04/2031	400.40p	212,085	-
			<u>3,077,077</u>	<u>3,613,777</u>

An option holder has the legal right to a payment holiday of up to twelve months without forfeiting their rights. In such cases the exercise period would be deferred for an equivalent period of time and therefore options might be exercised later than the date shown above.

In the event of the death or redundancy of the employee options may be exercised early and the exercise period may also start or end later than stated above (options may be exercised up to twelve months after the holder's decease). Awards lapse on cessation of employment, other than in 'good leaver' circumstances.

The fair value of options granted is determined using a trinomial model. Details of the awards made in the year ended 30 September 2023 and the year ended 30 September 2022, are shown below.

Grant date	15/09/23	15/09/23	27/07/22	27/07/22
Number of awards granted	1,203,672	212,085	623,122	114,856
Market price at date of grant	506.5p	506.5p	527.0p	527.0p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	<u>1.10</u>	<u>1.09</u>	<u>1.34</u>	<u>1.06</u>
<b>Inputs to valuation model</b>				
Expected volatility	31.02%	35.67%	39.36%	33.75%
Expected life at grant date (years)	3.43	5.42	3.42	5.43
Risk-free interest rate	4.64%	4.39%	1.69%	1.74%
Expected dividend yield	5.96%	5.96%	5.37%	5.37%
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 three years preceding the grant date. The five-year schemes use share price data for the preceding five years.

**NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS****YEAR ENDED 30 SEPTEMBER 2023****21. SHARE BASED REMUNERATION (CONTINUED)****(b) Paragon Performance Share Plan ('PSP')**

PSP awards are made annually to executive directors and other senior employees as part of their variable remuneration. The grantees, and the values of their grants, are approved by the Remuneration Committee.

These awards are the principal means of delivering deferred variable remuneration to executive directors and Material Risk Takers ('MRT's) in accordance with regulatory remuneration requirements, although these are not the only employees to receive such awards.

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and are subject to performance criteria measured over a three year period beginning with the financial year including the date of grant (the 'test period').

Awards vest on the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied. For employees, other than the executive directors and other employees identified as MRTs for regulatory purposes, awards may be exercised from the vesting date to the day before the tenth anniversary of the grant date.

Executive directors' awards made in 2020 and 2021 are exercisable from the time of the Group's fifth results announcement after the date of the grant to the day before the tenth anniversary of the grant date.

Vested awards made to the executive directors and other MRTs in December 2022 become exercisable in annual instalments between the end of the test period and the seventh anniversary of the grant date. The maximum deferral period is based on the regulatory classification of the individual MRT. The latest possible exercise date is the tenth anniversary of the grant date.

Where performance conditions are not met in full, awards lapse at the point at which the determination is made. Awards will also lapse on cessation of employment during the test period, other than in 'good leaver' circumstances. Malus and clawback provisions apply to awards granted under the PSP as detailed in the Directors' Remuneration Policy.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

## (b) Paragon Performance Share Plan ('PSP') (continued)

The conditional entitlements outstanding under this scheme at 30 September 2023 and 30 September 2022 were:

Grant Date	Period exercisable	Number 2023	Number 2022
28/02/2013	28/02/2016 to 27/02/2023 †	-	4,578
10/12/2013	10/12/2016 to 09/12/2023 †	2,132	2,132
18/12/2014	18/12/2017 to 17/12/2024 †	5,005	5,005
22/12/2015	22/12/2018 to 21/12/2025 †	10,473	10,473
01/12/2016	01/12/2019 to 30/11/2026 †	33,493	34,894
08/12/2017	08/12/2020 to 07/12/2027 †	29,675	50,268
14/12/2018	14/12/2021 to 13/12/2028 †	61,952	155,092
06/07/2020	07/12/2022 to 05/07/2030 ϕ	114,169	1,144,820
06/07/2020	07/12/2024* to 05/07/2030 ϕ	509,192	506,192
11/12/2021	07/12/2023* to 10/12/2030 δ	1,074,596	1,122,904
11/12/2021	07/12/2025* to 10/12/2030 δ	385,707	385,707
15/12/2021	07/12/2024* to 14/12/2031 λ	1,034,343	1,069,870
15/12/2021	07/12/2026* to 14/12/2031 λ	339,936	339,936
16/12/2022	07/12/2025* to 15/12/2032 χ	932,315	-
16/12/2022	07/12/2026* to 15/12/2032 χ	259,233	-
16/12/2022	07/12/2027* to 15/12/2032 χ	268,683	-
16/12/2022	07/12/2028* to 15/12/2032 χ	148,229	-
16/12/2022	07/12/2029* to 15/12/2032 χ	156,513	-
		5,365,646	4,831,871

\* Estimated date

† These awards, which were conditional on the achievement of performance-based criteria, vested before the start of the financial year. Any reduction in entitlements resulting from the application of those criteria is reflected in the numbers above.

ϕ These awards were subject to performance criteria, assessed over a period of three financial years, starting with the year of grant.

- 25% to a Total Shareholder Return ('TSR') test based on a ranking of the Company's TSR against those of a comparator group of UK listed financial services companies, determined at the date of grant. This tranche vests in full for upper quartile performance, 25% vests for median performance and vesting between those points is determined on a straight line basis
- 25% to an EPS test. This tranche vests in full if basic EPS for the third year of the test period is at least 67.0p, 25% vesting if EPS in this year is 60.0p and vesting between those points on a straight line basis

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

## (b) Paragon Performance Share Plan ('PSP') (continued)

- 25% to a risk test. The risk condition comprises two components. 50% of the risk element is based on an assessment by the CRO 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. Following the Remuneration Committee's assessment, the tranche will vest between 0% and 100%
- 12.5% of the grant is determined based on a customer service condition. This condition 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. The Remuneration Committee will determine the extent to which the condition has been met between 0% and 100%. 50% of this tranche will vest for on-target performance, below a 25% threshold no vesting will occur
- 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. The Remuneration Committee will determine the extent to which the condition has been met between 0% and 100%. 50% of this tranche will vest for on-target performance below a 25% threshold no vesting will occur
- Due to the volatility of the share price at the time of grant, the Remuneration Committee could have adjusted the vesting levels at the vesting date if it believed that the use of this share price had created a potential windfall gain

An 'underpin' condition also operates, such that the Remuneration Committee has to be satisfied with the Group's underlying financial performance over the performance period. An individual performance condition relating to the grantee's performance in the final financial year of the test period also applies.

- δ These awards are subject to performance criteria, similar to those described at φ above, except that:
- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 66.0p, 25% vesting if EPS in this year is 58.0p and vesting between those points on a straight line basis
  - The ability of the Remuneration Committee to adjust specifically for windfall gains was not a condition of this grant
- λ These awards are subject to performance criteria, similar to those described at δ above except that:
- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 72.0p, 25% vesting if EPS in this year is 63.0p and vesting between those points on a straight line basis
  - Under the risk condition, the key measures component covers: regulatory breaches; conduct; operational incidents; capital and liquidity; and credit losses

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

## (b) Paragon Performance Share Plan ('PSP') (continued)

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

- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 88.1p, 25% vesting if EPS in this year is 74.4p and vesting between those points on a straight line basis
- The risk condition relates to 20% of the grant, the customer service condition applies to 10% of the grant and the people condition relates to 10% of the grant
- The 25% and 50% vesting thresholds no longer apply to the customer service and people conditions
- 10% of the grant relates to a climate condition. The climate condition is based on the performance of the Group against its most significant climate-related targets, including the development of systems to quantify and manage its climate-related impacts.

On exercise, holders of awards granted between February 2013 and December 2021 receive a payment equivalent to the dividends accruing on the vested shares during the vesting period. No such payment is made in respect of awards granted at other dates.

The fair value of awards granted under the PSP is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Fair values are calculated separately for grant elements which became exercisable at different dates to allow for the impact of dividends. The principal inputs to this model for grants made in the year ended 30 September 2023 and the year ended 30 September 2022 are shown below:

Grant date	16/12/22	15/12/21
Market price at date of grant	541.5p	549.0p
Contractual life (years)	10.0	10.0
Expected volatility	40.54%	38.13%
Risk-free interest rate	3.27%	0.53%
Expected annual dividend yield	5.28%	N/A

For all the above grants no departures are expected and grantees are expected to exercise awards at the earliest opportunity. The expected volatility is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date. For the purposes of the valuation, non-market conditions are assumed to be achieved 100% although this is unlikely to occur in practice.

The number of awards granted and their fair values for IFRS 2 purposes are set out below

Grant date Time to exercise (Years)	16/12/22		15/12/21	
	Number of awards	IFRS 2 fair value	Number of awards	IFRS 2 fair value
3	926,721	423.32p	1,071,597	504.50p
4	259,233	404.23p	-	-
5	268,683	385.55p	339,936	504.50p
6	148,229	367.43p	-	-
7	156,513	349.93p	-	-
	<u>1,759,379</u>		<u>1,411,533</u>	

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

## (c) Company Share Option Plan ('CSOP')

Before its amendment at the 2023 AGM, the PSP included a tax advantaged element under which CSOP options can be granted. The CSOPs may be exercised alongside their accompanying PSPs based upon the exercise price that was set at the grant date. Each employee may be granted up to a maximum total value of £30,000 of tax benefitted options. No new CSOP awards were made in the years ended 30 September 2023 or 30 September 2022, and the current PSP contains no provision to make CSOP grants.

A reconciliation of movements in the number and weighted average exercise price of CSOP options over £1 ordinary shares during the year ended 30 September 2023 and the year ended 30 September 2022 is shown below.

	2023 Number	2023 Weighted average exercise price P	2022 Number	2022 Weighted average exercise price P
<b>Options outstanding</b>				
At 1 October 2022	87,716	406.31	197,324	404.96
In respect of employees transferring in	-	-	44,250	402.50
Exercised or surrendered in the year	(28,715)	408.25	(148,680)	402.14
Lapsed during the year	(2,410)	477.76	(5,178)	402.37
At 30 September 2023	<u>56,591</u>	<u>402.29</u>	<u>87,716</u>	<u>406.31</u>
Options exercisable	<u>56,591</u>	<u>402.29</u>	<u>87,716</u>	<u>406.31</u>

The weighted average remaining continental life of options outstanding at 30 September 2023 was 43.8 months (2022: 66.2 months). The weighted average market prices at exercise for share options exercised in the year was 563.98.

The conditional entitlements outstanding under this scheme at 30 September 2023 and 30 September 2022 were:

Grant date	Period Exercisable	Exercise Price	Number 2023	Number 2022
01/12/2016	01/12/2020 to 30/11/2026	361.88p	21,732	22,802
08/12/2017	08/12/2020 to 07/12/2027	477.76p	13,409	20,557
14/12/2018	14/12/2021 to 13/12/2028	396.04p	21,450	44,357
			<u>56,591</u>	<u>87,716</u>

These awards, which were conditional on the achievement of performance-based criteria, vested before the start of the financial year. Any reduction in entitlements resulting from the application of those criteria is reflected in the numbers above.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

**(c) Company Share Option Plan ('CSOP') (continued)**

No separate fair value has been attributed to the CSOP options for IFRS 2 purposes as the IFRS 2 market values for the CSOP and PSP combined will equate to that calculated for the PSP without allowing for the CSOP. The benefit from the CSOP is in relation to the employees' tax position, which does not affect the IFRS 2 charge.

**(d) Deferred Bonus awards**

During the current financial year this plan has been used to defer annual bonus awards for executive directors and certain other MRTs to meet deferral levels required by regulatory remuneration rules. The plan has also been used to facilitate other long-term incentive arrangements.

Before the current financial year such plans were generally used for the deferral in shares of annual bonus awards made to executive directors and certain other senior managers ('executive awards'). Additionally in 2020 a one-off award was made on an all-employee basis.

Awards under these plans comprise a right to acquire ordinary shares in the Company for nil or nominal payment. The conditional entitlements outstanding under these plans at 30 September 2023 and 30 September 2022 were:

Grant date	Period exercisable	Number 2023	Number 2022
10/12/2013	10/12/2016 to 09/12/2023	-	55,302
18/12/2014	18/12/2017 to 17/12/2024	52,888	52,888
22/12/2015	22/12/2018 to 21/12/2025	60,042	60,042
14/12/2018	14/12/2021 to 13/12/2028	-	26,437
12/12/2019	12/12/2022 to 11/12/2029	-	108,701
11/12/2020	11/12/2023 to 10/12/2030	382,334	382,334
11/12/2020 †	11/12/2023 to 10/12/2024	206,135	224,981
15/12/2021	15/12/2024 to 10/12/2031	244,953	244,953
16/12/2022	07/12/2023 * to 15/12/2032	5,011	-
16/12/2022	07/12/2024 * to 15/12/2032	104,089	-
16/12/2022	07/12/2025 * to 15/12/2032	14,742	-
16/12/2022	07/12/2026 * to 15/12/2032	15,565	-
16/12/2022	07/12/2027 * to 15/12/2032	16,018	-
16/12/2022	07/12/2028 * to 15/12/2032	10,775	-
16/12/2022	07/12/2029 * to 15/12/2032	11,384	-
		1,123,936	1,155,638

\* Estimated date

† All employee award

Awards made to executive directors and other MRTs in December 2022 became exercisable in annual instalments after the announcement of each year's results from the third anniversary of the grant to the seventh anniversary. The maximum deferral for each employee depends on the regulatory classification of the individual MRT.

Exercise arrangements for grants made to other employees in December 2022 are individually structured at the discretion of the Remuneration Committee at the point of grant.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

**(d) Deferred Bonus awards (continued)**

The all-employee awards will vest on the third anniversary of the grant date and the shares will be automatically transferred to the participants as soon as reasonably practicable thereafter. The period exercisable shown above therefore illustrates the latest date by which it is anticipated that these transfers will have been made.

In the event of death or redundancy the all-employee awards may vest early. Awards lapse on the cessation of employment, other than in 'good leaver' circumstances. Except in these regards the all-employee awards operate in the same way as the executive awards.

The Deferred Bonus shares granted between December 2016 and December 2021 accrue dividends over the vesting period, unlike earlier grants which accrued dividends until the point of exercise. Awards granted in December 2022 do not include the right to payment in lieu of dividend. The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model and allows for these dividend arrangements.

Details of the inputs to the valuation model for awards made in the year ended 30 September 2023 and the year ended 30 September 2022 are shown below.

Grant date	<b>16/12/22</b>	<b>15/12/21</b>
Market price at date of grant	541.5p	549.0p
Expected annual dividend yield	<u>5.28%</u>	<u>N/A</u>

No departures are expected for grantees under this plan, except for grants under the all-employee grant in 2020, where a departure rate of 7.5% per annum is expected. Grantees are assumed to exercise their awards at the earliest possible opportunity.

The number of awards granted and their fair values for IFRS 2 purposes are set out below

Grant date Time to exercise (Years)	16/12/22		15/12/21	
	Number of awards	IFRS 2 fair value	Number of awards	IFRS 2 fair value
1	5,011	513.6p	-	-
2	104,089	487.2p	-	-
3	14,742	462.2p	244,953	549.00p
4	15,565	438.4p	-	-
5	16,018	415.9p	-	-
6	10,775	394.5p	-	-
7	11,384	374.2p	-	-
	<u>177,584</u>		<u>244,953</u>	

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 21. SHARE BASED REMUNERATION (CONTINUED)

## (e) Restricted Stock Units ('RSUs')

Between the 2016 and 2022 financial years, the Company permitted certain employees to elect to receive RSU awards instead of PSP awards. Following the approval of the near PSP at the 2023 AGM the Company no longer has the capacity to make new RSV awards. For RSU awards to vest, the grantee's personal performance must be satisfactory during the financial year preceding the vesting date. In addition, a risk based performance condition, assessed against the Group's risk management metrics and, for the July 2020 grant only, against its strategic management of risk for the medium term, considered over the vesting period, must also be met. The level to which this condition is met will be determined by the Remuneration Committee and vesting levels scaled back as appropriate.

In addition, in the financial year ended 30 September 2022, a one-off RSU grant with a four-year vesting period was made to certain employees designated as MRTs

The conditional entitlements outstanding under this scheme at 30 September 2023 and 30 September 2022 were:

Grant date	Period exercisable	Number 2023	Number 2022
06/07/2020	06/12/2022 to 05/07/2030	-	190,960
11/12/2020	11/12/2023* to 10/12/2030	30,193	30,193
15/12/2021	07/12/2024* to 15/12/2031	26,603	26,603
15/12/2021	07/12/2025* to 15/12/2031	355,880	368,953
		<u>412,676</u>	<u>616,709</u>

\*Estimated Date

The fair value of RSU awards issued in the year ended 30 September 2022 was determined using a Black-Scholes Merton model. Details of the awards made in that year are shown below. No awards were made in the year ended 30 September 2023.

Grant date	<b>15/12/21</b>	<b>15/12/21</b>
Number of awards granted	368,953	26,603
Market price at date of grant	549.0p	549.0p
Contractual life (years)	4.0	3.0
Fair value per share at date of grant	<u>549.0p</u>	<u>549.0p</u>

For all of these grants no departures are expected.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS

**(a) Defined benefit plan - Description**

The Group operates a funded defined benefit pension scheme in the UK, the Paragon Pension Plan (the 'Plan'). The Plan assets are held in a separate fund, administered by a corporate trustee, to meet long-term pension liabilities to past and present employees. The Trustee of the Plan is required by law to act in the best interests of the Plan's beneficiaries and is responsible for the investment policy adopted in respect of the Plan's assets. The appointment of directors to the Trustee is determined by the Plan's trust documentation. The Group has a policy that one third of all directors of the Trustee should be nominated by active and pensioner members of the Plan.

*Employee contributions and benefits*

The scheme was closed to new entrants in February 2002. Employees who are members of the Plan are entitled to receive a pension of 1/60 of their final basic annual salary per year of service up to 30 June 2021. After that date further accrual is at a rate of 1/70 or 1/75 of capped final salary depending on the level of contributions. After 1 July 2021 employee contributions were either 5% or 8% of capped salary. Before that date all active members contributed at a rate of 5% of salary.

Benefits accrued before 1 July 2021 may be accessed from the age of 60 without any reduction for early payment. Benefits accruing after 1 July 2021 may be accessed without penalty from the age of 65.

Dependants of Plan members are eligible for a dependant's pension and the payment of a lump sum in the event of death in service.

*Actuarial risks*

The principal actuarial risks to which the Plan is exposed are:

- **Investment risk** – The present value of the defined benefit liabilities is calculated using a discount rate set by reference to high quality corporate bond yields. If plan assets underperform corporate bonds, this will reduce the surplus. The strategic allocation of assets under the Plan is currently weighted towards equity assets and diversified growth funds as its liability profile is relatively immature, and it is expected that these asset classes will, over the long term, outperform gilts and corporate bonds. In consultation with the Company, the Trustee keeps the allocation of the Plan's investments under review to manage this risk on a long-term basis
- **Interest risk** – A fall in corporate bond yields would reduce the discount rate used in valuing the Plan liabilities and increase the value of the Plan liabilities. The Plan assets would also be expected to increase, to the extent that bond assets are held, but this would not be expected to fully match the increase in liabilities, given the weighting towards equity assets and diversified growth funds noted above
- **Inflation risk** – Pensions in payment are increased annually in line with the Retail Price Index ('RPI') or the Consumer Price Index ('CPI') for Guaranteed Minimum Pensions built up since 1988. Pensions built up since 5 April 2006 are capped at 2.5% and pensions built up before 6 April 2006 are capped at 5%. For employees who have left the Company but have deferred pensions, these also revalue over the period to retirement predominantly in line with RPI. Therefore, an increase in inflation would also increase the value of the pension liabilities. The Plan assets would also be expected to increase, to the extent that they are linked to inflation, but this may not fully match the increase in liabilities

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

## (a) Defined benefit plan – Description (continued)

- **Longevity risk** – The value of the Plan surplus is calculated by reference to the best estimate of the mortality rate among Plan members both during and after employment. An increase in the life expectancy of the members would reduce the surplus in the Plan
- **Salary risk** – The valuation of the Plan assumes a level of future salary increases based on the expected rate of inflation. Should the salaries of Plan members increase at a higher rate, then the surplus will be lower. For service from 1 July 2021, a 2.5% cap on individual pensionable salary applies, mitigating this risk

The risks relating to death in service payments are insured with an external insurance company.

As a result of the Plan having been closed to new entrants since February 2002, the service cost as a percentage of pensionable salaries is expected to increase as the average age of active members rises over time. However, the membership is expected to reduce so that the service cost in monetary terms will gradually reduce. The changes referred to above will also reduce this cost going forward.

*Actuarial valuation and recovery plan*

The most recent full actuarial valuation of the Plan's liabilities, obtained by the Trustee, was carried out at 31 March 2022, by Aon Solutions UK Limited, the Plan's independent actuary and completed in the current year. This showed that the value of the Plan's liabilities on a buy-out basis in accordance with section 224 of the Pensions Act 2004, the level of assets which would be required to buy insurance policies for benefits earned to the valuation date, was £195.5m, with a shortfall against the assets of £44.2m (2019: £85.0m). The deficit on the Technical Basis, the basis agreed by the Trustee as being appropriate to meet member benefits, assuming the plan continues as a going concern, was £5.1m (2019: £18.2m). This valuation forms the basis of the IAS 19 valuation.

Following the agreement of the 2022 actuarial valuation, the Trustee put in place a revised recovery plan. On current forecasts the Trustee's recovery plan would meet the statutory funding objective by 31 July 2025. The revised recovery plan continues to include a Pension Funding Partnership ('PFP') arrangement effectively granting the Plan a first charge over the Group's head office building as security for payments under the plan. No amount is included in the Plan assets in respect of the building, which remains within the Group's Property, Plant and Equipment balance but this arrangement provides the Plan with additional security in a stress event.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**(b) Defined benefit plan – Financial impact**

For accounting purposes, the draft valuation at 31 March 2022 was updated to 30 September 2023 in accordance with the requirements of IAS 19 (revised) by Mercer, the Group's independent consulting actuary.

The major categories of assets in the Plan at 30 September 2023 and 30 September 2022 and their fair values were:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Cash	594	684
Equity instruments	44,840	56,581
Debt instruments	56,584	47,432
Real estate	-	-
<b>Total fair value of Plan assets</b>	<u>102,018</u>	<u>104,697</u>
Present value of Plan liabilities	<u>(89,360)</u>	<u>(97,633)</u>
Surplus in the Plan	<u><u>12,658</u></u>	<u><u>7,064</u></u>

At 30 September 2023 the Plan assets were invested in a diversified portfolio that consisted primarily of equity and debt investments. The majority of the equities held by the Plan are in developed markets.

The Plan also has a benchmark allocation of 28% of total assets to Liability Driven Investments ('LDI'). These investments are used to hedge 60% of the interest and inflation risks faced by the Plan. During the recent market turmoil the assets of the Plan proved themselves to be robust in protection the member's interests, with no requirement to either divest from LDI nor to reduce the hedge ratio in place.

Towards the end of the year ended 30 September 2021 the Plan disposed of its holdings in real estate funds, following a review of its investment strategy. At the 2021 year end these were in the process of reinvestment in other asset classes, with part of the proceeds held in cash at the balance sheet date.

During October 2018, after the balance sheet date, the High Court made a ruling in the Lloyds Banking Group Pension Scheme GMP (Guaranteed Minimum Pension) equalisation case, which effectively directs defined benefit pension schemes to change their rules to equalise the benefits of male and female members for the effects of GMPs for employees who were, at one time, contracted out of state schemes. The Court did not specify a single method which schemes should employ and hence the impact of this on the Plan will not be certain until the Trustee has determined which method should be adopted and detailed calculations have been performed to evaluate the impact, as the impact on members will vary from person to person.

The estimated effect of this ruling was accounted for in the accounts of the Group for the year ended 30 September 2019 as a 'past service cost'. However, this estimate is based on one permissible method, method C2, and therefore the actual amount may vary due to the method which the Trustee chooses to apply, which is yet to be finalised, idiosyncratic impacts on individual members and the development of a wider legal and accounting consensus on the proper interpretation of the courts' requirements as further cases are determined.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

## (b) Defined benefit plan – Financial impact (continued)

The movement in the fair value of the Plan assets during the year was as follows:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
At 1 October 2022	104,697	145,328
Interest on Plan assets	5,249	2,904
Cash flows		
Contributions by the Group	3,898	3,940
Contributions by Plan members	240	253
Benefits paid	(3,618)	(3,803)
Administration expenses paid	(663)	(818)
Remeasurement gain		
Return on Plan assets (excluding amounts included in interest)	(7,785)	(43,107)
At 30 September 2023	<u>102,018</u>	<u>104,697</u>

The actual return on Plan assets in the year ended 30 September 2023 was a loss of £2,536,000 (2022: loss of £40,203,000).

The movement in the present value of the Plan liabilities during the year was as follows:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
At 1 October 2022	97,633	155,641
Current service cost	477	866
Past service cost	-	-
Funding cost	4,809	3,076
Cash flows		
Contributions by scheme members	240	253
Benefits paid	(3,618)	(3,803)
Remeasurement (gain) / loss		
Arising from demographic assumptions	(921)	2,200
Arising from financial assumptions	(11,058)	(61,900)
Arising from experience adjustments	1,798	1,300
At 30 September 2023	<u>89,360</u>	<u>97,633</u>

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**(b) Defined benefit plan – Financial impact (continued)**

The liabilities of the Plan are measured by discounting the best estimate of future cash flows to be paid out by the Plan using the Projected Unit method. This amount is reflected in the liability in the balance sheet. The Projected Unit method is an accrued benefits valuation method in which the Plan liabilities are calculated based on service up until the valuation date allowing for future salary growth until the date of retirement, withdrawal or death, as appropriate. The future service rate is then calculated as the contribution rate required to fund the service accruing over the next year again allowing for future salary growth.

Following the changes in the plan described above, liabilities for benefits accruing for service up to 1 July 2022 are calculated separately from those accruing in respect of service after that date.

The major weighted average assumptions used by the actuary were (in nominal terms):

	<b>2023</b>	<b>2022</b>
In determining net pension cost for the year		
Discount rate	5.00%	2.00%
Rate of compensation increase		
Pre July 2022-accrual	3.55%	3.40%
Post 1 July 2022 accrual	2.50%	2.50%
Rate of price inflation	3.55%	3.40%
Rate of increase of pensions	3.25%	3.15%
In determining benefit obligations		
Discount rate	5.55%	5.00%
Rate of compensation increase		
Pre July 2022-accrual	3.25%	3.55%
Post 1 July 2022 accrual	2.50%	2.50%
Rate of price inflation	3.25%	3.55%
Rate of increase of pensions	3.00%	3.25%
Further life expectancy at age 60		
Male member aged 60	27	27
Female member aged 60	29	29
Male member aged 40	29	29
Female member aged 40	31	31

In the 2023 valuation the base mortality table used was the standard S3PMA/S3PFA\_M (All) Year of Birth table, with future improvements projected by the CMI 2022 projection model with a 1.5% per annum long-term improvement rate.

In the 2022 valuation the base mortality table used was the standard S3 PA (All) Year of Birth table, with future improvements projected using the CMI 2021 projection model with a 1.5% per annum long-term improvement rate.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

## (b) Defined benefit plan – Financial impact (continued)

The amounts charged in the profit and loss account in respect of the Plan are:

	Note	2023 £000	2022 £000
Current service cost		477	866
Past service cost		-	-
Total service cost		<u>477</u>	<u>866</u>
Administration expenses		663	818
Included within operating expenses		<u>1,140</u>	<u>1,684</u>
Funding cost of scheme liability		4,809	3,076
Interest on Plan assets		<u>(5,249)</u>	<u>(2,904)</u>
Net interest (income) / expense	2 & 3	<u>(440)</u>	<u>172</u>
Components of defined benefit costs recognised in profit and loss		<u><u>700</u></u>	<u><u>1,856</u></u>

The amounts recognised in the statement of comprehensive income in respect of the Plan are:

	2023 £000	2022 £000
Return on Plan assets (excluding amounts included in interest)	(7,785)	(43,107)
Actuarial gains / (losses)		
Arising from demographic assumptions	921	(2,200)
Arising from financial assumptions	11,058	61,900
Arising from experience adjustments	<u>(1,798)</u>	<u>(1,300)</u>
Total actuarial gain	2,396	15,293
Tax credit thereon	<u>(818)</u>	<u>(3,648)</u>
Net actuarial gain	<u><u>1,578</u></u>	<u><u>11,645</u></u>

Of the remeasurement movements reflected above:

- The return on plan assets to 30 September 2023 reflects a general reduction in asset values in the year, though not as marked as that seen in the year ended 30 September 2022 which saw sharp falls in global investment values over the year especially around the year end, including the effect on the Group's portfolio of its LDI hedging strategy.
- In the year ended 30 September 2023 the changes in demographic assumptions reflect the updating of the maturity tables used to the most recent versions, which show a general reduction in the expectancy compared to the previous editions.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**(b) Defined benefit plan – Financial impact (continued)**

- The change in demographic assumptions in the year ended 30 September 2022 resulted from the adoption of new mortality tables which included an adjustment for the impact of Covid as well as a change in the tables used; included an allowance for updated commutation factors; updated the assumed age difference between members and their partners; and adopted different proportion-married assumptions, all to follow the Trustee's assumptions for the 2022 triennial valuation.
- The change in financial assumptions in the year ended 30 September 2023 reflects principally a continuation of the recent upward trend in bond yields, which has not been matched by long-term inflation expectations implied by gilt rates.

The movement in the year ended 30 September 2022 reflected principally the sharp increase in corporate bond yields, which are used to determine the discount applied in the calculation of the pension liability. The difference between Fixed Interest and Indexed-Linked Gilt yields, which is used to forecast market-implied inflation, increased far less and so only partially mitigated this movement.

- The experience adjustments in the year ended 30 September 2023 represent the impact of actual UK inflation in the year on expected benefits, which is more significant than in previous years due to the inflation levels recorded in the period.

The experience adjustments in 2022 arose on the adoption of the draft 2022 Plan valuation as the basis of the IAS 19 valuation. This means that the actual pay rises, resignations, retirements and deaths of members since March 2019 were accurately represented rather than projected. This exercise takes place triennially.

**(c) Defined benefit plan – Future cash flows**

The sensitivity of the valuation of the defined benefit obligation to the principal assumptions disclosed above at 30 September 2023, calculating the obligation on the same basis as used in determining the IAS 19 value, is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities	
		2023	2022
Discount rate	0.1% p.a.	1.6% decrease	1.7% decrease
Rate of inflation *	0.1% p.a.	1.6% increase	1.7% increase
Rate of salary growth	0.1% p.a.	0.4% increase	0.4% increase
Rates of mortality	1 year of life expectancy	2.5% increase	2.9% increase

\* maintaining a 0.0% assumption for real salary growth

The sensitivity analysis presented above may not be representative of an actual future change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation, as some of the assumptions will be correlated. There has been no change in the method of preparing the analysis from that adopted in previous years. The impacts of equivalent decreases in assumptions are broadly equal and opposite to the effects of the increases shown above.

## NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS

## YEAR ENDED 30 SEPTEMBER 2023

## 22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

## (c) Defined benefit plan – Future cash flows (continued)

In conjunction with the Trustee, the Group has continued to conduct asset-liability reviews of the Plan. These studies are used to assist the Trustee and the Group to determine the optimal long-term asset allocation with regard to the structure of liabilities within the Plan. The results of the studies are used to assist the Trustee in managing the volatility in the underlying investment performance and risk of a significant increase in the scheme deficit by providing information used to determine the investment strategy of the Plan. There have been no changes in the processes by which the Plan manages its risks from previous periods.

Following a review of the Plan's investment strategy, the current target asset allocations for the year ending 30 September 2024 are 50% growth assets (primarily equities), and 50% matching assets (primarily bonds) which includes LDI balances, with the hedge ratio rising to 75%.

Following the finalisation of the March 2022 valuation, the agreed rate of employer contribution reduced to 12.5% of capped pensionable salary from 15 March 2023, having been 25% since 1 July 2021, and 32.0% previously. An additional contribution for deficit reduction of £1.9m payable over the nine-month period ending on 30 November 2023, and an additional contribution of £2.5m per annum, payable monthly from 1 December 2023 were also agreed. These include amounts payable under the PRP and replace the £2.5m contribution for deficit reduction included in the previous funding plan. The Group continues to make an additional £0.4m per annum contribution in respect of the Plan's running costs, payable monthly.

The present best estimate of the contributions to be made to the Plan by the Group in the year ending 30 September 2024 is £3.9m.

The average durations of the discounted benefit obligations in the Plan at the year end are shown in the table below:

	<b>2023</b>	<b>2022</b>
	<b>Years</b>	<b>Years</b>
<b>Category of member</b>		
Active members	18	21
Deferred pensioners	18	21
Current pensioners	11	12
All members	<u>16</u>	<u>18</u>

The principal cause of the variations in the period is the significant increase in the discount rate year-on-year.

**NOTES TO THE ACCOUNTS – EMPLOYMENT COSTS****YEAR ENDED 30 SEPTEMBER 2023****22. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)****(d) Defined contribution arrangements**

The Company sponsors a defined contribution (Worksave) pension scheme, open to all employees who are not members of the Plan. The Company completed the auto-enrolment process mandated by the UK Government in November 2013, using this scheme. Since the year ended 30 September 2020 the Group's contribution to the scheme for those employees making the maximum 6% contribution has been 10% of salary.

The Group also sponsors a number of other defined contribution pension plans relating to acquired entities and makes contributions to these schemes in respect of employees.

The assets of these schemes are not Group assets and are held separately from those of the Group, under the control of independent trustees. Contributions made by the Group to these schemes in the year ended 30 September 2023, which represent the total cost charged against income, were £4.7m (2022: £4.2m) (note 20).

## NOTES TO THE ACCOUNTS – FINANCIAL RISK

## YEAR ENDED 30 SEPTEMBER 2023

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

**23. FINANCIAL RISK MANAGEMENT**

The Company's operations were financed principally by a mixture of share capital and loans from other group companies. 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 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 year and since the year end.

**Credit risk**

The Company's credit risk is primarily attributable to its mortgage-backed floating rate notes held in other group companies. The repayment of the mortgage-backed floating rate notes is dependent on the credit performance of the loan assets in the creditor company and hence the credit risk on these balances is managed through careful management of the credit risk on the groups loans to customers.

The loans to customers in the Group 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.

The Company administers the mortgages and the collections process is the same as that utilised for all companies in the group.

The maximum credit risk at 30 September 2023 approximates to the carrying value of its mortgage-backed floating rate notes (note 11). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios of other group companies.

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

**Liquidity risk**

It is the Company's 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 year 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. The securitisation process and the terms of the warehouse facility effectively limit liquidity risk from the funding of the Group's loan assets. It remains to ensure that sufficient funding is available to fund the Group's participation in the SPVs, provide capital support for new loans and working capital for the Group. This responsibility rests with the Asset and Liability Committee which sets the Group's liquidity policy and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

**NOTES TO THE ACCOUNTS – FINANCIAL RISK****YEAR ENDED 30 SEPTEMBER 2023****23. FINANCIAL RISK MANAGEMENT (CONTINUED)****Interest rate risk**

The Company's policy is to maintain floating rate liabilities and match these with floating rate assets by the use of interest rate swap or cap agreements.

The Company's assets predominantly bear the Sterling Over Night Index Average ('SONIA') linked interest rates or are hedged fixed rate assets. The interest rates charged on the Company's variable rate loan assets are determined by reference to, inter alia, the Company's funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Company's 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 – BASIS OF PREPARATION****YEAR ENDED 30 SEPTEMBER 2023**

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

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

**24. BASIS OF PREPARATION**

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

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

The particular accounting policies adopted have been set out in note 25 and the critical accounting estimates which have been regarded in preparing these financial statements are described in note 26.

**Adoption of new and revised reporting standards**

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

**Standards not yet adopted**

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

**Disclosures**

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

- The requirement to produce a cash flow statement and related notes
- The requirement to provide comparative period reconciliations in respect of fixed assets
- The requirement to provide comparative period reconciliations in respect of intangible 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

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****YEAR ENDED 30 SEPTEMBER 2023****24. BASIS OF PREPARATION (CONTINUED)**

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

- Certain disclosures required by IFRS 3 ‘Business Combinations’ in respect of business combinations undertaken by the Company.
- Certain disclosures required by IFRS 13 – ‘Fair Value Measurement’
- Certain disclosures required by IFRS 7 – ‘Financial Instruments Disclosures’

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

**25. ACCOUNTING POLICIES**

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

**Accounting convention**

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

**Consolidated accounts**

The Company is exempt under Section 400 of the Companies Act 2006 from the obligation to prepare group financial statements, being a wholly-owned subsidiary undertaking of Paragon Banking Group PLC.

**Going concern**

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

The directors have adopted this basis following a going concern assessment for the Group and the Company covering a period of at least twelve months following the date of approval of these financial statements. Details of this assessment are set out in note 27.

**Leases**

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.

## NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

## YEAR ENDED 30 SEPTEMBER 2023

## 25. ACCOUNTING POLICIES (CONTINUED)

**Intangible assets**

Intangible assets comprise purchased computer software and other intangible assets acquired in business combinations.

Purchased computer software is capitalised where it has a sufficiently enduring nature and is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

**Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation.

The assets' residual values and useful lives are reviewed by management and adjusted, if appropriate, at each balance sheet date.

Depreciation on operating assets is provided on cost in equal annual instalments over the lives of the assets. Land is not depreciated. The rates of depreciation are as follows:

Short leasehold premises	over the life of the lease
Plant and machinery	25% per annum
Computer equipment	25% per annum
Furniture, fixtures and office equipment	15% per annum

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

**Investments**

The Company's investments in subsidiary undertakings are valued at cost less provision for impairment.

**Current tax**

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

**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.

**Cash at bank**

Balances shown as cash at bank in the balance sheet comprise demand deposits and short-term deposits with banks with initial maturities of not more than 90 days.

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****YEAR ENDED 30 SEPTEMBER 2023****25. ACCOUNTING POLICIES (CONTINUED)****Borrowings**

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

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

**Amounts owed by or to group companies**

The balances owed by or to other group companies are carried at the current amount outstanding less any provision. Where balances owing between group companies fall within the definition of either financial assets or financial liabilities given in IAS 32 – ‘Financial Instruments – Presentation’ they are classified as assets or liabilities at amortised cost as defined by IFRS 9.

**Retirement benefit obligations**

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations by professionally qualified actuaries using the projected unit method, is charged to the profit and loss. Actuarial gains and losses are recognised in full in the period in which they occur and do not form part of the result for the period, being recognised in the Statement of Comprehensive Income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date.

The expected financing cost of the deficit, as estimated at the beginning of the period is recognised in the result for the period within interest payable. Any variances against the estimated amount in the year form part of the actuarial gain or loss.

The charge to the profit and loss account for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

**Revenue**

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

**Other income**

Other income which is accounted for in accordance with IFRS 15, includes event based administration fees charged to borrowers (other than the initial fees included in amortised costs) which are credited to the profit and loss account when the related service is performed.

**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.

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****YEAR ENDED 30 SEPTEMBER 2023****25. ACCOUNTING POLICIES (CONTINUED)****Share based payments (continued)**

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.

**26. CRITICAL ACCOUNTING ESTIMATES**

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

**Retirement benefits**

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions. These are listed in note 22. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

**27. GOING CONCERN**

The financial statements of the Company for the year ended 30 September 2023 have been prepared on the going concern basis, as defined in IAS 1 – ‘Presentation of Financial Statements’. In order to prepare financial statements on this basis the directors must conclude that the management does not intend to liquidate the Company or cease trading, and that the Company has the ability to continue to trade and will be able to satisfy its liabilities as they fall due. Particular focus is given to the Group’s financial forecasts to ensure the adequacy of resources available for the Company to meet its business objectives on both a short term and strategic basis.

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

In compiling the most recent forecast, for the period commencing 1 October 2023, particular attention was paid to the potential consequences of the uncertain economic outlook for the UK on the Group’s operations, customers, funding and prospects, both in the short and long term. These considerations include the elevated levels of interest rates and inflation in the UK, with the ongoing pressures of the cost of living and doing business in the UK, and the wider geopolitical impacts of the conflict in Ukraine. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. In common with the Group’s approach to IFRS 9, the economics used in the forecasting process were updated in October 2023 based on.

On the basis of this analysis, the directors have concluded that the Company is able to continue as a going concern for at least twelve months from the date of approval of these financial statements and that therefore it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements.

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION**

**YEAR ENDED 30 SEPTEMBER 2023**

**28. ULTIMATE PARENT COMPANY**

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

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