

Paragon Treasury plc

Report and Financial Statements

For the year ended 31 March 2016

Company Number: 09288564



Paragon Treasury plc
Report and financial statements
for the year ended 31 March 2016

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Directors

Dilip Kavi
Marion Hall

Secretary and registered office

Marion Hall, Case House, 85-89 High Street, Walton-on-Thames, Surrey KT12 1DZ

Company number

09288564

Auditor

BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex RH6 0PA

Bankers

Natwest, 38 Strand, London WC2H 5JB

Solicitors

Devonshires, 30 Finsbury Circus, London EC2M 7DT

Paragon Treasury Plc
Strategic report
for the year ended 31 March 2016

The directors present their Strategic Report, Report of the Directors and the audited financial statements for Paragon Treasury plc (PTP) for the year ended 31 March 2016.

Principal activities and review of business

The Statement of comprehensive income shows a profit of £nil for the period. This is in line with PTP's role as a special purpose lending vehicle not seeking to generate financial returns.

On 21 January 2015 PTP issued a £250m bond and £25m was retained on the same day for future issuance. The future issuance must take place before 21 January 2020. The bond issue has a coupon rate of 3.625% and was raised to help the group fund the development of new homes, and to refinance existing loans. At issue the yield was 3.626% and there was a £40,500 discount to be amortised over the life of the bond. PTP therefore received £224,959,500 which was on-lent to Elmbridge Housing Trust (EHT) and Richmond upon Thames Churches Housing Trust (RuTCHT), two subsidiaries of Paragon Community Housing Group Limited (PCHG).

On 31 October 2015 RuTCHT transferred its engagements into EHT, along with PCHG. At the same time EHT was renamed Paragon Community Housing Limited (Paragon).

No new activity was undertaken in the year.

Effects of material estimates and judgements upon performance

There have been no material estimates made in the preparation of these financial statements.

Qualifying third party indemnity provisions

The company has no qualifying third party indemnity provisions in place for the directors of Paragon Community Housing Limited.

Going concern

The Directors have considered the current and future activities of PTP and have confirmed their view that PTP continues to be a going concern.

Principal risks and uncertainties

As PTP on-lends to Paragon, the main risk facing PTP is that this company will be unable to make its interest or principal payments when they fall due. This is mitigated through a secured loan agreement, backed by social housing assets owned by Paragon. These assets are subject to regulation by the Homes and Communities Agency (HCA) and therefore offer a level of protection in terms of regulatory scrutiny. If there are any payments not made to PTP, it has the right to enforce the security under the loan.

A contribution to the assessment of the scale of risk is Moody's Investor Services credit rating of A2 (stable) for Paragon which was reconfirmed in December 2015. However, the 'Brexit' vote has meant that, along with the rest of the sector, Paragon's outlook has now been downgraded by Moody's from stable to negative.

Assessment of the effectiveness of internal control

The directors have overall responsibility for maintaining a sound system of internal control and for reviewing its effectiveness. The directors recognise that such a system can provide only reasonable and not absolute assurance against material misstatements or loss.

The system of internal control is designed to manage risk and fraud and to provide reasonable assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the company's assets and interests.

Paragon Treasury Plc
Strategic report
for the year ended 31 March 2016

In meeting their responsibilities, the directors have adopted a risk-based approach to internal controls which is embedded within the normal management and governance arrangements and it is a continuous process.

The internal controls are implemented consistently across the Paragon group of entities and further detail is provided in the consolidated accounts of Paragon.

Risk management objectives and policies

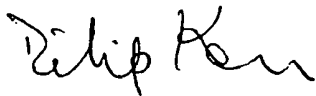
Paragon's treasury function is responsible for the management of the funds and control of the associated risks. Its activities are governed by the Paragon Board and the Investment Committee and they are responsible for overseeing treasury strategy and risk management for all the Paragon entities including PTP.

Interest rate risk/hedging

PTP borrows funds on a fixed rate basis from the capital markets and then on-lends these to Paragon at the same fixed rate. As such PTP does not bear any interest rate risk, apart from the underlying credit risk with Paragon which is discussed above. PTP does not undertake any hedging activities and it does not have any derivatives.

Approval

This strategic report was approved by order of the Board on 15 September 2016.



Dilip Kavi
Director

Paragon Treasury Plc
Report of the directors
for the year ended 31 March 2016

The directors present their report together with the audited financial statements for the year to 31 March 2016.

Overview and principal activities

PTP was incorporated on 30 October 2014. PTP is a wholly owned subsidiary of Paragon. PTP is a special purpose funding vehicle, used to secure funding for Paragon. PTP obtains finance directly from capital markets and on-lends this to Paragon. All associated expenses are borne by the underlying borrower.

Financial Instruments

PTP has no financial instruments other than those related to the bond. The directors consider that PTP has a low level of risk exposure to interest rate risk and credit risk.

Results and dividends

The Statement of comprehensive income is on page 7 and shows the result for the year.

The directors do not recommend the payment of a dividend.

Future developments

The Directors do not anticipate any changes in the Company's principal activity.

Employees

PTP does not employ any staff.

Political and charitable contributions

The Company made no political or charitable donations, nor did it incur any political expenditure during the period.

Directors and their interests

The Directors of the Company who held office during the period are as follows:

Dilip Kavi
Marion Hall

None of the Directors who held office during the year had any interest in the shares of the Company.

Paragon Treasury Plc
Report of the directors
for the year ended 31 March 2016 (continued)

Directors' responsibilities

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the statement of comprehensive income of the company for that period.

In preparing these financial statements, the directors are required to:

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

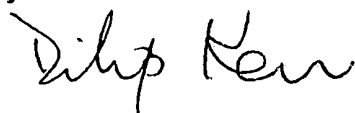
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



Dilip Kavi
Director

15 September 2016

Paragon Treasury plc
Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON TREASURY PLC

We have audited the financial statements of Paragon Treasury Plc for the year ended 31 March 2016 which comprise the statement of comprehensive income, the statement of financial position, the statement of change in equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, the financial reporting standard applicable to the UK and the Republic of Ireland.

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 association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Paragon Treasury plc
Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON TREASURY PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

BDO LLP

Elizabeth Kulczycki, Senior Statutory Auditor
BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom
Date 15 September 2016.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Paragon Treasury plc
Statement of comprehensive income
for the year ended 31 March 2016

	Note	Year ended 31 March 2016	3 month period ended 31 March 2015
		£	£
Revenue	4	8,302,588	1,556,908
Operating expenses		(42,761)	(12)
Interest payable and other finance costs	5	(8,259,827)	(1,556,896)
Operating profit		-	-
Taxation	6	-	-
Profit on ordinary activities for the financial year		-	-

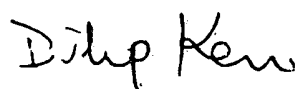
All amounts relate to continuing activities.

The notes on pages 10 to 14 form part of these financial statements.

Paragon Treasury plc
Statement of financial position
at 31 March 2016

Company number 09288564	Note	2016 £	2015 £
Current assets			
Debtors: receivable after more than one year	7	222,509,807	222,428,575
Debtors: receivable within one year	7	1,564,328	1,541,878
Cash at bank and in hand		12,384	12,488
		<u>224,086,519</u>	<u>223,982,941</u>
Creditors: amounts falling due within one year	8	(1,564,212)	(1,541,866)
Total assets less current liabilities		<u>222,522,307</u>	<u>222,441,075</u>
Creditors: amounts falling due after more than one year	8	(222,509,807)	(222,428,575)
		<u>12,500</u>	<u>12,500</u>
Capital and reserves			
Called up share capital	9	12,500	12,500
Total shareholders' funds		<u>12,500</u>	<u>12,500</u>

The financial statements were approved by the Board of Directors and authorised for issue on 15 September 2016.



Dilip Kavi
Director



Marion Hall
Secretary

The notes on pages 10 to 14 form part of these financial statements.

Paragon Treasury plc

**Statement of change in equity
for the year ended 31 March 2016**

	Year ended 31 March 2016 £	3 month period ended 31 March 2015 £
At 1 st April	12,500	-
Contributions by and distributions to shareholders		
£1 ordinary shares issued and paid	-	12,500
Comprehensive income for the period		
Profit for the period	-	-
At 31 st March	<u>12,500</u>	<u>12,500</u>

The notes on pages 10 to 14 form part of these financial statements.

Paragon Treasury plc

Notes forming part of the financial statements for the year ended 31 March 2016

1 Accounting policies

The financial statements have been prepared in accordance with the applicable accounting standards and under the historical cost accounting rules.

The following principal accounting policies have been applied:

Going concern

On the basis of their assessment of the Company's financial position and resources, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in the preparation of the annual financial statements.

Disclosure exemptions adopted

As a qualifying entity as defined in FRS 102, the directors are taking advantage of the reduced disclosure framework and have not presented a statement of cash flows.

Financial instruments

The company has applied the requirements of sections 11 and 12 of FRS 102. In accordance with the FRS, Financial Instruments are classified as basic. The Bond is initially recorded at transaction price and on subsequent measurement is carried on the statement of financial position at amortised cost using the effective interest method. The Bond discount is amortised over the life of the instrument.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Taxation

The charge for taxation is based on the profit or loss for the financial year. The current tax charge is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Key sources of estimation uncertainty

There is no estimation uncertainty. The on-lent funding to Paragon is under a secured loan agreement, backed by housing assets owned by Paragon.

Revenue

The revenue shown in the statement of comprehensive income represents interest receivable on the loan to Paragon, plus amounts invoiced to cover the administrative expenses incurred during the period. Also included is any amortisation on bond issue costs due from Paragon. Interest receivable is recognised on an accruals basis. All revenue comes from group entities.

Paragon Treasury plc

**Notes forming part of the financial statements
for the year ended 31 March 2016**

2 Statement of comprehensive income

During the period the company incurred interest on the borrowings it holds. The borrowings are then lent to Paragon and interest charged. Consequently, the net finance costs of PTP, made neither a gain nor a loss.

3 Directors' emoluments

The directors are employed by Paragon. They do not receive remuneration for their duties as directors of the Company. Any employment costs are retained by Paragon and disclosed in the financial statements of the group as appropriate.

The Company has no directly employed personnel.

4 Interest receivable and similar income	2016	2015
	£	£
Interest due from other group entities	8,178,596	1,541,866
Release of issue costs payable by other group entities	79,724	15,030
Release of bond discount payable by other group entities	1,507	-
	<u>8,259,827</u>	<u>1,556,896</u>

5 Interest payable and other finance costs	2016	2015
	£	£
Bond interest payable	8,178,596	1,541,866
Amortisation on bond issue costs	79,724	15,030
Release of bond discount payable by other entities	1,507	-
	<u>8,259,827</u>	<u>1,556,896</u>

6 Taxation on ordinary activities	2016	2015
	£	£
Current tax		
UK Corporation tax	-	-
Profit on ordinary activities before taxation	<u>-</u>	<u>-</u>

Paragon Treasury plc

**Notes forming part of the financial statements
for the year ended 31 March 2016**

7 Debtors	2016 £	2015 £
<i>Amounts receivable after more than one year</i>		
Long term 32 year loan to other entities	225,000,000	225,000,000
Less: Bond Discount	(38,992)	(40,500)
Less: issue costs	(2,451,201)	(2,530,925)
	<u>222,509,807</u>	<u>222,428,575</u>
<i>Amounts receivable in less than one year</i>		
Amounts due from other group entities	<u>1,564,328</u>	<u>1,541,878</u>

Included in amounts receivable after more than one year, is a 32 year loan facility made to Paragon, the parent of PTP. The loan, which has a coupon rate of 3.625% will be repaid by 2047 and will be paid in equal instalments over the last 5 years of the bond, from 2042 to 2047. The loan is secured via security trustee on the assets of Paragon. The bond discount (£40,500) and issue costs (£2,545,955) are amortised on a straight line basis over the life of the bond.

8 Creditors	2016 £	Restated 2015 £
<i>Amounts falling due in less than one year</i>		
Interest payable to 2047 Bond investors	<u>1,564,212</u>	<u>1,541,866</u>
<i>Amounts falling due after more than one year</i>		
32 year Fixed Rate Bond	225,000,000	225,000,000
Less: Bond Discount	(38,992)	(40,500)
Less: issue costs	(2,451,201)	(2,530,925)
	<u>222,509,807</u>	<u>222,428,575</u>
 Bonds are repayable, as follows:		
In five years or more	<u>225,000,000</u>	<u>225,000,000</u>

The set up costs, bond discount and issue costs are borne by Paragon over the 32 year term.

The Bond matures in 2047 with interest charged at a fixed coupon of 3.625%, amortising in the last 5 years. Issue costs will amortise over the life of the bond.

Risk management objectives and policies

Paragon's treasury function is responsible for the management of the funds and control of the associated risks. Its activities are governed by the Paragon Board and Investment Committee and the function is responsible for all the treasury issues in Paragon and all of its legal entities.

Paragon Treasury plc

Notes forming part of the financial statements
for the year ended 31 March 2016

8 Creditors (continued)

Interest rate risk

The Company has no exposure to interest rate risk as all amounts owed to external 2047 Bond investors are at a fixed rate of interest as is the interest receivable amount due from Paragon on amounts lent under the Bond Loan Agreement.

There are no other interest bearing assets or liabilities.

Credit risks and uncertainties

PTP is dependent on receipt of funds from Paragon in order to meet its contractual obligations under the Bond Loan Agreement in relation to the 2047 Bond. The credit risk is that Paragon, as the sole counterparty, fails to reimburse PTP. The Directors consider the credit risk to be very low owing to the fact that Paragon is a financially strong business, with a strong asset base, that consistently generates a surplus, supported by a regulator with strong oversight and which has an investor grade credit rating of A2 (stable).

The maximum credit risk currently faced by the Company is £225,000,000 (2015: £225,000,000) being the issued amount of funds raised from external investors by the 2047 Bond issuance, and on-lent to Paragon.

9 Share capital	2016 £	2015 £
<i>Allotted and issued</i>		
50,000 ordinary shares of £1 each	50,000	50,000
<i>Issued share capital paid up</i>		
50,000 Ordinary shares of £1, part paid 25 pence	12,500	12,500

Upon incorporation PTP had issued 50,000 ordinary shares of £1 each of which £12,500 was paid up to provide working capital to establish the business.

All shares rank pari passu in all regards.

10 Financial Institution disclosures

PTP on-lends to Paragon, the main risk facing PTP is that this company will be unable to make its interest or principal payments when they fall due. This is mitigated through a secured loan agreement, backed by social housing assets owned by Paragon. These assets are subject to regulation by the HCA and therefore offer a level of protection in terms of regulatory scrutiny. The value of secured assets is £293m. If there are any payments not made to PTP, it has the right to enforce the security under the loan.

11 Related party transactions

All intra-group transactions have taken place in the normal course of business. There are no other related party transactions requiring disclosure.

Paragon Treasury plc

**Notes forming part of the financial statements
for the year ended 31 March 2016**

12 Group structure

PTP is a wholly owned subsidiary undertaking of Paragon Community Housing Limited. The results of PTP have therefore been consolidated within the parent accounts, which are available on request from:

The Secretary
Paragon Community Housing Limited
Case House
85-89 High Street
Walton-on-Thames
Surrey KT12 1DZ

13 Legal status

PTP is incorporated under the Companies Act 2006.

14 Ultimate parent undertaking

Paragon Community Housing Limited is the ultimate parent undertaking and controlling entity of Paragon Treasury PLC by a 100% shareholding.