D. The Accounts

Showing the financial position, results and cash flows of the Group and the Company prepared in accordance with IFRS and UK law

D1. Primary Financial Statements

D1.1 Consolidated statement of profit or loss

For the year ended 30 September 2021

	Note	2021 £m	2021 £m	2020 £m	2020 £m
Interest receivable	4		**484.2**		491.7
Interest payable and similar charges	5		**(173.7)**		(213.6)
Net interest income			**310.5**		278.1
Other leasing income	6	**20.4**		19.2	
Related costs	6	**(16.9)**		(16.2)	
Net operating lease income		**3.5**		3.0	
Other income	7	**10.9**		14.0	
Other operating income			**14.4**		17.0
Total operating income			**324.9**		295.1
Operating expenses	8		**(135.4)**		(126.8)
Provisions for losses	18		**4.7**		(48.3)
Operating profit before fair value items			**194.2**		120.0
Fair value net gains / (losses)	10		**19.5**		(1.6)
Operating profit being profit on ordinary activities before taxation			**213.7**		118.4
Tax charge on profit on ordinary activities	11		**(49.2)**		(27.1)
Profit on ordinary activities after taxation for the financial year			**164.5**		91.3

	Note	2021	2020
Earnings per share			
- basic	13	**65.2p**	36.0p
- diluted	13	**63.0p**	35.6p

The results for the current and preceding years relate entirely to continuing operations.

D1.2 Consolidated statement of comprehensive income

For the year ended 30 September 2021

	Note	**2021**	**2021**	2020	2020
		£m	**£m**	£m	£m
Profit for the year			**164.5**		91.3
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain / (loss) on pension scheme	*52*	**8.2**		(7.4)	
Tax thereon		**(0.9)**		2.1	
			7.3		(5.3)
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge (losses) taken to equity	*19*	**(3.0)**		(0.6)	
Tax thereon		**0.5**		0.1	
			(2.5)		(0.5)
Other comprehensive income / (expenditure) for the year net of tax			**4.8**		(5.8)
Total comprehensive income for the year			**169.3**		85.5

The Accounts

D1.3 Consolidated balance sheet

30 September 2021

	Note	2021	2020	2019
		£m	£m	£m
Assets				
Cash – central banks	*14*	**1,142.0**	1,637.1	816.4
Cash – retail banks	*14*	**218.1**	287.9	409.0
Loans to customers	*15*	**13,408.2**	12,741.1	12,250.3
Derivative financial assets	*19*	**44.2**	463.3	592.4
Sundry assets	*20*	**69.2**	128.0	92.8
Current tax assets	*36*	**-**	5.7	-
Deferred tax assets	*21*	**14.4**	6.2	6.2
Property, plant and equipment	*22*	**70.4**	66.1	57.3
Intangible assets	*23*	**170.5**	170.1	171.1
Total assets		**15,137.0**	15,505.5	14,395.5
Liabilities				
Short-term bank borrowings		**0.3**	0.4	1.0
Retail deposits	*26*	**9,297.4**	7,867.0	6,395.8
Derivative financial liabilities	*19*	**43.9**	132.4	80.5
Asset backed loan notes	*27*	**516.0**	3,270.5	4,419.4
Secured bank borrowings	*28*	**730.0**	657.8	787.5
Retail bond issuance	*29*	**237.1**	296.8	296.5
Corporate bond issuance	*30*	**149.0**	149.8	149.6
Central bank facilities	*31*	**2,819.0**	1,854.4	994.4
Sundry liabilities	*32*	**90.7**	100.0	112.7
Current tax liabilities	*36*	**1.4**	-	15.2
Retirement benefit obligations	*52*	**10.3**	20.4	34.5
Total liabilities		**13,895.1**	14,349.5	13,287.1
Called up share capital	*37*	**262.5**	261.8	261.6
Reserves	*38*	**1,056.1**	932.0	887.3
Own shares	*39*	**(76.7)**	(37.8)	(40.5)
Total equity		**1,241.9**	1,156.0	1,108.4
Total liabilities and equity		**15,137.0**	15,505.5	14,395.5

Approved by the Board of Directors on 7 December 2021.

Signed of behalf of the Board of Directors

N S Terrington
Chief Executive

R J Woodman
Chief Financial Officer

D1.4 Company balance sheet

30 September 2021

	Note	2021	2020	2019
		£m	£m	£m
Assets				
Cash – retail banks	*14*	**19.6**	12.6	14.1
Sundry assets	*20*	**73.1**	84.6	107.3
Current tax assets	*36*	**-**	-	2.8
Property, plant and equipment	*22*	**16.0**	17.4	-
Investment in subsidiary undertakings	*25*	**978.5**	1,030.1	940.7
Total assets		**1,087.2**	1,144.7	1,064.9
Liabilities				
Retail bond issuance	*29*	**237.1**	296.8	296.5
Corporate bond issuance	*30*	**149.0**	149.8	149.6
Sundry liabilities	*32*	**41.9**	43.1	27.4
Deferred tax liabilities	*21*	**1.8**	1.8	1.6
Total liabilities		**429.8**	491.5	475.1
Called up share capital	*37*	**262.5**	261.8	261.6
Reserves	*38*	**455.6**	414.4	351.2
Own shares	*39*	**(60.7)**	(23.0)	(23.0)
Total equity		**657.4**	653.2	589.8
		1,087.2	1,144.7	1,064.9

Approved by the Board of Directors on 7 December 2021.

Signed of behalf of the Board of Directors

N S Terrington
Chief Executive

R J Woodman
Chief Financial Officer

D1.5 Consolidated cash flow statement

For the year ended 30 September 2021

	Note	**2021**	2020
		£m	£m
Net cash generated by operating activities	*41*	**878.1**	1,028.7
Net cash (utilised) by investing activities	*42*	**(4.3)**	(2.8)
Net cash (utilised) by financing activities	*43*	**(1,438.6)**	(325.7)
Net (decrease) / increase in cash and cash equivalents		**(564.8)**	700.2
Opening cash and cash equivalents		**1,924.6**	1,224.4
Closing cash and cash equivalents		**1,359.8**	1,924.6
Represented by balances within:			
Cash	*14*	**1,360.1**	1,925.0
Short-term bank borrowings		**(0.3)**	(0.4)
		1,359.8	1,924.6

D1.6 Company cash flow statement

For the year ended 30 September 2021

	Note	**2021**	2020
		£m	£m
Net cash generated by operating activities	*41*	**115.9**	129.8
Net cash (utilised) by investing activities	*42*	**47.3**	(94.7)
Net cash (utilised) by financing activities	*43*	**(156.2)**	(36.6)
Net increase / (decrease) in cash and cash equivalents		**7.0**	(1.5)
Opening cash and cash equivalents		**12.6**	14.1
Closing cash and cash equivalents		**19.6**	12.6
Represented by balances within:			
Cash	*14*	**19.6**	12.6
Short-term bank borrowings		**-**	-
		19.6	12.6

D1.7 Consolidated statement of movements in equity

For the year ended 30 September 2021

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Cash flow hedging reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Transactions arising from								
Profit for the year	-	-	-	-	-	164.5	-	164.5
Other comprehensive income	-	-	-	-	(2.5)	7.3	-	4.8
Total comprehensive income	-	-	-	-	(2.5)	171.8	-	169.3
Transactions with owners								
Dividends paid (note 40)	-	-	-	-	-	(54.6)	-	(54.6)
Own shares purchased	-	-	-	-	-	-	(42.2)	(42.2)
Exercise of share awards	0.7	1.4	-	-	-	(3.3)	3.3	2.1
Charge for share based remuneration (note 49)	-	-	-	-	-	8.9	-	8.9
Tax on share based remuneration	-	-	-	-	-	2.4	-	2.4
Net movement in equity in the year	0.7	1.4	-	-	(2.5)	125.2	(38.9)	85.9
Opening equity	261.8	68.7	50.3	(70.2)	2.5	880.7	(37.8)	1,156.0
Closing equity	262.5	70.1	50.3	(70.2)	-	1,005.9	(76.7)	1,241.9

For the year ended 30 September 2020

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Cash flow hedging reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Transactions arising from								
Profit for the year	-	-	-	-	-	91.3	-	91.3
Other comprehensive income	-	-	-	-	(0.5)	(5.3)	-	(5.8)
Total comprehensive income	-	-	-	-	(0.5)	86.0	-	85.5
Transactions with owners								
Dividends paid (note 40)	-	-	-	-	-	(35.9)	-	(35.9)
Own shares purchased	-	-	-	-	-	-	(5.2)	(5.2)
Exercise of share awards	0.2	0.4	-	-	-	(7.7)	7.9	0.8
Charge for share based remuneration (note 49)	-	-	-	-	-	2.7	-	2.7
Tax on share based remuneration	-	-	-	-	-	(0.3)	-	(0.3)
Net movement in equity in the year	0.2	0.4	-	-	(0.5)	44.8	2.7	47.6
Opening equity	261.6	68.3	50.3	(70.2)	3.0	835.9	(40.5)	1,108.4
Closing equity	261.8	68.7	50.3	(70.2)	2.5	880.7	(37.8)	1,156.0

D1.8 Company statement of movements in equity

For the year ended 30 September 2021

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Transactions arising from							
Profit for the year	-	-	-	-	**85.5**	-	**85.5**
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**85.5**	-	**85.5**
Transactions with owners							
Dividends paid (note 40)	-	-	-	-	**(54.6)**	-	**(54.6)**
Own shares purchased	-	-	-	-	-	**(37.7)**	**(37.7)**
Exercise of share awards	**0.7**	**1.4**	-	-	-	-	**2.1**
Charge for share based remuneration (note 49)	-	-	-	-	**8.9**	-	**8.9**
Net movement in equity in the year	**0.7**	**1.4**	-	-	**39.8**	**(37.7)**	**4.2**
Opening equity	**261.8**	**68.7**	**50.3**	**(23.7)**	**319.1**	**(23.0)**	**653.2**
Closing equity	**262.5**	**70.1**	**50.3**	**(23.7)**	**358.9**	**(60.7)**	**657.4**

For the year ended 30 September 2020

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Transactions arising from							
Profit for the year	-	-	-	-	96.0	-	96.0
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	96.0	-	96.0
Transactions with owners							
Dividends paid (note 40)	-	-	-	-	(35.9)	-	(35.9)
Own shares purchased	-	-	-	-	-	-	-
Exercise of share awards	0.2	0.4	-	-	-	-	0.6
Charge for share based remuneration (note 49)	-	-	-	-	2.7	-	2.7
Net movement in equity in the year	0.2	0.4	-	-	62.8	-	63.4
Opening equity	261.6	68.3	50.3	(23.7)	256.3	(23.0)	589.8
Closing equity	261.8	68.7	50.3	(23.7)	319.1	(23.0)	653.2

D2. Notes to the Accounts

For the year ended 30 September 2021

1. General information

Paragon Banking Group PLC is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 2336032. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Group's operations and its principal activities are set out in the Strategic Report in Section A2.

These financial statements are presented in pounds sterling, which is the currency of the economic environment in which the Group 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
- Capital and Financial Risk – providing information on the Group's management of operational and regulatory capital and its principal financial risks
- Basis of preparation – providing details of the Group's accounting policies and of how they have been applied in the preparation of the financial statements

D2.1 Notes to the Accounts – Analysis

For the year ended 30 September 2021

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 Group and the Company.

2. Segmental information

The Group analyses its operations, both for internal management reporting and external financial reporting, on the basis of the markets from which its assets are generated. The segments used are described below:

- Mortgage Lending, including the Group's buy-to-let, and owner-occupied first and second charge lending and related activities
- Commercial Lending, including the Group's equipment leasing activities, development finance, structured lending and other offerings targeted towards SME customers, together with its motor finance business
- Idem Capital, including loan assets acquired from third parties and legacy assets which share certain credit characteristics with them

Dedicated financing and administration costs of each of these businesses are allocated to the segment. Shared central costs are not allocated between segments, nor is income from central cash balances or the carrying costs of unallocated savings balances.

Gains on derecognition of financial assets have not been allocated to segment results.

Loans to customers and operating lease assets are allocated to segments as are dedicated securitisation funding arrangements and their related cross-currency basis swaps and cash balances.

Retail deposits and their related costs are allocated to the segments based on the utilisation of those deposits. Retail deposits raised in advance of lending are not allocated.

Other assets and liabilities are not allocated between segments.

All the Group's operations are conducted in the UK, all revenues arise from external customers and there are no inter-segment revenues. No customer contributes more than 10% of the revenue of the Group.

Financial information about these business segments, prepared on the same basis as used in the consolidated accounts of the Group, is shown below.

Year ended 30 September 2021

	Mortgage Lending	Commercial Lending	Idem Capital	Unallocated items	Total Segments
	£m	£m	£m	£m	£m
Interest receivable	**345.8**	**114.2**	**22.7**	**1.5**	**484.2**
Interest payable	**(126.6)**	**(19.7)**	**(2.5)**	**(24.9)**	**(173.7)**
Net interest income	**219.2**	**94.5**	**20.2**	**(23.4)**	**310.5**
Other operating income	**6.1**	**8.0**	**0.3**	**-**	**14.4**
Total operating income	**225.3**	**102.5**	**20.5**	**(23.4)**	**324.9**
Operating expenses	**(17.4)**	**(23.9)**	**(5.1)**	**(89.0)**	**(135.4)**
Provisions for losses	**5.9**	**(2.9)**	**1.7**	**-**	**4.7**
	213.8	**75.7**	**17.1**	**(112.4)**	**194.2**

Year ended 30 September 2020

	Mortgage Lending	Commercial Lending	Idem Capital	Unallocated items	Total Segments
	£m	£m	£m	£m	£m
Interest receivable	344.9	112.9	30.4	3.5	491.7
Interest payable	(154.9)	(30.8)	(4.3)	(23.6)	(213.6)
Net interest income	190.0	82.1	26.1	(20.1)	278.1
Other operating income	6.5	9.9	0.6	-	17.0
Total operating income	196.5	92.0	26.7	(20.1)	295.1
Operating expenses	(16.4)	(24.4)	(6.3)	(79.7)	(126.8)
Provisions for losses	(25.8)	(21.7)	(0.8)	-	(48.3)
	154.3	45.9	19.6	(99.8)	120.0

The segmental profits disclosed above reconcile to the group results as shown below.

	2021	2020
	£m	£m
Results shown above	**194.2**	120.0
Fair value items	**19.5**	(1.6)
Operating profit	**213.7**	118.4

The assets and liabilities attributable to each of the segments at 30 September 2021, 30 September 2020 and 30 September 2019 on the basis described above were:

	Note	**Mortgage Lending £m**	**Commercial Lending £m**	**Idem Capital £m**	**Total Segments £m**
30 September 2021					
Segment assets					
Loans to customers	*15*	**11,608.7**	**1,568.8**	**225.2**	**13,402.7**
Operating lease assets	*22*	**-**	**39.3**	**-**	**39.3**
Cross-currency basis swaps	*19*	**-**	**-**	**-**	**-**
Securitisation cash	*14*	**123.3**	**-**	**-**	**123.3**
		11,732.0	**1,608.1**	**225.2**	**13,565.3**
Segment liabilities					
Allocated deposits		**10,759.0**	**1,896.9**	**188.5**	**12,844.4**
Securitisation funding		**1,246.0**	**-**	**-**	**1,246.0**
		12,005.0	**1,896.9**	**188.5**	**14,090.4**

	Note	**Mortgage Lending £m**	**Commercial Lending £m**	**Idem Capital £m**	**Total Segments £m**
30 September 2020					
Segment assets					
Loans to customers	15	10,819.5	1,514.8	297.1	12,631.4
Operating lease assets	22	-	39.5	-	39.5
Cross-currency basis swaps	19	445.3	-	-	445.3
Securitisation cash	14	223.4	-	-	223.4
		11,488.2	1,554.3	297.1	13,339.6
Segment liabilities					
Allocated deposits		7,692.2	1,882.2	236.1	9,810.5
Securitisation funding		3,928.3	-	-	3,928.3
		11,620.5	1,882.2	236.1	13,738.8

	Note	**Mortgage Lending £m**	**Commercial Lending £m**	**Idem Capital £m**	**Total Segments £m**
30 September 2019					
Segment assets					
Loans to customers	*15*	10,344.1	1,452.1	389.9	12,186.1
Operating lease assets	*22*	-	36.3	-	36.3
Cross-currency basis swaps		582.7	-	-	582.7
Securitisation cash	*14*	353.1	-	-	353.1
		11,279.9	1,488.4	389.9	13,158.2
Segment liabilities					
Allocated deposits		5,367.2	1,822.5	303.1	7,492.8
Securitisation funding		5,206.9	-	-	5,206.9
		10,574.1	1,822.5	303.1	12,699.7

An analysis of the Group's financial assets by type and segment is shown in note 15. All the assets shown above were located in the UK.

The additions to non-current assets, excluding financial assets, in the year which are included in segmental assets above are investments of £13.0m (2020: £12.9m) in assets held for leasing under operating leases. These are included in the Commercial Lending segment. No other fixed asset additions were allocated to segments.

The segmental assets and liabilities may be reconciled to the consolidated balance sheet as shown below.

	2021	2020
	£m	£m
Total segment assets	**13,565.3**	13,339.6
Unallocated assets		
Central cash and investments	**1,236.8**	1,701.6
Unallocated derivatives	**44.2**	18.0
Operational property, plant and equipment	**31.1**	26.6
Intangible assets	**170.5**	170.1
Other	**89.1**	249.6
Total assets	**15,137.0**	15,505.5

	2021	2020
	£m	£m
Total segment liabilities	**14,090.4**	13,738.8
Unallocated liabilities		
Unallocated retail deposits	**(3,544.0)**	(1,953.9)
Derivative financial instruments	**43.9**	132.4
Central borrowings	**3,205.4**	2,301.4
Tax liabilities	**1.4**	-
Retirement benefit obligations	**10.3**	20.4
Other	**87.7**	110.4
Total liabilities	**13,895.1**	14,349.5

3. Revenue

	Note	**2021**	2020
		£m	£m
Interest receivable	*4*	**484.2**	491.7
Operating lease income	*6*	**20.4**	19.2
Other income	*7*	**10.9**	14.0
Total revenue		**515.5**	524.9
Arising from:			
Mortgage Lending		**351.9**	351.4
Commercial Lending		**139.1**	139.0
Idem Capital		**23.0**	31.0
Total revenue from segments		**514.0**	521.4
Unallocated revenue		**1.5**	3.5
Total revenue		**515.5**	524.9

4. Interest receivable

	2021	2020
	£m	£m
Interest receivable in respect of		
Loans and receivables	**440.0**	440.4
Finance leases	**40.4**	44.3
Factoring income	**2.3**	2.4
Interest on loans to customers	**482.7**	487.1
Other interest receivable	**1.5**	4.6
Total interest on financial assets	**484.2**	491.7

The above interest arises from:

	2021	2020
	£m	£m
Financial assets held at amortised cost	**443.8**	447.4
Finance leases	**40.4**	44.3
	484.2	491.7

5. Interest payable and similar charges

	Note	2021	2020
		£m	£m
On retail deposits		**120.5**	129.7
On asset backed loan notes		**17.9**	42.2
On bank loans and overdrafts		**6.6**	5.4
On corporate bonds		**9.3**	10.9
On retail bonds		**15.4**	18.5
On central bank facilities		**2.2**	4.5
On repurchase agreements		**0.1**	-
Total interest on financial liabilities		**172.0**	211.2
On pension scheme deficit	*52*	**0.3**	0.4
Discounting on contingent consideration	*33*	**0.3**	0.4
Discounting on lease liabilities		**0.2**	0.2
Other finance costs		**0.9**	1.4
		173.7	213.6

All interest payable on financial liabilities relates to financial liabilities carried at amortised cost.

6. Net operating lease income

	Note	2021 £m	2020 £m
Income			
Operating lease rentals		**15.2**	14.5
Maintenance income		**5.2**	4.7
Total operating lease income		**20.4**	19.2
Costs			
Depreciation of lease assets	*22*	**(8.9)**	(8.3)
Maintenance salaries	*49*	**(2.3)**	(2.1)
Other maintenance costs		**(5.7)**	(5.8)
Total operating lease costs		**(16.9)**	(16.2)
Net operating lease income		**3.5**	3.0

7. Other income

	2021 £m	2020 £m
Loan account fee income	**5.1**	5.7
Broker commissions	**1.9**	1.7
Third party servicing	**3.5**	5.0
Other income	**0.4**	1.6
	10.9	14.0

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

8. Operating expenses

	Note	2021 £m	2020 £m
Employment costs	*49*	**87.9**	77.6
Auditor remuneration	*9*	**2.3**	2.0
Amortisation of intangible assets	*23*	**2.0**	2.0
Depreciation of operational assets	*22*	**4.3**	3.5
Other administrative costs		**38.9**	41.7
		135.4	126.8

The Group incurred no costs in respect of short-term operating leases in the year (2020: none).

9. Auditor remuneration

The analysis of fees payable to the Company's auditors (KPMG LLP) and their associates, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 is set out below.

	2021	2020
	£m	£m
Audit fee of the company	**0.7**	0.5
Other services		
Audit of subsidiary undertakings pursuant to legislation	**1.0**	1.0
Total audit fees	**1.7**	1.5
Audit related assurance services		
Interim review	**0.2**	0.1
Other	-	0.1
Total fees	**1.9**	1.7
Irrecoverable VAT	**0.4**	0.3
Total cost to the Group (note 8)	**2.3**	2.0

Fees paid to the auditors and their associates for non-audit services to the Company are not disclosed because the consolidated accounts of the Group are required to disclose such fees on a consolidated basis.

10. Fair value net gains / (losses)

	2021	2020
	£m	£m
Ineffectiveness of fair value hedges (note 19)		
Portfolio hedges of interest rate risk		
Deposit hedge	**(0.3)**	0.2
Loan hedge	**6.6**	0.1
	6.3	0.3
Ineffectiveness of cash flow hedges	-	-
Other hedging movements	**9.9**	(2.9)
Net gains / (losses) on other derivatives	**3.3**	1.0
	19.5	(1.6)

The fair value net gain / (loss) represents the accounting volatility on derivative instruments which are matching risk exposures on an economic basis, generated by the requirements of IAS 39. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The losses and gains are primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities. Such differences will reverse over time and have no impact on the cash flows of the Group.

11. Tax charge on profit on ordinary activities

(a) Analysis of charge in the year

	2021 £m	2020 £m
Current tax		
UK Corporation Tax on profits of the period	**54.4**	25.5
Adjustment in respect of prior periods	**1.7**	0.5
Total current tax	**56.1**	26.0
Deferred tax	**(6.9)**	1.1
Tax charge on profit on ordinary activities	**49.2**	27.1

The standard rate of corporation tax in the UK applicable to the Group in the year was 19.0% (2020: 19.0%), based on currently enacted legislation. During the year ended 30 September 2020, legislation was substantively enacted reversing the reduction in the tax rate to 17.0% which had been due to come into effect from April 2020. The effects of the increases in the standard rate for the year ended 30 September 2020 from 18.0% to 19.0%, and the expected rate in subsequent years from 17.0% to 19.0% on deferred tax balances were accounted for in the year ended 30 September 2020.

During the current financial year, the UK Government enacted legislation increasing the standard rate of corporation tax in the UK to 25.0% from April 2023. The impact of this change on deferred tax balances has been accounted for in these accounts.

The Bank Corporation Tax Surcharge subjects any taxable profits arising in the Group's banking subsidiary, Paragon Bank PLC (and no other Group entity), to an additional 8.0% of tax to the extent these profits exceed £25.0m. The effect of the surcharge shown in note (c) below.

When the increase in UK corporation tax to 25% with effect from 1 April 2023 was announced, the UK Government also announced that they would be undertaking a review of the Banking Surcharge. In October 2021 the UK Government announced its intention to reduce the level of the Banking Surcharge from 8% to 3% and increase the threshold above which it applies from £25.0m to £100.0m with effect from 1 April 2023. However this change had not been legislated for at the year end and hence temporary differences in Paragon Bank PLC which are expected to reverse in the year ending 30 September 2023 and thereafter have been recognised on the basis of a tax rate of up to 33%, notwithstanding the anticipated legislative changes.

(b) Deferred tax (credit) / charge for the year

The deferred tax (credit) / charge in the income statement comprises the following temporary differences:

	2021 £m	2020 £m
Accelerated tax depreciation	**(2.1)**	(0.4)
Retirement benefit obligations	**1.3**	1.2
Loans and derivatives	**(4.1)**	1.4
Share based payments	**(1.5)**	0.5
Utilisation / (creation) of tax losses	**0.9**	(0.9)
Other timing differences	**(0.4)**	(0.3)
Deferred tax (credit) / charge for the year	**(5.9)**	1.5
Prior period adjustment	**(1.0)**	(0.4)
Deferred tax (credit) / charge (note 21)	**(6.9)**	1.1

Classifications of deferred tax movements have been reanalysed in the year to provide better information to users. The disclosure for 2020 shown above has been restated for comparison.

The expected impact on deferred tax balances of the increase in the rate of UK Corporation Tax to 25.0% from April 2023 is included in the charge for the current year.

The expected impact on deferred tax balances of the withdrawal of the reduction in the rate of Corporation Tax to 17.0% described above was accounted for in the year ended 30 September 2020, the effect of the expected change having been accounted for when originally enacted.

(c) Factors affecting tax charge for the year

Accounting standards require companies to explain the relationship between tax expense and accounting profit. This may be demonstrated by reconciling the tax charge to the product of the accounting profit and the 'applicable rate', generally the domestic rate of tax levied on corporate income in the jurisdiction in which the entity operates.

The Group operates wholly in the UK and all the Group's income arises in UK resident companies. Consequently, it is appropriate to use the prevailing UK corporation tax rate as the comparator to the effective tax rate. As noted in (a) above, the UK corporation tax rate applicable to the Group for the year was 19.0% (2020: 19.0%).

The impact of the Banking Surcharge is shown as a difference between tax at this rate and the actual tax charge in the table below.

	2021	2020
	£m	£m
Profit on ordinary activities before taxation	**213.7**	118.4
Profit on ordinary activities multiplied by the UK standard rate of corporation tax	**40.6**	22.5
Effects of:		
Permanent differences		
Recurring disallowable expenditure and similar items	**(1.1)**	0.1
Mismatch in timing differences	**(0.3)**	0.2
Change in rate of taxation on deferred tax assets and liabilities	**(0.5)**	0.1
Bank Corporation Tax Surcharge	**9.7**	4.0
Prior year charge	**0.8**	0.2
Tax charge for the year	**49.2**	27.1

The timing difference mismatch arises because tax relief for share based payments is given on a different basis from that on which the accounting charge for the provision of these awards is recognised under IFRS 2.

Had the reduction in the Bank Surcharge referred to above been enacted at the same time as the other changes coming into force on 1 April 2023, the tax charge for the year would have been reduced by £0.5m, with a corresponding increase in the deferred tax asset.

(d) Factors affecting future tax charges

The impact of the increase in the standard rate of corporation tax in the UK means that the element of the Group's profit not subject to the Bank Surcharge will be taxed at a rate of 22% for the year ending 30 September 2023 and 25% thereafter. The Group's overall future effective tax rate will also be impacted by the future level of the Surcharge and by the proportion of its taxable profit subject to it, with the proposed reduction in the surcharge and increase in the threshold at which it applies likely to narrow the differential between the Group's effective tax rate and the standard rate of corporation tax.

The Group includes various asset leasing businesses within its Commercial Lending division. Whilst such businesses do not, in general, have significant permanent differences, the taxable profits in a given accounting period are usually significantly different from the accounting profits due to temporary differences. As taxable profits arising in 2022,2023 and 2024 will be taxed at 19%, 22% and 25% respectively and new temporary differences will arise in those periods, there will be some volatility in the effective tax rate over this period.

At the balance sheet date there were no material tax uncertainties and no significant open matters with the UK tax authorities. The Group has no material exposure to any other tax jurisdiction.

As a wholly UK based business the Group does not expect to be significantly impacted by the OECD project on Base Erosion and Profit Shifting ('BEPS').

12. Profit attributable to members of Paragon Banking Group PLC

The Company's profit after tax for the financial year amounted to £85.5m (2020: £96.0m). A separate income statement has not been prepared for the Company under the provisions of section 408 of the Companies Act 2006.

The Company has no other items of comprehensive income for the years ended 30 September 2021 or 30 September 2020.

13. Earnings per share

Earnings per ordinary share is calculated as follows:

	2021	2020
Profit for the year (£m)	**164.5**	91.3
Basic weighted average number of ordinary shares ranking for dividend during the year (million)	**252.3**	253.6
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)	**8.9**	2.5
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)	**261.2**	256.1
Earnings per ordinary share		
- basic	**65.2p**	36.0p
- diluted	**63.0p**	35.6p

14. Cash and cash equivalents

'Cash and Cash Equivalents' includes current bank balances, money market placements and fixed rate sterling term deposits with London banks, and balances with the Bank of England. It is analysed as set out below.

	2021	2020	2019
	£m	£m	£m
Deposits with the Bank of England	**1,142.0**	1,637.1	816.4
Balances with central banks	**1,142.0**	1,637.1	816.4
Deposits with other banks	**218.1**	287.9	409.0
Balances with other banks	**218.1**	287.9	409.0
Cash and cash equivalents	**1,360.1**	1,925.0	1,225.4

Not all of the Group's cash is immediately available for its general purposes, including liquidity management. Cash received in respect of loan assets funded through warehouse facilities and securitisations is not immediately available, due to the terms of those arrangements.

Cash held by the Trustee of the Group's employee share ownership plan ('ESOP') may only be used to invest in the shares of the Company, pursuant to the aims of that plan.

The total consolidated 'Cash and Cash Equivalents' balance may be analysed as shown below.

	2021	2020	2019
	£m	£m	£m
Available cash	**1,236.5**	1,701.1	872.1
Securitisation cash	**123.3**	223.4	353.1
ESOP cash	**0.3**	0.5	0.2
	1,360.1	1,925.0	1,225.4

The 'Cash and Cash Equivalents' amount of £19.6m (2020: £12.6m, 2019: £14.1m) shown in the Company balance sheet is not subject to restrictions.

Cash and cash equivalents are classified as Stage 1 exposures (see note 18) for the purposes of impairment provisioning. The probabilities of default have been assessed to be so low as to require no significant impairment provision.

15. Loans to customers

	Note	**2021**	2020	2019
		£m	£m	£m
Loan accounts	*16*	**12,682.4**	11,907.0	11,394.3
Finance lease receivables	*17*	**720.3**	724.4	791.8
Loans to customers		**13,402.7**	12,631.4	12,186.1
Fair value adjustments from portfolio hedging	*19*	**5.5**	109.7	64.2
		13,408.2	12,741.1	12,250.3

The Group's loans to customers at 30 September 2021, analysed between the segments described in note 2 are as follows:

	Mortgage Lending	**Commercial Lending**	**Idem Capital**	**Total**
	£m	**£m**	**£m**	**£m**
At 30 September 2021				
First mortgages	**11,460.6**	**-**	**-**	**11,460.6**
Consumer loans	**148.1**	**-**	**220.9**	**369.0**
Motor finance	**-**	**224.9**	**4.3**	**229.2**
Asset finance	**-**	**468.7**	**-**	**468.7**
Development finance	**-**	**608.2**	**-**	**608.2**
Other commercial loans	**-**	**267.0**	**-**	**267.0**
Loans to customers	**11,608.7**	**1,568.8**	**225.2**	**13,402.7**

	Mortgage Lending	**Commercial Lending**	**Idem Capital**	**Total**
	£m	**£m**	**£m**	**£m**
At 30 September 2020				
First mortgages	10,636.9	-	-	10,636.9
Consumer loans	182.6	-	281.6	464.2
Motor finance	-	256.9	15.5	272.4
Asset finance	-	478.0	-	478.0
Development finance	-	609.0	-	609.0
Other commercial loans	-	170.9	-	170.9
Loans to customers	10,819.5	1,514.8	297.1	12,631.4

	Mortgage Lending	**Commercial Lending**	**Idem Capital**	**Total**
	£m	**£m**	**£m**	**£m**
At 30 September 2019				
First mortgages	10,172.5	-	-	10,172.5
Consumer loans	171.6	-	352.3	523.9
Motor finance	-	281.3	37.6	318.9
Asset finance	-	492.2	-	492.2
Development finance	-	506.5	-	506.5
Other commercial loans	-	172.1	-	172.1
Loans to customers	10,344.1	1,452.1	389.9	12,186.1

The Group's purchased loan portfolios are analysed below.

	2021	2020
	£m	£m
First mortgage loans	**13.4**	15.0
Consumer loans	**171.8**	220.3
Motor finance loans	**4.3**	15.5
	189.5	250.8

Information on the Estimated Remaining Collections ('ERCs'), the undiscounted forecast collectible amounts, for first mortgages and consumer loans is given in note 55. All other loans above are internally generated or arise from acquired operations.

16. Loan accounts

Loan accounts at 30 September 2021, 30 September 2020 and 30 September 2019, which are all denominated and payable in sterling, were:

	2021	2020	2019
	£m	£m	£m
First mortgage loans	**11,460.6**	10,636.9	10,172.5
Second charge mortgage loans	**281.7**	354.5	389.2
Other unsecured consumer loans	**87.3**	109.7	134.7
Development finance loans	**608.2**	609.0	506.5
Other secured commercial lending	**168.0**	134.4	125.9
Other commercial loans	**76.6**	62.5	65.5
	12,682.4	11,907.0	11,394.3

First mortgages are secured on residential property within the UK; second charge mortgage loans enjoy second charges on UK residential property.

Other secured commercial lending includes structured lending, aviation mortgages and invoice finance.

Other commercial loans includes principally professions finance, discounted receivables, term loans issued under the RLS, CBILS and BBLS schemes, and other short term commercial balances.

The amounts of the loan assets above pledged as collateral under the central bank facilities described in note 32 or under the securitisation and warehouse funding arrangements described in notes 28 and 29 are shown below. These include notes retained by the Group described in note 56. The table also shows assets prepositioned with the Bank of England for use in future drawings.

	First Mortgages	Consumer Finance	Other	Total
	£m	£m	£m	£m
30 September 2021				
In respect of:				
Asset backed loan notes	**2,414.5**	**-**	**-**	**2,414.5**
Warehouse facilities	**1,041.1**	**-**	**-**	**1,041.1**
Central bank facilities	**2,901.0**	**-**	**-**	**2,901.0**
Total pledged as collateral	**6,356.6**	**-**	**-**	**6,356.6**
Prepositioned with Bank of England	**3,190.1**	**-**	**-**	**3,190.1**
Other assets not pledged as collateral	**1,913.9**	**369.0**	**852.8**	**3,135.7**
	11,460.6	**369.0**	**852.8**	**12,682.4**

	First Mortgages	Consumer Finance	Other	Total
	£m	£m	£m	£m
30 September 2020				
In respect of:				
Asset backed loan notes	4,106.5	-	-	4,106.5
Warehouse facilities	881.9	-	-	881.9
Central bank facilities	2,875.3	-	-	2,875.3
Total pledged as collateral	7,863.6	-	-	7,863.6
Prepositioned with Bank of England	1,072.3	-	-	1,072.3
Other assets not pledged as collateral	1,701.0	464.2	805.9	2,971.1
	10,636.9	464.2	805.9	11,907.0
30 September 2019				
In respect of:				
Asset backed loan notes	4,338.3	-	-	4,338.3
Warehouse facilities	948.1	-	-	948.1
Central bank facilities	1,734.4	-	-	1,734.4
Total pledged as collateral	7,020.8	-	-	7,020.8
Prepositioned with Bank of England	1,873.7	-	-	1,873.7
Other assets not pledged as collateral	1,278.0	523.9	697.9	2,499.8
	10,172.5	523.9	697.9	11,394.3

17. Finance lease receivables

The Group's finance leases can be analysed as shown below.

	2021	2020	2019
	£m	£m	£m
Motor finance	**229.2**	272.4	318.9
Asset finance	**440.5**	452.0	472.9
RLS and CBILS	**50.6**	-	-
Carrying value	**720.3**	724.4	791.8

With effect from 1 October 2019, the Group's finance leases have been accounted for in accordance with IFRS 16 (note 59). Balances shown at 30 September 2019 are accounted for in accordance with IAS 17, however both standards require the same accounting treatment.

The minimum lease payments due under these loan agreements are:

	2021	2020	2019
	£m	£m	£m
Amounts receivable			
Within one year	**255.5**	269.5	292.9
Within one to two years	**220.3**	221.5	256.8
Within two to three years	**164.8**	163.6	177.2
Within three to four years	**105.0**	104.1	101.6
Within four to five years	**50.5**	43.2	31.1
After five years	**41.6**	41.6	40.2
	837.7	843.5	899.8
Less: future finance income	**(96.3)**	(103.4)	(101.4)
Present value	**741.4**	740.1	798.4

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

	2021	2020	2019
	£m	£m	£m
Amounts receivable			
Within one year	**225.0**	236.5	255.8
Within two to five years	**480.2**	467.1	506.6
After five years	**36.2**	36.5	36.0
Present value	**741.4**	740.1	798.4
Allowance for uncollectible amounts	**(21.1)**	(15.7)	(6.6)
Carrying value	**720.3**	724.4	791.8

None of the Group's finance lease receivables were pledged as collateral for liabilities at 30 September 2021 or 30 September 2020.

18. Impairment provisions on loans to customers

This note sets out information on the Group's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 15, including both finance leases, accounted for under IFRS 16, and loans held at amortised cost, accounted for under IFRS 9, as both groups of assets are subject to the IFRS 9 impairment requirements.

The disclosures are set out under the following headings:

(a) Basis of provision

(b) Impairments by stage and division

(c) Movements in impairment provision in the year

(d) Impairments charged to income

(e) Economic inputs to provision calculations

(f) Sensitivity analysis

(a) Basis of provision

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

The Group's process for determining its provisions for impairments is summarised below. This includes:

i. The methods used for the calculation of ECL

ii. How it defines SICR

iii. How it defines default

iv. How it identifies which loans are credit impaired, as defined by IFRS 9

v. How the ECL estimation process is monitored and controlled

vi. How the Group develops and enhances the models it uses in the ECL estimation process

vii. How the Group uses post-model adjustments ('PMAs') to ensure all elements of credit risk are fully addressed

i) Calculation of expected credit loss ('ECL')

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

PD on both a twelve month and lifetime basis is estimated based on statistical models for the Group's most significant asset classes. The PD calculation is a function of current asset performance, customer information and future economic assumptions. The structure of the models was derived through analysis of correlation in historic data, which identified which current and historical customer attributes and external economic variables were predictive of future loss. PD measures are calculated for the full contractual lives of loans with the models deriving probabilities that, at a given future date, a loan will be in default, performing or closed. The Group utilised all reasonably available information in its possession for this exercise.

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

In certain asset classes a fully modelled approach is not possible. This is generally where there are few assets in the class, where there is insufficient historical data on which to base an analysis or where certain measures, such as days past due are not useful (including cases where the loan agreement does not require regular payments of pre-determined amounts). In these cases, which represent a small proportion of the total portfolio, alternative approaches are adopted. These rely on internal credit monitoring practices and professional credit judgement.

Notwithstanding the mechanical procedures discussed above, the Group will always consider whether the process generates sufficient provision for particular loans, especially large exposures, and will provide additional amounts as appropriate.

In extreme or unprecedented economic conditions, such as the Covid pandemic, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of present conditions. In these circumstances, management carefully review all outputs to ensure provision is adequate.

At 30 September 2021 the impact of reduced economic activity in the UK from the Covid crisis had not yet been evidenced in customer credit performance and defaults, due to the lagging effect of government policy interventions. Where customers were given payment reliefs, arrears and adverse credit indicators were not recorded by the Group or other lenders, meaning that both internal credit metrics and external credit bureau data might not accurately reflect the customer's credit position leading to modelled PDs being underestimated.

During the year the trend of economic performance has been generally upward, albeit from a low level, meaning that the principal economic indicators are more positive than at 30 September 2020, though still more depressed than pre-Covid levels. The economic forecasts indicate continued recovery, but this upward trend will reduce calculated probabilities of default, even where the absolute levels of metrics remain low and where underlying credit issues on accounts have not emerged, which may result in rising defaults as government support initiatives unwind.

These factors have led management to conclude that in the current economic conditions, the Group's models do not fully represent loss expectations, and PMA's have been made to compensate for these weaknesses.

ii) Significant Increase in Credit Risk ('SICR')

Under IFRS 9, SICR is not defined solely by account performance, but on the basis of the customer's overall credit position, and this evaluation should include consideration of external data. The Group's aim is to define SICR to correspond, as closely as possible, to that population of accounts which are subject to enhanced administrative and monitoring procedures operationally.

The Group assesses SICR in its modelled portfolios primarily on the basis of the relative difference in an account's lifetime PD between origination and the reporting date. The levels of difference required to qualify as a SICR may differ between portfolios and will depend, to some extent, on the level of risk originally perceived and are monitored on an ongoing basis to ensure that this calibrates with actual experience.

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

For non-modelled portfolios, the SICR assessment is based on the credit monitoring position of the account in question and for all portfolios a number of qualitative indicators which provide evidence of SICR have been considered.

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

When reviewing the subsequent payment patterns of accounts that have been granted Covid-related reliefs, it has been evident that there is higher payment volatility (both in terms of account improvement and deterioration) in these cases, particularly in cases where an extension to the payment holiday has been granted. This indicates an increased credit risk, though the impact is not significant in scale in all cases. As a result of this analysis the accounts of customers who have been granted extended payment reliefs have been placed in Stage 2, regardless of other indicators. This aligns the Group's approach to regulatory guidance which suggested that while initial payment reliefs should not automatically be taken as a indication of a SICR, an extension to such a relief was more likely to be so.

The effect of this override is to transfer accounts with gross balances of £599.8m (2020: £576.3m) to Stage 2. The additional provision on transfer is included within PMAs.

This overall approach remains consistent with that taken at 30 September 2020. In reviewing account performance during the current year the Group has not yet identified any positive evidence which would cause it to begin to unwind this position. It will be reviewed going forward as other government economic interventions are scaled back and the post-relief credit characteristics of such accounts become more evident.

iii) Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The Group's definitions of default for its various portfolios are broadly aligned to its internal operational procedures and the regulatory definitions of default used internally. In particular the Group's receiver of rent cases are defined as defaulted for modelling purposes as the behaviour of the case after that point is significantly influenced by internal management decisions.

IFRS 9 provides a rebuttable presumption that an account is in default when it is 90 days overdue and this was used as the basis of the Group's definition. A combination of qualitative and quantitative measures were used in developing the definitions. These include account management activities and internal statuses.

iv) Credit Impaired loans

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

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

All loans which are in the process of enforcement, from the point where this becomes the administration strategy, are classified as credit impaired.

Loans are retained in Stage 3 for three months after the point where they cease to exhibit the characteristics of default. After this point, they may move to Stage 2 or Stage 1 depending on whether a SICR trigger remains.

All default cases are considered to be credit impaired, including all receiver of rent cases and all cases with at least one payment more than 90 days overdue, even where such cases are being managed in the expectation of realising all of the carrying balance.

In order to provide better information for users, additional analysis of credit impaired accounts has been presented below distinguishing between probationary accounts, receiver of rent accounts, accounts subject to realisation / enforcement procedures and long term managed accounts, all of which are treated as credit impaired. While other indicators of default are in use, the categories shown account for the overwhelming majority of Stage 3 cases.

v) Monitoring of ECL estimation processes

The Group's ECL models are compiled on the basis of the analysis of relevant historical data. Before a model is adopted for use its operations and outputs are examined to ensure that it is expected to be appropriately predictive and, if it is an updated model, expected to be more predictive than any existing model. Before a new model is adopted the changes and impacts will be considered by the CFO, alongside any advice from the Group's independent model review functions.

The performance of all models is reviewed on an ongoing basis, by senior finance and risk management, including the CFO. Monitoring packs comparing actual and predicted loss levels are produced at regular intervals, set on the basis of the materiality of each model. The continuing appropriateness of model assumptions is also reviewed as part of this process.

Models are revisited on a regular basis to ensure that they continue to reflect the most recent data as the available information increases over time.

On a monthly basis all model outputs, model overlays and provisions calculated for non-modelled books are reviewed by senior finance management including the CFO in conjunction with the latest credit risk operational and economic metrics to ensure that the impairment provision by asset type remains appropriate. This exercise will be the subject of particular focus at year end and the half year.

This information is summarised for the Audit Committee on a biannual basis, and they have regard to this data in forming their conclusions on the appropriateness of provisioning levels.

vi) Model development

The models used by the Group are updated from time to time to allow for changes in the business, developments in best practice and the availability of additional data with the passing of time. During the year ended 30 September 2021 a major update to the buy-to-let PD model took place.

All revised models and model enhancements are carefully reviewed and tested before adoption, and are subject to a governance process for their approval.

As a result of the reanalysis of updated historical data, the economic inputs identified as most predictive of future PD performance were changed, with the UK unemployment rate being substituted for UK GDP in the model as the indicator of general UK economic activity levels.

The impacts of the adoption of the new PD model on the calculated provision were not significant.

vii) Post Model Adjustments ('PMA's)

Where management has identified a requirement to amend the calculated provision as a result of either model deficiencies or idiosyncratic behaviour in part of the portfolio, PMAs are applied to the modelled outputs so that the ECL recognised corresponds to expert judgement, taking into account the widest possible range of current information, which might not be factored into the modelling process.

In normal circumstances the Group's objective is to develop its modelling to the point where the level of PMAs required is minimal, but in economic conditions where previous relevant experience is limited or non-existent, as with Covid, some form of PMA is always likely to be necessary.

The current model behaviour and the potential for unobserved credit issues have meant that the requirement for such adjustments at 30 September 2021 was significant. Evidence considered by management included internal performance data, customer feedback, evidence on the wider economy and quantitative and qualitative data and statements from industry, government and regulatory bodies. These were combined to form a broad estimate of the level of provision required across the Group.

The total amounts of PMAs provided across the Group are set out below by segment.

	2021	2020
	£m	£m
Mortgage Lending	**8.9**	14.0
Commercial Lending	**11.2**	5.8
Idem Capital	**0.3**	-
	20.4	19.8

Other than the behaviour of extended payment relief cases noted above, this analysis found no evidence of particular concentrations of credit risk below portfolio level. Given this, and the high level nature of the PMA exercise, the PMAs have been allocated on a broad brush basis to individual cases.

The Group will continue to monitor the requirement for these PMAs as the economic situation develops and the impact of government interventions recedes.

(b) Impairments by stage and division

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

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

- On initial recognition, and for assets where there has not been a SICR, provisions will be made in respect of losses resulting from the level of credit default events expected in the twelve months following the balance sheet date
- Where a loan has experienced a SICR, whether or not the loan is considered to be credit impaired, provisions will be made based on the ECLs over the full life of the loan
- For credit impaired assets, provisions will also be made on the basis of lifetime ECLs

For assets which were 'Purchased or Originated as Credit Impaired' ('POCI') accounts (those considered as credit impaired at the point of first recognition), such as certain of the Group's acquired assets in Idem Capital, the carrying valuation is based on expected cash flows discounted by the EIR determined at the point of acquisition.

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

	Stage 1	Stage 2*	Stage 3*	POCI	Total
	£m	£m	£m	£m	£m
30 September 2021					
Gross loan book					
Mortgage Lending	**10,303.7**	**1,206.4**	**120.0**	**13.4**	**11,643.5**
Commercial Lending	**1,504.2**	**66.4**	**19.0**	**6.9**	**1,596.5**
Idem Capital	**92.5**	**6.3**	**25.3**	**104.0**	**228.1**
Total	**11,900.4**	**1,279.1**	**164.3**	**124.3**	**13,468.1**
Impairment provision					
Mortgage Lending	**(1.7)**	**(10.2)**	**(22.9)**	**-**	**(34.8)**
Commercial Lending	**(12.9)**	**(1.0)**	**(13.6)**	**(0.2)**	**(27.7)**
Idem Capital	**(0.4)**	**(0.1)**	**(2.4)**	**-**	**(2.9)**
Total	**(15.0)**	**(11.3)**	**(38.9)**	**(0.2)**	**(65.4)**
Net loan book					
Mortgage Lending	**10,302.0**	**1,196.2**	**97.1**	**13.4**	**11,608.7**
Commercial Lending	**1,491.3**	**65.4**	**5.4**	**6.7**	**1,568.8**
Idem Capital	**92.1**	**6.2**	**22.9**	**104.0**	**225.2**
Total	**11,885.4**	**1,267.8**	**125.4**	**124.1**	**13,402.7**
Coverage ratio					
Mortgage Lending	**0.02%**	**0.85%**	**19.08%**	**-**	**0.30%**
Commercial Lending	**0.86%**	**1.51%**	**71.58%**	**2.90%**	**1.74%**
Idem Capital	**0.43%**	**1.59%**	**9.49%**	**-**	**1.27%**
Total	**0.13%**	**0.88%**	**23.68%**	**0.16%**	**0.49%**

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

	Stage 1 £m	Stage 2* £m	Stage 3* £m	POCI £m	Total £m
30 September 2020					
Gross loan book					
Mortgage Lending	9,822.6	903.2	127.0	15.0	10,867.8
Commercial Lending	1,384.2	132.3	20.2	6.7	1,543.4
Idem Capital	122.9	9.9	28.9	140.3	302.0
Total	11,329.7	1,045.4	176.1	162.0	12,713.2
Impairment provision					
Mortgage Lending	(5.0)	(12.6)	(30.7)	-	(48.3)
Commercial Lending	(17.0)	(3.0)	(8.2)	(0.4)	(28.6)
Idem Capital	(0.2)	(0.2)	(4.5)	-	(4.9)
Total	(22.2)	(15.8)	(43.4)	(0.4)	(81.8)
Net loan book					
Mortgage Lending	9,817.6	890.6	96.3	15.0	10,819.5
Commercial Lending	1,367.2	129.3	12.0	6.3	1,514.8
Idem Capital	122.7	9.7	24.4	140.3	297.1
Total	11,307.5	1,029.6	132.7	161.6	12,631.4
Coverage ratio					
Mortgage Lending	0.05%	1.40%	24.17%	-	0.44%
Commercial Lending	1.23%	2.27%	40.59%	5.97%	1.85%
Idem Capital	0.16%	2.02%	15.57%	-	1.62%
Total	0.20%	1.51%	24.65%	0.25%	0.64%

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

Finance leases included above, analysed by staging, were:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
30 September 2021					
Gross loan book	**704.9**	**14.9**	**17.3**	**4.3**	**741.4**
Impairment provision	**(7.9)**	**(0.5)**	**(12.7)**	**-**	**(21.1)**
Net loan book	**697.0**	**14.4**	**4.6**	**4.3**	**720.3**
Coverage Ratio	**1.12%**	**3.36%**	**73.41%**	**-**	**2.85%**
30 September 2020					
Gross loan book	676.6	33.6	14.4	15.5	740.1
Impairment provision	(9.3)	(0.9)	(5.5)	-	(15.7)
Net loan book	667.3	32.7	8.9	15.5	724.4
Coverage Ratio	1.37%	2.68%	38.19%	-	2.12%

In terms of the Group's credit management processes, Stage 1 cases will fall within the appropriate customer servicing functions and Stage 2 cases will be subject to account management arrangements. Stage 3 cases will include both those subject to recovery or similar processes and those which, though being managed on a long-term basis, are included with defaulted accounts for regulatory purposes. However, these broad categorisations may vary between different product types.

POCI balances included in the Commercial Lending segment arise principally from acquired businesses, where those assets were identified as credit impaired at the point of acquisition when the acquired portfolios as a whole were evaluated. Additional provision arising on these assets post-acquisition is shown as 'Impairment Provision' above.

Idem Capital loans include acquired consumer and motor finance loans together with legacy (originated pre-2010) second charge mortgage and unsecured consumer loans. Legacy assets and acquired loans which were performing on acquisition are included in the staging analysis above.

Acquired portfolios within the Mortgage Lending and Idem Capital segments which were largely non-performing at acquisition, and which were purchased at a deep discount to face value are shown as POCI assets above. Although no provision is shown above for such assets, the effect of the discount on purchase is included in the gross value ensuring that the carrying value is substantially less than the current balances due from customers and the level of cover is considerable.

Analysis of Stage 2 loans

The table below analyses the accounts in Stage 2 between those not more than one month in arrears where an SICR has nonetheless been identified from other information and accounts more than one month in arrears.

Cases which have been greater than one month in arrears in the last three months, but which are not at the balance sheet date are shown as 'recent arrears' in the tables below. These cases have been analysed separately for the first time in the current year.

In all cases accounts which are more than one month in arrears, where this is a meaningful measure, are considered to have a SICR. However, in certain loan portfolios, regular monthly payments of pre-set amounts are not required and hence this criterion cannot be used.

Levels of Stage 2 assets increased substantially during the early part of the Covid outbreak, and have been broadly stable over the course of the year. The largest part of the Stage 2 balance at 30 September 2021 related to extended payment holiday accounts transferred from Stage 1. These are shown in the < 1 month arrears column in the table below. As fewer extensions were granted after 30 September 2020, the rate of increase of such Stage 2 cases has been much reduced in the period.

Coverage levels in Stage 2 across the portfolios have reduced since 30 September 2020, with an improved economic outlook and increasing security values. However, these remain higher than those seen pre-pandemic, due to the impact of PMAs, particularly on '<1 month arrears' cases. Coverage ratios of '> 1 < = 3 months arrears' cases have been varied due to the composition of the relatively small balances, particularly in the Commercial Lending and Idem Capital divisions.

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2021				
Gross loan book				
Mortgage Lending	**1,184.8**	**8.0**	**13.6**	**1,206.4**
Commercial Lending	**61.1**	**0.2**	**5.1**	**66.4**
Idem Capital	**2.9**	**0.7**	**2.7**	**6.3**
Total	**1,248.8**	**8.9**	**21.4**	**1,279.1**
Impairment provision				
Mortgage Lending	**(9.9)**	**(0.1)**	**(0.2)**	**(10.2)**
Commercial Lending	**(0.9)**	**-**	**(0.1)**	**(1.0)**
Idem Capital	**-**	**-**	**(0.1)**	**(0.1)**
Total	**(10.8)**	**(0.1)**	**(0.4)**	**(11.3)**
Net loan book				
Mortgage Lending	**1,174.9**	**7.9**	**13.4**	**1,196.2**
Commercial Lending	**60.2**	**0.2**	**5.0**	**65.4**
Idem Capital	**2.9**	**0.7**	**2.6**	**6.2**
Total	**1,238.0**	**8.8**	**21.0**	**1,267.8**
Coverage ratio				
Mortgage Lending	**0.84%**	**1.25%**	**1.47%**	**0.85%**
Commercial Lending	**1.47%**	**-**	**1.96%**	**1.51%**
Idem Capital	**-**	**-**	**3.70%**	**1.59%**
Total	**0.86%**	**1.12%**	**1.87%**	**0.88%**

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2020				
Gross loan book				
Mortgage Lending	879.9	5.9	17.4	903.2
Commercial Lending	113.2	10.5	8.6	132.3
Idem Capital	4.8	1.6	3.5	9.9
Total	997.9	18.0	29.5	1,045.4
Impairment provision				
Mortgage Lending	(12.0)	(0.2)	(0.4)	(12.6)
Commercial Lending	(2.5)	(0.1)	(0.4)	(3.0)
Idem Capital	(0.1)	-	(0.1)	(0.2)
Total	(14.6)	(0.3)	(0.9)	(15.8)
Net loan book				
Mortgage Lending	867.9	5.7	17.0	890.6
Commercial Lending	110.7	10.4	8.2	129.3
Idem Capital	4.7	1.6	3.4	9.7
Total	983.3	17.7	28.6	1,029.6
Coverage ratio				
Mortgage Lending	1.36%	3.39%	2.30%	1.40%
Commercial Lending	2.21%	0.95%	4.65%	2.27%
Idem Capital	2.08%	-	2.86%	2.02%
Total	1.46%	1.67%	3.05%	1.51%

Analysis of Stage 3 loans

The table below analyses the accounts in Stage 3 between those:

- In the process of sale or other enforcement procedures ('Realisations')
- Where a receiver of rent ('RoR') has been appointed by the Group to manage the property on the customers' behalf
- Which are being managed on a long-term basis and where full recovery is possible, but which are considered to meet regulatory default criteria at the balance sheet date ('>3 month arrears')
- Which no longer meet regulatory default criteria but which are being retained in Stage 3 for a probationary period ('Probation')

Where an account meets two of the criteria, it will be assigned to the category shown first in the list above.

In these disclosures probation accounts have been analysed separately for the first time, in order to provide better information for users.

RoR accounts in Stage 3 may be fully up-to-date with full recovery possible. These accounts are included in Stage 3 as they are classified as defaulted for regulatory purposes.

The impact of Covid on the number and value of Stage 3 accounts has been limited so far. Payment reliefs have prevented arrears being recorded and other enforcement activities have been limited by government intervention. This particularly impacts on cases analysed as 'realisations'.

The completion of payment relief periods has led to some increases in > 3 month arrears cases, particularly in the Mortgage Lending business, while credit reviews have identified at risk cases in other areas. This increase is, however, offset by the continuing realisations from the receiver of rent portfolio as long-term cases are managed out.

Coverage levels have generally reduced a little from 30 September 2020 as a result of increased security values, while remaining substantially in excess of pre-Covid levels. The coverage ratio for Commercial Lending is subject to fluctuations as the number of cases is relatively low and the ratio can be significantly influenced by individual larger cases.

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
30 September 2021					
Gross loan book					
Mortgage Lending	**7.3**	**20.7**	**80.9**	**11.1**	**120.0**
Commercial Lending	**0.6**	**11.4**	**-**	**7.0**	**19.0**
Idem Capital	**0.7**	**21.3**	**-**	**3.3**	**25.3**
Total	**8.6**	**53.4**	**80.9**	**21.4**	**164.3**
Impairment provision					
Mortgage Lending	**(0.3)**	**(0.9)**	**(17.4)**	**(4.3)**	**(22.9)**
Commercial Lending	**(0.1)**	**(10.3)**	**-**	**(3.2)**	**(13.6)**
Idem Capital	**-**	**(1.0)**	**-**	**(1.4)**	**(2.4)**
Total	**(0.4)**	**(12.2)**	**(17.4)**	**(8.9)**	**(38.9)**
Net loan book					
Mortgage Lending	**7.0**	**19.8**	**63.5**	**6.8**	**97.1**
Commercial Lending	**0.5**	**1.1**	**-**	**3.8**	**5.4**
Idem Capital	**0.7**	**20.3**	**-**	**1.9**	**22.9**
Total	**8.2**	**41.2**	**63.5**	**12.5**	**125.4**
Coverage ratio					
Mortgage Lending	**4.11%**	**4.35%**	**21.51%**	**38.74%**	**19.08%**
Commercial Lending	**16.67%**	**90.35%**	**-**	**45.71%**	**71.58%**
Idem Capital	**-**	**4.69%**	**-**	**42.42%**	**9.49%**
Total	**4.65%**	**22.85%**	**21.51%**	**41.59%**	**23.68%**

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
30 September 2020					
Gross loan book					
Mortgage Lending	6.5	12.9	86.7	20.9	127.0
Commercial Lending	3.2	11.2	-	5.8	20.2
Idem Capital	1.0	24.3	-	3.6	28.9
Total	10.7	48.4	86.7	30.3	176.1
Impairment provision					
Mortgage Lending	(0.3)	(1.5)	(20.8)	(8.1)	(30.7)
Commercial Lending	(0.9)	(4.1)	-	(3.2)	(8.2)
Idem Capital	-	(2.8)	-	(1.7)	(4.5)
Total	(1.2)	(8.4)	(20.8)	(13.0)	(43.4)
Net loan book					
Mortgage Lending	6.2	11.4	65.9	12.8	96.3
Commercial Lending	2.3	7.1	-	2.6	12.0
Idem Capital	1.0	21.5	-	1.9	24.4
Total	9.5	40.0	65.9	17.3	132.7
Coverage ratio					
Mortgage Lending	4.62%	11.63%	23.99%	38.76%	24.17%
Commercial Lending	28.12%	36.61%	-	55.17%	40.59%
Idem Capital	-	11.52%	-	47.22%	15.57%
Total	11.21%	17.36%	23.99%	42.90%	24.65%

The security values available to reduce exposure at default in the calculation shown above for Stage 3 accounts are set out below. The estimated value of the security represents, for each account, the lesser of the valuation estimate and the exposure at default in the central scenario. Security values are based on the most recent valuation of the relevant asset held by the Group, indexed or depreciated as appropriate.

	2021	2020
	£m	£m
First mortgages	**74.7**	71.9
Second mortgages	**15.4**	17.3
Asset finance	**4.7**	6.7
Motor finance	**2.0**	1.5
	96.8	97.4

The RoR managed accounts are being managed to ensure the optimal resolution for landlords, tenants and lenders and this long-term, stable situation underpinned their treatment as not impaired under IAS 39, but the existence of the RoR arrangement causes the accounts to be treated as defaulted for regulatory purposes. The Group's RoR arrangements are described in more detail below.

Idem Capital balances with over three months arrears comprise principally second charge mortgage accounts originated over ten years ago which have been over three months in arrears for some time. These accounts are generally making regular payments and have significant levels of equity in the underlying property which reduces the required provision to the value shown above. It is expected that a high proportion of these accounts will eventually redeem naturally, either on the sale of the property or by the satisfaction of the amount due through instalment payments.

Buy-to-let receiver of rent cases (Stage 3)

Where a buy-to-let mortgage customer in England or Wales falls into arrears on their account the Group has the power to appoint a receiver of rent under the Law of Property Act. The receiver will then manage the property on behalf of the customer, collecting rents and remitting them to make payments on the account. While the receiver has the power to sell the property, in many cases they will operate it as a buy-to-let on at least a short to medium term basis, potentially longer, depending on the individual circumstances of the case. This causes less disruption to the tenants and may result in the mortgage account returning to performing status and the property being handed back to the customer.

The following table analyses the number and gross carrying value of RoR managed accounts shown above by the date of the receivers' appointment, illustrating this position.

	30 September 2021		30 September 2020	
	No.	**£m**	No.	£m
Managed accounts				
Appointment date				
2010 and earlier	**333**	**56.3**	369	62.4
2011 to 2013	**56**	**9.1**	72	12.4
2014 to 2016	**24**	**3.3**	29	4.2
2016 and later	**86**	**12.2**	46	7.7
Total managed accounts	**499**	**80.9**	516	86.7
Accounts in the process of realisation	**54**	**10.2**	104	19.7
	553	**91.1**	620	106.4

Receiver of rent accounts in the process of realisation at the period end are included under that heading in the Stage 3 tables above.

In addition to the cases analysed above, no POCI mortgage accounts also had a receiver of rent appointed (2020: 3), making a total of 553 (2020: 623).

(c) Movements in impairment provision in the year

The movements in the impairment provision calculated under IFRS 9, analysed by business segments, are set out below.

	Mortgage Lending	**Commercial Lending**	**Idem Capital**	**Total**
	£m	**£m**	**£m**	**£m**
At 30 September 2020	48.3	28.6	4.9	81.8
(Released) / provided in period (note 18(d))	(5.9)	4.0	(1.2)	(3.1)
Amounts written off	(7.6)	(4.9)	(0.8)	(13.3)
At 30 September 2021	**34.8**	**27.7**	**2.9**	**65.4**
At 30 September 2019	26.8	10.7	4.4	41.9
Provided in period (note 18(d))	25.8	22.7	1.3	49.8
Amounts written off	(4.3)	(4.8)	(0.8)	(9.9)
At 30 September 2020	48.3	28.6	4.9	81.8

Accounts are considered to be written off for accounting purposes if a balance remains once standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. This has no effect on the net carrying value, only on the amounts reported as gross loan balances and accumulated impairment provisions.

At 30 September 2021, enforceable contractual balances of £8.8m (2020: £5.5m) were outstanding on non-POCI assets written off in the period. This excludes those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances are kept under review for operational purposes, but no amounts are recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

A more detailed analysis of these movements by IFRS 9 stage on a consolidated basis for the year ended 30 September 2021 and 30 September 2020 is set out below.

These tables, and the matching tables analysing movements in gross balances, have been compiled by comparing opening and closing balances on each account and analysing the movements between them.

Changes due to credit risk includes all changes in model parameters whether related to account performance, external credit data or model assumptions, including economic scenarios and weightings.

There have been no changes in models creating significant movements in balances in the year.

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Loss allowance at 30 September 2020	**22.2**	**15.8**	**43.4**	**0.4**	**81.8**
New assets originated or purchased	**8.1**	-	-	-	**8.1**
Changes in loss allowance					
Transfer to Stage 1	**4.7**	**(2.6)**	**(2.1)**	-	-
Transfer to Stage 2	**(1.4)**	**2.1**	**(0.7)**	-	-
Transfer to Stage 3	**(0.2)**	**(0.7)**	**0.9**	-	-
Changes on stage transfer	**(3.8)**	**1.8**	**3.1**	-	**1.1**
Changes due to credit risk	**(14.6)**	**(5.1)**	**7.6**	**(0.2)**	**(12.3)**
Write offs	-	-	**(13.3)**	-	**(13.3)**
Loss allowance at 30 September 2021	**15.0**	**11.3**	**38.9**	**0.2**	**65.4**
Loss allowance at 30 September 2019	6.0	3.7	32.2	-	41.9
New assets originated or purchased	10.2	-	-	-	10.2
Changes in loss allowance					
Transfer to Stage 1	0.9	(0.7)	(0.2)	-	-
Transfer to Stage 2	(1.2)	1.3	(0.1)	-	-
Transfer to Stage 3	(0.5)	(0.4)	0.9	-	-
Changes on stage transfer	(0.5)	7.5	6.2	-	-
Changes due to credit risk	7.3	4.4	14.3	0.4	26.4
Write offs	-	-	(9.9)	-	(9.9)
Loss allowance at 30 September 2020	22.2	15.8	43.4	0.4	81.8

The principal movements in the impairment provision in the year were downwards, with a more benign economic outlook reducing both the estimated likelihood of losses and the expected loss on defaulted cases as security values improved. However coverage levels still remain in excess of those pre-Covid, with PMAs in place to compensate for the potential impact of credit issues not apparent in the data.

While less accounts have been granted payment holiday extensions in the year than in the year ended 30 September 2020, this has driven further transfers from Stage 1 to Stage 2. Transfers to Stage 3 reflect principally a small number of realisation cases and other cases identified through credit review. Write offs largely relate to the realisation of already provided losses on cases being worked out on a long-term basis.

In the year ended 30 September 2020 the principal factor generating the increase in the loss allowance in the period was the impact of the Covid crisis, which led to increased loss expectations across all of the Group's portfolios, primarily as a result of the forecast deterioration in key economic variables and their impact on the Group's customers. The broad availability of payment holidays was also reflected, with extended payment holiday accounts transferred to Stage 2 and PMAs made to allow for the potential delay in the recognition of credit issues due to reliefs.

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

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Balance at 30 September 2020	**11,329.7**	**1,045.4**	**176.1**	**162.0**	**12,713.2**
New assets originated or purchased	**2,419.4**	**-**	**-**	**-**	**2,419.4**
Changes in staging					
Transfer to Stage 1	**158.5**	**(149.5)**	**(9.0)**	**-**	**-**
Transfer to Stage 2	**(514.2)**	**519.6**	**(5.4)**	**-**	**-**
Transfer to Stage 3	**(23.7)**	**(21.6)**	**45.3**	**-**	**-**
Redemptions and repayments	**(1,884.9)**	**(158.6)**	**(35.7)**	**(53.1)**	**(2,132.3)**
Write offs	**-**	**-**	**(13.3)**	**-**	**(13.3)**
Other changes	**415.6**	**43.8**	**6.3**	**15.4**	**481.1**
Balance at 30 September 2021	**11,900.4**	**1,279.1**	**164.3**	**124.3**	**13,468.1**
Loss allowance	**(15.0)**	**(11.3)**	**(38.9)**	**(0.2)**	**(65.4)**
Carrying value	**11,885.4**	**1,267.8**	**125.4**	**124.1**	**13,402.7**
Balance at 30 September 2019	11,382.6	458.5	167.9	219.0	12,228.0
New assets originated or purchased	2,071.4	-	-	-	2,071.4
Changes in staging					
Transfer to Stage 1	202.3	(200.1)	(2.2)	-	-
Transfer to Stage 2	(846.2)	849.2	(3.0)	-	-
Transfer to Stage 3	(42.6)	(20.5)	63.1	-	-
Redemptions and repayments	(1,488.3)	(54.1)	(42.0)	(78.1)	(1,662.5)
Write offs	-	-	(9.9)	-	(9.9)
Other changes	50.5	12.4	2.2	21.1	86.2
Balance at 30 September 2020	11,329.7	1,045.4	176.1	162.0	12,713.2
Loss allowance	(22.2)	(15.8)	(43.4)	(0.4)	(81.8)
Carrying value	11,307.5	1,029.6	132.7	161.6	12,631.4

Other changes includes interest and similar charges.

(d) Impairments charged to income

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

	Mortgage Lending	Commercial Lending	Idem Capital	Total
	£m	£m	£m	£m
30 September 2021				
(Released) / provided in period	**(5.9)**	**4.0**	**(1.2)**	**(3.1)**
Recovery of written off amounts	**-**	**(1.1)**	**(0.5)**	**(1.6)**
	(5.9)	**2.9**	**(1.7)**	**(4.7)**
Of which				
Loan accounts	**(5.9)**	**(2.1)**	**(1.7)**	**(9.7)**
Finance leases	**-**	**5.0**	**-**	**5.0**
	(5.9)	**2.9**	**(1.7)**	**(4.7)**
30 September 2020				
Provided in period	25.8	22.7	1.3	49.8
Recovery of written off amounts	-	(1.0)	(0.5)	(1.5)
	25.8	21.7	0.8	48.3
Of which				
Loan accounts	25.8	9.5	0.8	36.1
Finance leases	-	12.2	-	12.2
	25.8	21.7	0.8	48.3

(e) Economic inputs to provision calculations

Impairment provision under IFRS 9 is calculated on a forward-looking ECL basis, based on expected economic conditions in multiple internally coherent scenarios. While the provision calculation is intended to address all possible future economic outcomes, the Group, in common with most other lenders, uses a small number of differing scenarios as representatives of this universe of potential outturns.

The Group uses four distinct economic scenarios chosen to represent the range of possible outcomes and allow for the impact of economic asymmetry in the calculations. Each scenario comprises a number of economic parameters and while models for different portfolios may not use all of the variables, the set, as a whole, is defined for the Group and must be consistent.

As the Group does not have an internal economics function, in developing its economic scenarios it considers analysis from reputable external sources to form a general market consensus which informs its central scenario. These sources include data and forecasts produced by the Office of Budget Responsibility ('OBR') and the PRA as well as private sector economic research bodies. The Group also takes account of public statements from bodies such as the Bank of England and the UK Government to inform its final position.

The central scenario used for IFRS 9 impairment purposes is the same scenario which forms the basis of the Group's business planning and forecasting and will therefore generally carry the highest probability weighting. In its September 2021 forecasting cycle (the 'October forecast'), the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2020, with the starting point of the scenario updated to reflect the actual movements of economic variables in the year. The general trend of the Group's central forecast is consistent with the monetary forecast published by the Bank of England in August 2021.

Compared to the central scenario adopted at 30 September 2020, the new central forecast is broadly similar across the five year period, but more optimistic as to short term prospects. This 2021/2022 upgrade is a result of the opening position being better than implied in the 2020 central scenario, progress made to date in combatting the pandemic in the UK, including the success of the vaccination programme, and a more positive outlook from economists generally.

The upside and downside scenarios continue to be derived from the central scenario, as they have been in previous periods. However, these scenarios are not as markedly different in shape as those used at September 2020 nor as widely divergent from the central position, with a greater level of consensus as to the shape and timing of the post-Covid trajectory of the UK economy emerging amongst analysts and commentators. It should be noted that the 2020 scenarios converged towards the latter part of the five-year period, as Covid impacts receded. Therefore, a less divergent starting point for the 2021 scenarios is in line with this expectation.

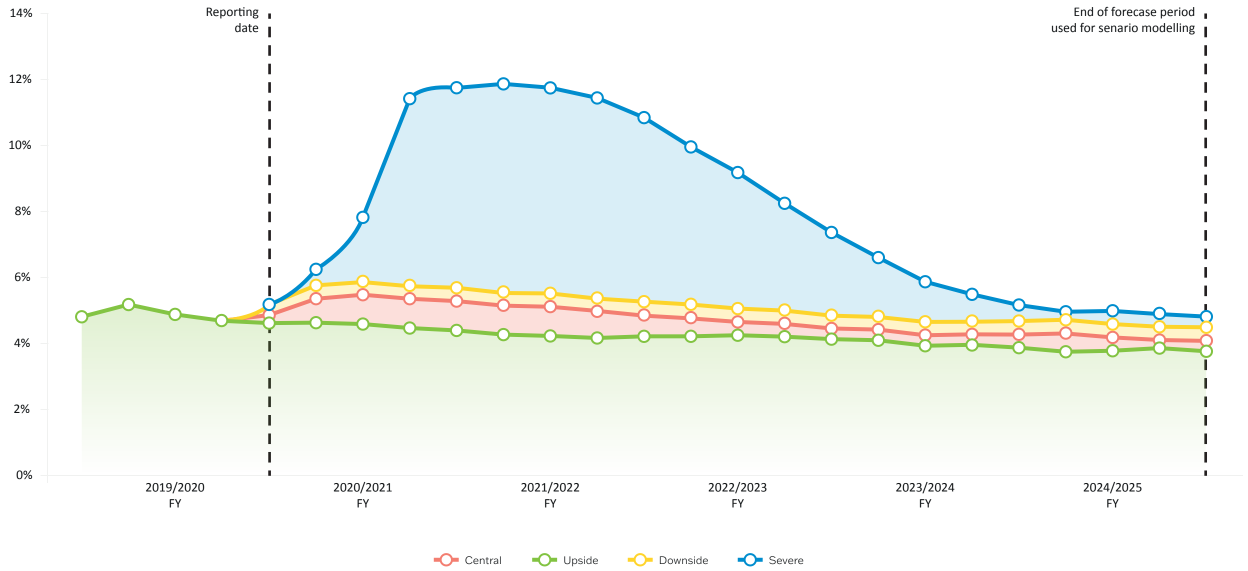
The severe scenario has been derived from the stress testing scenarios published by the Bank of England, as in previous periods. The stress testing scenario published in January 2021 was used in this iteration of the Group's forecasts. This is a more severe scenario than that published for 2020. The Bank of England scenario includes a house price projection based on a sharp decline and a rapid bounce back, which would have a limited impact on expected losses. As house prices have a significant impact on the Group's modelling of losses, it was determined that the impact of a more protracted slump, would better represent a severe downturn and the Bank of England scenario was adjusted accordingly.

The overall shape of the scenarios adopted, and the change in the forecasts year-on-year is illustrated by the forecasts of the UK's unemployment rate set out in the charts below. The unemployment rate has been presented as it is the principal indicator of general economic activity used in modelling losses in the Group's buy-to-let mortgage portfolio.

In the accounts for the year ended 30 September 2020, a chart of UK GDP was presented as that was the principal indicator of general economic activity in the buy-to-let ECL model then in use (see above).

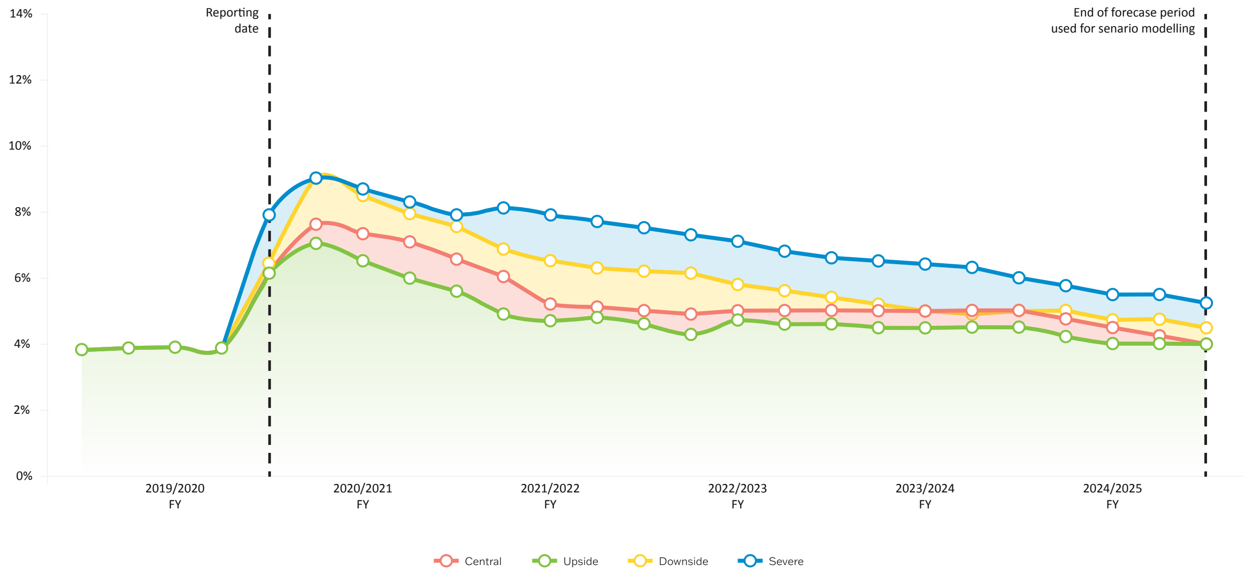
Historical and forecast unemployment rates (End point measure)

As at 30 September 2021 GDP growth rates (%)



Historical and forecast unemployment rates (End point measure)

As at 30 September 2020 GDP growth rates (%)



Following a review of the weightings of the different scenarios, set against the overall potential for variability in the future economic outlook, the Group decided to maintain the scenario weightings used at 30 September 2020.

The weightings attached to each scenario are set out below.

	2021	2020
Central scenario	**40%**	40%
Upside scenario	**10%**	10%
Downside scenario	**35%**	35%
Severe scenario	**15%**	15%
	100%	100%

The Group's economic scenarios comprise seven variables based on standard publicly available metrics for the UK. These variables are:

- Year-on-year change in Gross Domestic Product ('GDP') as measured by the Office of National Statistics ('ONS')
- Year-on-year change in the House Price Index ('HPI') as measured by the Nationwide Building Society
- Bank Base Rate ('BBR'), as set by the Bank of England
- Consumer Price Inflation ('CPI') rate, as measured by the ONS
- Unemployment rate, as measured by the ONS
- Annual change in secured lending, as measured by the Bank of England 'mortgage advances' data series
- Annual change in consumer credit, as measured by the Bank of England 'unsecured advances' data series

The projected average annual values of each of these variables in each of the first five financial years of the forecast period are set out below.

30 September 2021

Gross Domestic Product ('GDP') (year-on-year change)

	2022	2023	2024	2025	2026
Central scenario	**7.2%**	**2.0%**	**1.3%**	**1.6%**	**1.9%**
Upside scenario	**8.6%**	**2.5%**	**2.1%**	**1.8%**	**1.9%**
Downside scenario	**3.9%**	**3.4%**	**2.1%**	**1.9%**	**1.9%**
Severe scenario	**(3.7)%**	**8.9%**	**4.9%**	**2.6%**	**2.0%**

House Price Index ('HPI') (year-on-year change)

	2022	2023	2024	2025	2026
Central scenario	**0.7%**	**2.1%**	**2.7%**	**3.2%**	**3.0%**
Upside scenario	**4.0%**	**3.9%**	**4.5%**	**4.7%**	**2.6%**
Downside scenario	**(4.9)%**	**(5.9)%**	**-**	**2.1%**	**2.1%**
Severe scenario	**(10.9)%**	**(11.6)%**	**(7.9)%**	**(1.8)%**	**0.7%**

Bank Base Rate ('BBR') (rate)

	2022	2023	2024	2025	2026
Central Scenario	**0.1%**	**0.1%**	**0.4%**	**0.7%**	**0.8%**
Upside Scenario	**0.1%**	**0.5%**	**0.9%**	**1.0%**	**1.0%**
Downside Scenario	**0.1%**	**0.1%**	**0.2%**	**0.3%**	**0.5%**
Severe Scenario	**-**	**(0.1)%**	**-**	**-**	**0.1%**

Consumer Price Inflation ('CPI') (rate)

	2022	2023	2024	2025	2026
Central scenario	**3.8%**	**2.3%**	**1.9%**	**2.0%**	**2.0%**
Upside scenario	**3.0%**	**2.1%**	**2.0%**	**2.0%**	**2.0%**
Downside scenario	**4.2%**	**3.0%**	**2.1%**	**2.0%**	**2.0%**
Severe scenario	**0.9%**	**0.4%**	**0.9%**	**1.5%**	**1.9%**

Unemployment (rate)

	2022	2023	2024	2025	2026
Central scenario	**5.4%**	**5.1%**	**4.7%**	**4.3%**	**4.2%**
Upside scenario	**4.6%**	**4.3%**	**4.3%**	**4.0%**	**3.8%**
Downside scenario	**5.8%**	**5.5%**	**5.1%**	**4.7%**	**4.6%**
Severe scenario	**9.4%**	**11.5%**	**8.7%**	**5.8%**	**4.9%**

Secured lending (annual change)

	2022	2023	2024	2025	2026
Central scenario	**4.4%**	**3.6%**	**3.1%**	**3.2%**	**3.3%**
Upside scenario	**5.3%**	**4.8%**	**4.3%**	**3.8%**	**3.8%**
Downside scenario	**3.3%**	**2.8%**	**2.9%**	**3.6%**	**3.9%**
Severe scenario	**1.5%**	**(2.4)%**	**(1.0)%**	**1.3%**	**2.5%**

Consumer credit (annual change)

	2022	2023	2024	2025	2026
Central scenario	**2.6%**	**4.4%**	**5.5%**	**6.1%**	**6.2%**
Upside scenario	**4.3%**	**6.5%**	**7.3%**	**8.0%**	**8.3%**
Downside scenario	**2.3%**	**2.0%**	**2.0%**	**2.0%**	**2.3%**
Severe scenario	**0.6%**	**5.1%**	**1.2%**	**1.7%**	**4.0%**

30 September 2020

Gross Domestic Product ('GDP') (year-on-year change)

	2021	2022	2023	2024	2025
Central scenario	4.9%	5.7%	2.2%	1.5%	1.4%
Upside scenario	6.0%	5.4%	2.4%	1.5%	1.5%
Downside scenario	2.1%	9.3%	2.9%	1.3%	1.5%
Severe scenario	0.2%	9.5%	2.2%	1.4%	1.3%

House Price Index ('HPI') (year-on-year change)

	2021	2022	2023	2024	2025
Central scenario	(0.8)%	0.3%	4.0%	4.0%	3.8%
Upside scenario	1.3%	1.3%	3.0%	3.3%	3.8%
Downside scenario	(3.5)%	(7.0)%	(0.1)%	3.8%	3.8%
Severe scenario	(11.8)%	(13.8)%	(5.3)%	1.5%	3.8%

Bank Base Rate ('BBR') (rate)

	2021	2022	2023	2024	2025
Central scenario	0.1%	0.1%	0.4%	0.8%	0.8%
Upside scenario	0.1%	0.4%	0.7%	0.9%	1.0%
Downside scenario	0.1%	0.1%	0.1%	0.3%	0.8%
Severe scenario	0.0%	(0.2)%	0.1%	0.2%	0.6%

Consumer Price Inflation ('CPI') (rate)

	2021	2022	2023	2024	2025
Central scenario	0.9%	1.7%	2.2%	2.1%	2.1%
Upside scenario	1.2%	2.1%	2.1%	2.2%	2.1%
Downside scenario	0.7%	1.3%	1.8%	2.1%	2.0%
Severe scenario	(0.1)%	0.7%	1.5%	2.0%	2.0%

Unemployment (rate)

	2021	2022	2023	2024	2025
Central scenario	7.1%	5.3%	5.0%	5.0%	4.4%
Upside scenario	6.3%	4.8%	4.6%	4.5%	4.1%
Downside scenario	8.2%	6.5%	5.7%	5.0%	4.8%
Severe scenario	8.5%	7.8%	7.0%	6.3%	5.5%

Secured lending (annual change)

	2021	2022	2023	2024	2025
Central Scenario	3.6%	3.7%	3.8%	3.9%	3.9%
Upside Scenario	4.7%	4.5%	4.2%	4.1%	4.0%
Downside Scenario	1.8%	2.3%	3.2%	3.7%	3.8%
Severe Scenario	(0.9)%	0.2%	2.3%	3.4%	3.7%

Consumer credit (annual change)

	2021	2022	2023	2024	2025
Central Scenario	6.0%	**6.1%**	**6.1%**	**6.3%**	**6.3%**
Upside Scenario	8.7%	**8.2%**	**7.3%**	**6.9%**	**6.7%**
Downside Scenario	1.8%	**2.8%**	**4.3%**	**5.4%**	**5.7%**
Severe Scenario	(4.6)%	**(2.3)%**	**1.6%**	**4.0%**	**4.8%**

After the end of the initial five year period, the final rate or rate of change (as appropriate) is assumed to continue into the future in each scenario.

To illustrate the levels of non-linearity in the various scenarios, the maximum and minimum quarterly levels for each variable over the five year period commencing on the balance sheet date are set out below.

30 September 2021

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max	Min	Max	Min	Max	Min	Max	Min
	%	%	%	%	%	%	%	%
Economic driver								
GDP	**11.5**	**1.1**	**13.3**	**1.6**	**7.3**	**0.9**	**14.3**	**(5.9)**
HPI	**6.1**	**(4.0)**	**7.7**	**0.6**	**2.9**	**(9.8)**	**2.4**	**(16.9)**
BBR	**0.8**	**0.1**	**1.0**	**0.1**	**0.5**	**0.1**	**0.2**	**(0.1)**
CPI	**4.0**	**1.8**	**3.8**	**1.8**	**4.5**	**1.8**	**2.0**	**0.2**
Unemployment	**5.5**	**4.1**	**4.7**	**3.8**	**5.9**	**4.5**	**11.9**	**4.8**
Secured lending	**4.8**	**3.0**	**5.5**	**3.5**	**4.0**	**2.5**	**3.1**	**(2.5)**
Consumer credit	**6.4**	**0.4**	**8.5**	**1.9**	**4.6**	**(0.1)**	**9.2**	**(8.9)**

30 September 2020

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

The asymmetry in the models is demonstrated by comparing the calculated impairment provision with that which would have been produced using the Central scenario alone, 100% weighted.

	2021	2020
	£m	£m
Provision using central scenario 100% weighted		
Mortgage Lending	**24.6**	37.2
Commercial Lending	**26.0**	26.7
Idem Capital	**2.1**	3.5
	52.7	67.4
Calculated impairment provision	**65.4**	81.8
Effect of multiple economic scenarios	**12.7**	14.4

(f) Sensitivity

The calculation of impairment provisions under IFRS 9 is subject to a variety of uncertainties arising from assumptions, forecasts and expectations about future events and conditions. To illustrate the impact of these uncertainties, sensitivity calculations have been performed for some of the most significant.

These sensitivities are intended as mathematical illustrations of the impacts of the various assumptions on the Group's modelling. They do not necessarily represent alternative potential impairment values as other factors might also need to be considered in arriving at a final provision figure if circumstances differed from those at the balance sheet date.

Economic conditions

To illustrate the potential impact of differing future economic scenarios on the total impairment, the provision which would be calculated if each of the economic scenarios were 100% weighted are shown below.

Scenario	**2021**		2020	
	Provision	**Difference**	Provision	Difference
	£m	**£m**	£m	£m
Central	**52.7**	**(12.7)**	67.4	(14.4)
Upside	**47.1**	**(18.3)**	58.0	(23.8)
Downside	**68.1**	**2.7**	82.4	0.6
Severe	**106.1**	**40.7**	134.3	52.5

The weighted average of these 100% weighted provisions need not equal the weighted average ECL due to the impact of the differing PDs on staging. However due to the impact of post-model stage adjustments at 30 September 2020, the effect on the PD SICR test of 100% weighting has not been taken into account in the calculations at that date

Scenario weightings

In order to illustrate the impact of scenario weightings on the outcomes, the impairment provision requirements were sensitised using alternative weightings. The sensitivity is based on the weightings used at IFRS 9 transition on 1 October 2018. The use of the 2018 weighting is intended to represent a more settled outlook than has been evident at either of the two most recent year ends. PMAs are assumed to remain constant

The weightings used, and the results of applying this sensitivity to the 30 September 2021 scenarios are set out below.

	Weighting				**Impairment**	**Difference**
	Central	**Upside**	**Downside**	**Severe**	**£m**	**£m**
As reported	40%	10%	35%	15%	65.4	-
Sensitivity	40%	30%	25%	5%	57.6	(7.8)

Significant increase in credit risk

The most important driver of SICR is relative PD. If all PDs across the Group's principal buy-to-let mortgage book were increased by 10%, loans with a gross value of £99.0m would transfer from Stage 1 to Stage 2 (2020: £53.3m), and the total provision would increase by £1.1m from the combined effects of higher PDs on expected losses and the impact of providing for expected lifetime losses, rather than 12-month losses on the additional Stage 2 cases (2020: £1.6m).

Value of security

The principal assumptions impacting on LGD are the estimated security values. If the rate of growth in house prices assumed by the model after the forecast minimum were halved, ignoring any PD effects, then the provision for the Group's first and second mortgage assets under the central scenario would increase by £3.3m (2020: £5.9m).

Receiver of rent

The majority of receiver of rent cases, which are included in Stage 3, are managed long-term and therefore their assumed realisation date has an important impact on the provision calculation. If the assumed rate of realisations was increased by 20%, the impairment provision in the central scenario would increase by £0.6m (2020: £0.8m).

19. Derivative financial instruments and hedge accounting

Introduction

The Group uses derivative financial instruments such as interest rate swaps for risk management purposes only. Each such derivative contract is entered into for economic hedging purposes to manage a particular identified risk (as described in notes 55 to 58) and any gains or losses arising are incidental to this objective. No trading in derivative financial instruments is undertaken.

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

The Group's hedging arrangements can be analysed for accounting purposes between:

- Fair value hedges of portfolio interest rate risk, which are used to manage the interest rate risk inherent in fixed rate lending and deposit taking
- Cash flow hedges, which were used during the year to manage the foreign exchange and interest rate risk inherent in its currency borrowings

An economic hedge of the interest rate risk in fixed rate lending must also address pipeline exposures, where future lending at a given fixed rate is anticipated. However, such arrangements do not qualify as hedges for accounting purposes.

In addition, the Group utilises currency derivatives to hedge its exposure on the small amount of its lending denominated in foreign currencies. These are not treated as hedges for accounting purposes due to the low level of exposure.

The analysis below splits derivatives between those accounted for within portfolio fair value hedges, or as cash flow hedges and those which, despite representing an economic hedge, are not accounted for as hedges. There were no individual interest rate risk hedging arrangements in place either in the year ended 30 September 2021 or the preceding year.

	2021 Assets £m	**2021 Liabilities £m**	2020 Assets £m	2020 Liabilities £m
Derivatives in hedge accounting relationships				
Fair value hedges				
Interest rate swaps				
Fixed to floating	**35.9**	**(35.8)**	-	(130.0)
Floating to fixed	**2.8**	**(5.9)**	14.4	-
	38.7	**(41.7)**	14.4	(130.0)
Cash flow hedges				
Cross-currency basis swaps				
Dollar-sterling	**-**	**-**	213.2	-
Euro-sterling	**-**	**-**	232.1	-
	-	**-**	445.3	-
Total derivatives in hedge accounting relationships	**38.7**	**(41.7)**	459.7	(130.0)
Other derivatives				
Interest rate swaps	**5.5**	**(2.0)**	3.4	(2.4)
Currency futures	**-**	**(0.2)**	0.2	-
Total recognised derivative assets/(liabilities)	**44.2**	**(43.9)**	463.3	(132.4)

The credit risk inherent in the derivative financial assets shown above is discussed in note 55.

(a) Fair value hedges

Background and hedging objectives

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

This position arises naturally where fixed rate loans are funded with floating or variable rate borrowings, as in the Group's securitisation transactions, but may also arise where retail deposit funding is used. Where possible the Group takes advantage of natural hedging between fixed rate assets and deposits, but it is unlikely that a precise match for value and tenor of the instruments could be achieved leaving unmatched items on both sides. This is referred to as repricing or duration risk and is controlled within limits under the Group's interest rate risk management process, described in note 57. In order to manage these exposures, they are hedged with financial derivatives and form part of the Group's portfolio hedging arrangements. Duration risk is monitored regularly to ensure mismatches or gaps remain within limits set by policy.

Responsibility to direct and oversee structural interest rate risk management has been delegated by the Board to the Executive Risk Committee ('ERC') and by ERC to the Asset and Liability Committee ('ALCO'). A hedging strategy is developed for each fixed product considering behavioural characteristics, such as whether a customer is likely to prepay before contractual maturity. This is reviewed from time to time with any changes agreed with ALCO.

In order to manage potential exposure to changes in interest rates between the point at which fixed rate products are priced and the advance date, it may be necessary to undertake hedging of assets in the pipeline. Interest rate swaps used to hedge pipeline loan exposures, which are not yet recognised on the balance sheet, can cause unmatched fair value costs or credits to arise until both sides of the hedge can be recognised within the interest rate portfolio hedging arrangement, generally a few months after the inception of the derivative contract.

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

This policy creates two macro hedges:

- The 'loan hedge' matching fixed rate buy-to-let mortgage assets, or other fixed rate assets, with interest rate swaps to convert the interest receivable to a floating rate
- The 'deposit hedge' matching fixed rate deposits with interest rate swaps which operates in the opposite direction, converting the fixed rate interest payable to floating rate amounts

The Group is in the process of changing the principal sterling reference rate used in its interest rate risk management framework from LIBOR to SONIA and all new interest rate swap agreements since 1 February 2020 have referenced SONIA.

This means that each of these macro hedges can be divided into two sections, one referencing LIBOR and one SONIA. Through the year, as assets and deposits matured and were replaced by new business, the LIBOR-linked element of the hedges reduced, and the SONIA-linked element increased.

All interest rate hedging arrangements for fixed rate assets or liabilities are executed with SONIA as a reference rate. In addition, hedging related to fixed rate assets funded in the most recent securitisation transactions, PM26, PM27 and PM28, where the funding rate is SONIA-linked, was also undertaken with reference to SONIA.

During the year the Group has continued to hedge interest rate risk on fixed rate CBILS and BBLS exposures using SONIA-linked basis guarantee swaps, which are included in the loan hedge.

As part of an agreement reached with the noteholders of PM25, described in note 28, to transition that transaction to a SONIA-linked basis, all LIBOR-linked derivatives owned by that entity will transition to SONIA on an agreed basis by 15 February 2022, with the final reset of each falling in or before December 2021.

There remains a back book of swaps referencing three-month LIBOR, which is currently running off as the instruments reach maturity. Certain of these swaps have a maturity after December 2021, when LIBOR is scheduled to become unavailable. The ISDA, the trade organisation for derivatives, have released a protocol which incorporates fallback provisions to facilitate transition to SONIA when LIBOR ceases and the Group expects to transition its remaining LIBOR-linked derivatives in accordance with the protocol before LIBOR cessation.

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

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

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

Ineffectiveness

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

- The maturity profile of the hedging instruments may not exactly match that of the hedged items, particularly where hedged items settle early
- The use of derivatives as a hedge of interest rate risk additionally exposes the Group to the derivative counterparties' credit risk, which is not matched in the hedged item. This risk is minimised by transacting only with high quality counterparties and through collateralisation arrangements (as described in note 55)
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments
- Difference in the timing of interest payments on the hedged items and settlements on the hedging instruments

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

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

Hedging Instruments

The hedging portfolios at 30 September 2021 and 30 September 2020 consist of a large number of sterling denominated swaps. In addition, there are a small number of Balance Guarantee Swaps ('BGS') in place at both dates. Settlement on all swaps is generally quarterly (monthly for BGS) where:

- One payment is calculated based on a fixed rate of interest and the nominal value of the swap
- An opposite payment is calculated based on the same nominal value but using a floating interest rate set at a fixed margin over a reference rate, LIBOR or SONIA

On the BGS the nominal value of the swap is linked to the principal value of a pool of assets and reduces in line with redemptions and repayments until maturity. Other interest rate swaps have a fixed nominal value throughout their lives.

The Group pays fixed rate and receives floating when hedging exposures from fixed rate assets (in the loan hedge). Conversely, the Group pays floating rate and receives fixed rate when hedging fixed rate deposits, in the deposit hedge.

The principal terms of the hedging instruments are set out below, analysed between the two directions of the swap.

	2021		2020	
	Deposit hedge	**Loan hedge**	Deposit hedge	Loan hedge
Average fixed notional interest rate	**0.16%**	**0.69%**	0.42%	0.91%
Average notional margin over LIBOR	**-**	**-**	-	-
Average notional margin over SONIA	**-**	**-**	-	-
	£m	**£m**	£m	£m
Notional principal value				
LIBOR swaps	**471.5**	**3,121.4**	1,147.5	3,968.8
SONIA BGS	**-**	**62.6**	-	25.2
Other SONIA swaps	**2,415.0**	**2,876.2**	1,043.0	1,317.3
	2,886.5	**6,060.2**	2,190.5	5,311.3
Maturing				
Within one year	**2,224.5**	**920.7**	1,287.5	531.5
Between one and two years	**422.0**	**1,712.7**	669.0	1,012.1
Between two and five years	**240.0**	**3,421.3**	234.0	3,731.0
More than five years	**-**	**5.5**	-	36.7
	2,886.5	**6,060.2**	2,190.5	5,311.3
Fair value	**(3.1)**	**0.1**	14.3	(129.9)

The value included above for BGS are analysed by their contractual maturity dates although, due to the terms of the instruments, it is likely that the balance outstanding will reduce more quickly.

The increased levels of hedging shown above arise from the growth in both the loan and deposit books. The changes in fair value are a result of moves in market implied interest rates compared to the rates on the fixed legs of the swaps.

Accounting impacts

Movements affecting the portfolio fair value hedges during the year are set out below.

	2021		2020	
	Deposit hedge	**Loan hedge**	Deposit hedge	Loan hedge
	£m	**£m**	£m	£m
Hedging instruments				
Interest rate swaps				
Included in derivative financial assets	**2.8**	**35.9**	14.3	-
Included in derivative financial liabilities	**(5.9)**	**(35.8)**	-	(129.9)
	(3.1)	**0.1**	14.3	(129.9)
Notional principal value	**2,886.5**	**6,060.2**	2,190.5	5,311.3
Change in fair value used in calculating hedge ineffectiveness	**(15.4)**	**128.6**	6.6	(48.1)

	2021		2020	
	Deposit hedge	**Loan hedge**	Deposit hedge	Loan hedge
	£m	**£m**	£m	£m
Hedged items				
Fixed rate deposits				
Monetary amount of risk relating to Retail Deposits	**2,730.4**	-	2,083.9	-
Fixed rate loans				
Monetary amount of risk relating to Loans to Customers	**-**	**6,120.7**	-	5,353.4
Accumulated amount of fair value hedge adjustments included on balance sheet (notes 15 and 26)*	**3.0**	**5.5**	(10.4)	109.7
Of which: amounts related to discontinued hedging relationships being amortised	**(1.7)**	**6.9**	-	(11.6)
Change in fair value used in recognising hedge ineffectiveness	**15.1**	**(122.0)**	(6.4)	48.2
Hedge ineffectiveness recognised				
Included in fair value gains / (losses) in the profit and loss account	**(0.3)**	**6.6**	0.2	0.1

* Under the IAS 39 rules relating to fair value hedge accounting for portfolios of interest rate risk, the change in the fair value of the hedged items attributable to the hedged risk is shown as 'fair value adjustments from portfolio hedging' next to the carrying value of the hedged assets or liabilities in the appropriate note.

(b) Cash flow hedging

Background and hedging objectives

The Group has historically entered into cross-currency basis swap agreements which formed part of certain of its securitisation arrangements, providing an economic hedge against financial risks inherent in the deal structures, as described below. The last of these arrangements terminated during the year ended 30 September 2021. These hedging relationships were designated as cash flow hedges for accounting purposes.

In any securitisation where asset backed floating rate notes ('FRNs') are issued in currency (US dollars or Euros ('EUR')), a currency and interest rate mismatch between assets and liabilities would exist, exposing the securitisation and the Group to both foreign exchange and interest basis risk.

This would preclude such a deal from attaining a AAA rating for its senior debt. To address that issue, in each deal a bespoke cross-currency basis swap was written, with the swap being an asset or liability of the relevant SPV company.

The effect of these swaps is to translate the required currency payments, both principal and interest to sterling payments, based on a fixed rate of exchange. They also translate the reference rate of interest on the notes from a dollar LIBOR or Euro Interbank Offered Rate ('EURIBOR') basis to a sterling LIBOR basis. This effectively eliminates the foreign exchange and interest rate basis risks with respect to these instruments.

In order to achieve a AAA rating for the deal, the swaps must themselves be capable of this level of rating. Therefore, the deal conditions specify that only high quality counterparties may be used, and that where there is a deterioration in credit quality of the counterparty, collateral must be posted. The collateral requirement is supervised by the independent third-party rating agencies.

Hedging instruments

Under these swap agreements

- The Group made quarterly payments of principal and floating rate interest in sterling and received equivalent amounts of principal and floating rate interest, in currency (either US dollars or euros), translated at an exchange rate fixed on inception
- Settlement of both the cross-currency basis swaps and the notes to which they relate took place on the same date. The Group made a single payment in sterling to the swap provider who then made the corresponding swap payment in currency to the external principal paying agent. The principal paying agent then used the funds immediately upon receipt to make the payments required on the currency notes
- The nominal amount of the swaps was adjusted automatically, quarter by quarter, such that it always amortised in line with the quarterly payments of principal made on the currency notes (a 'balance guarantee' feature)
- Floating rate interest on the sterling (pay) leg of the swaps was set with reference to three-month sterling LIBOR, with floating rate interest on the currency (receive) legs set by reference to equivalent currency rates
- The payment and repricing dates were the same (to the day) for the swaps as for their underlying notes
- The swaps had to remain in place for as long as the notes were outstanding

The principal terms of the hedging instruments (the cross-currency basis swaps) are summarised below.

	2021		2020	
	Swap currency		Swap currency	
	USD	**EUR**	USD	EUR
Average fixed exchange rate	-	-	2.0	1.5
Average margin over LIBOR on interest payable	-	-	0.23%	0.48%
Average margin over US dollar LIBOR / EURIBOR on interest receivable	-	-	0.19%	0.54%
Notional principal value (£m)	-	-	397.0	687.5
Fair value (£m)	-	-	213.2	232.1
Average remaining term (years)	-	-	20	21

Although the average remaining contractual term is as shown above, the link between the notional principal of the swaps and the balance outstanding on the notes means that the lives were, in practice, much shorter.

The absolute value of these swaps was relatively large as the majority of the instruments dated from before the 2008 credit crisis, when a major dislocation in rates occurred, creating significant market value in the instruments. However, economically, this was offset by the corresponding increase in the carrying value of the currency denominated notes. All the balances shown above related to swaps with inception dates in 2008 or earlier and all were terminated in the course of the year when the related borrowings were repaid.

Sources of potential ineffectiveness

All cross-currency basis swap agreements were designated as cash flow hedges in line with their economic effect and the critical terms, such as interest and exchange rates, pricing dates and principal balances of the designated hedging instruments exactly matched those of the hedged currency denominated FRNs. This resulted in a critical terms match for IAS 39 purposes and hence no ineffectiveness could arise from sources other than credit risk.

In respect of credit risk, the hedging instruments could be partially collateralised, depending on the rating of the counterparties from time to time. Additional collateral was conditionally available, as described in note 55, under the terms of the instruments. This generated a small potential credit valuation adjustment associated with the derivative asset representing the credit risk of the receivable future cash flows that make up the derivative fair value. However, IAS 39 requires that Other Comprehensive Income ('OCI') is adjusted by the lower of the cumulative gain or loss on the derivative or the hedged item (as proxied by a hypothetical derivative). As the derivative bears credit risk of the counterparty (for the uncollateralised portion) it has a lower fair value than the hypothetical derivative. The result is that the full fair value of the derivative is taken to OCI as it is the lower of the two amounts and no ineffectiveness arises.

Accounting impacts

Movements affecting the cash flow hedge relationships in the year are set out below.

	2021		2020	
	Swap currency		Swap currency	
	USD	**EUR**	USD	EUR
	£m	**£m**	£m	£m
Hedging Instruments				
Cross-currency basis swaps				
Included in derivative financial assets	**-**	**-**	213.2	232.1
Included in derivative financial liabilities	**-**	**-**	-	-
	-	**-**	213.2	232.1
Notional principal value	**-**	**-**	397.0	687.5
Change in fair value used in calculating hedge ineffectiveness	**(29.1)**	**(28.3)**	(29.5)	(42.6)
Hedged Items				
Floating rate notes				
Included in Asset Backed Loan Notes	**-**	**-**	397.0	687.5
Changes in fair value used in calculating hedge ineffectiveness	**(29.1)**	**(28.3)**	(29.5)	(42.6)
Cash flow hedging reserve before tax	**-**	**-**	0.7	2.3

The table below summarises the amounts which have affected total comprehensive income as a result of the cash flow hedges described above.

	2021	2020
	£m	£m
Change of value in hedging instrument recognised in cash flow hedge reserve		
US dollar swaps	**(29.1)**	(29.5)
EUR swaps	**(28.3)**	(42.6)
	(57.4)	(72.1)
Amount reclassified from cash flow hedge reserve to profit, recognised as foreign exchange differences and interest on notes, both included within interest payable		
US dollar swaps	**(28.4)**	(29.0)
EUR swaps	**(26.0)**	(42.5)
	(54.4)	(71.5)
Net amount recognised in Other Comprehensive Income before tax	**(3.0)**	(0.6)

All amounts reclassified to profit in the financial year have been transferred because the hedged item has affected profit or loss.

(c) Derivatives not in a hedge accounting relationship

The Group's other derivatives comprise:

- Interest rate swaps which are economically part of the Group's portfolio hedging arrangements but failed to find a match in the hedge designation, including swaps hedging interest rate risk on the new lending pipeline
- Currency futures, economically hedging exposures on lending denominated in currency, where hedge accounting has not been adopted due to the size of the exposure

The principal terms of these derivatives are set out below.

Interest rate swaps

	2021		2020	
	Pay fixed	**Pay floating**	Pay fixed	Pay floating
Average fixed notional interest rate	**0.49%**	**0.35%**	0.28%	0.23%
Average notional margin over LIBOR	-	-	-	-
Average notional margin over SONIA	-	-	-	-
	£m	**£m**	£m	£m
Notional principal value				
LIBOR swaps	**86.1**	**98.5**	145.7	237.0
SONIA swaps	**595.5**	**585.0**	422.0	698.0
	681.6	**683.5**	567.7	935.0
Maturing				
Within one year	**83.6**	**270.5**	128.1	715.0
Between one and two years	**85.5**	**331.0**	60.6	47.0
Between two and five years	**265.0**	**82.0**	182.0	173.0
More than five years	**247.5**	-	197.0	-
	681.6	**683.5**	567.7	935.0
Fair value	**4.2**	**(0.7)**	3.4	(2.4)

Currency futures

	2021	2020
US dollar futures		
Average future exchange rate	**1.36**	1.27
	£m	£m
Notional principal value	**11.9**	14.1
Maturing		
Within one year	**11.9**	14.1
Between one and two years	-	-
Between two and five years	-	-
	11.9	14.1
Fair value	**(0.2)**	0.2

20. Sundry assets

(a) The Group

	Note	2021 £m	2020 £m	2019 £m
Current assets				
Accrued interest income		**-**	0.1	0.4
Trade receivables		**1.3**	3.2	3.6
CSA assets		**36.6**	103.5	72.2
CRDs		**23.7**	15.1	11.4
Sovereign receivables		**0.9**	0.2	-
Other receivables		**3.2**	3.2	2.7
Sundry financial assets	*65*	**65.7**	125.3	90.3
Prepayments		**3.5**	2.7	2.1
Other tax		**-**	-	0.4
		69.2	128.0	92.8

Cash ratio deposits ('CRDs') are non-interest-bearing deposits lodged with the Bank of England, based on the value of the Bank's eligible liabilities. These are required to comply with regulatory rules.

CSA assets are deposits placed with highly rated banks to act as security for the Group's derivative financial liabilities.

Neither of these balances is accessible by the Group at the balance sheet date. Therefore, they are included in sundry assets rather than cash balances.

Sovereign receivables includes amounts receivable from the UK Government under the CBILS and BBLS schemes.

CRDs, CSA assets, sovereign receivables and accrued interest are considered to be Stage 1 assets for IFRS 9 impairment purposes. The probabilities of default of the obligor institutions (the UK Government, Bank of England and major banks) have been assessed and are considered to be so low as to require no significant impairment provision.

(b) The Company

	2021 £m	2020 £m	2019 £m
Current assets			
Amounts owed by Group companies	**73.0**	84.0	106.6
Accrued interest income	**0.1**	0.6	0.7
	73.1	84.6	107.3

The amounts owed to the Company by other group entities are considered to be Stage 1 balances for IFRS 9 impairment purposes. The PD of the subsidiaries has been assessed in the context of the Group's overall funding and asset position, and is considered to be so low as to require no significant impairment provision.

21. Deferred tax

(a) The Group

The movements in the net deferred tax asset / (liability) are as follows:

	Note	**2021**	2020	2019
		£m	£m	£m
Opening net asset / (liability)				
As previously reported		**6.2**	6.2	(5.6)
Change of accounting policy	*59*	**-**	-	5.0
Restated		**6.2**	6.2	(0.6)
Derecognition		**-**	-	1.8
Acquisitions		**-**	-	0.5
Income statement credit / (charge)	*11*	**6.9**	(1.1)	2.3
Credit to equity		**1.3**	1.1	2.2
Closing net asset		**14.4**	6.2	6.2

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

	2021	2020	2019
	£m	£m	£m
Accelerated tax depreciation	**5.9**	2.9	2.3
Retirement benefit obligations	**4.4**	6.7	5.9
Loans and derivatives	**(0.7)**	(5.2)	(3.8)
Share based payments	**5.2**	1.7	2.9
Tax losses	**0.4**	1.3	0.4
Other timing differences	**(0.8)**	(1.2)	(1.5)
Net deferred tax asset	**14.4**	6.2	6.2

Classification of deferred tax amounts has been updated in the year to provide better information for users. Comparative amounts have been restated for consistency.

As stated in note 11, legislation in the year has increased the rate of corporation tax in the UK to 25.0% from April 2023. This change has been reflected in the deferred tax balance. The temporary differences shown above have been provided at the rate prevailing when the Group anticipates these temporary differences to reverse. In the event that the temporary differences actually reverse in different periods a credit or charge will arise in a future period to reflect the difference. The timing of reversal of temporary differences will be affected by both matters within the Group's control (eg the timing and nature of the refinancing of certain portfolios) and matters outside the Group's control (eg the level of redemptions of finance leases).

If temporary differences reverse within Paragon Bank PLC in a period in which it is subject to the banking surcharge, then the impact of the reversal will be at an effective tax rate that includes the banking surcharge to some extent. While the UK Government announced a reduction in the banking surcharge in its October 2021 budget, as this had not been substantially enacted at the balance sheet date, no account is taken of it in these accounts.

In addition to the temporary differences, the Group has tax losses of £4.0m (2020: £2.3m) in entities whose current taxable profits are insufficient to support the recognition of a deferred tax asset.

(b) The Company

The movements in the net deferred tax liability are as follows:

	2021	2020	2019
	£m	£m	£m
Opening net liability	**1.8**	1.6	1.8
Income statement charge / (credit)	**-**	0.2	(0.2)
Closing net liability	**1.8**	1.8	1.6

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

	2021	2020	2019
	£m	£m	£m
Other timing differences	**1.8**	1.8	1.6
Net deferred tax liability	**1.8**	1.8	1.6

22. Property, plant and equipment

(a) The Group

	Leased assets	Land and buildings	Plant and machinery	Total
	£m	£m	£m	£m
Cost				
At 30 September 2019	52.7	22.8	10.6	86.1
Adoption of IFRS 16 (note 59)	-	6.0	1.0	7.0
Additions	12.9	0.7	1.5	15.1
Disposals	(7.5)	-	(0.6)	(8.1)
At 30 September 2020	58.1	29.5	12.5	100.1
Additions	13.0	7.1	1.8	21.9
Disposals	(8.2)	(0.8)	(0.9)	(9.9)
At 30 September 2021	**62.9**	**35.8**	**13.4**	**112.1**
Accumulated depreciation				
At 30 September 2019	16.4	4.1	8.3	28.8
Charge for the year	8.3	1.8	1.7	11.8
On disposals	(6.1)	-	(0.5)	(6.6)
At 30 September 2020	18.6	5.9	9.5	34.0
Charge for the year	8.9	2.7	1.6	13.2
On disposals	(3.9)	(0.8)	(0.8)	(5.5)
At 30 September 2021	**23.6**	**7.8**	**10.3**	**41.7**
Net book value				
At 30 September 2021	**39.3**	**28.0**	**3.1**	**70.4**
At 30 September 2020	39.5	23.6	3.0	66.1
At 30 September 2019	36.3	18.7	2.3	57.3

Land and buildings and plant and machinery shown above are used within the Group's business. Leased assets includes £26.8m in respect of assets leased under operating leases (2020: £27.0m) and £12.5m of assets available for hire (2020: £12.5m).

The carrying values of right of use of assets, in respect of leases where the Group is the lessee, included in property, plant and equipment are set out below.

	Land and buildings	Plant and machinery	Total
	£m	£m	£m
Cost			
At 30 September 2019	-	-	-
Adoption of IFRS 16 (note 59)	6.0	1.0	7.0
Additions	-	0.3	0.3
Disposals	-	(0.1)	(0.1)
At 30 September 2020	6.0	1.2	7.2
Additions	6.1	0.9	7.0
Disposals	(0.6)	(0.6)	(1.2)
At 30 September 2021	**11.5**	**1.5**	**13.0**
Accumulated depreciation			
At 30 September 2019	-	-	-
Charge for the year	1.4	0.6	2.0
On disposals	-	(0.1)	(0.1)
At 30 September 2020	1.4	0.5	1.9
Charge for the year	2.2	0.6	2.8
On disposals	(0.6)	(0.4)	(1.0)
At 30 September 2021	**3.0**	**0.7**	**3.7**
Net book value			
At 30 September 2021	**8.5**	**0.8**	**9.3**
At 30 September 2020	4.6	0.7	5.3
At 30 September 2019	-	-	-

During the year ended 30 September 2018, the Group entered into a transaction with the Paragon Pension Plan, effectively granting a first charge over its freehold head office building as security for its agreed contributions under the recovery plan. The carrying value of the assets subject to this charge was £17.4m (2020: £17.7m).

(b) The Company

The property, plant and equipment balance of the Company represents a right of use asset in respect of a building leased from a fellow group entity. The carrying value of this asset is set out below.

	Land and buildings £m
Cost	
At 30 September 2019	-
Adoption of IFRS 16 (note 59)	18.8
Additions	-
Disposals	-
At 30 September 2020	18.8
Additions	-
Disposals	-
At 30 September 2021	**18.8**
Accumulated depreciation	
At 30 September 2019	-
Charge for the year	1.4
On disposals	-
At 30 September 2020	1.4
Charge for the year	1.4
On disposals	-
At 30 September 2021	**2.8**
Net book value	
At 30 September 2021	**16.0**
At 30 September 2020	17.4
At 30 September 2019	-

23. Intangible assets

	Goodwill (note 24) £m	Computer software £m	Other intangible assets £m	Total £m
Cost				
At 30 September 2019	170.4	11.4	10.6	192.4
Additions	-	1.0	-	1.0
At 30 September 2020	170.4	12.4	10.6	193.4
Additions	-	2.4	-	2.4
At 30 September 2021	**170.4**	**14.8**	**10.6**	**195.8**
Accumulated amortisation and impairment				
At 30 September 2019	6.0	9.0	6.3	21.3
Amortisation charge for the year	-	1.2	0.8	2.0
At 30 September 2020	6.0	10.2	7.1	23.3
Amortisation charge for the year	-	1.2	0.8	2.0
At 30 September 2021	**6.0**	**11.4**	**7.9**	**25.3**
Net book value				
At 30 September 2021	**164.4**	**3.4**	**2.7**	**170.5**
At 30 September 2020	164.4	2.2	3.5	170.1
At 30 September 2019	164.4	2.4	4.3	171.1

Other intangible assets comprise brands and the benefit of business networks recognised on the acquisition of businesses.

24. Goodwill

The goodwill carried in the accounts is attributable to three cash generating units ('CGU's), which have not changed in the year. The balance is as analysed below:

	2021 £m	2020 £m
CGU		
SME lending	**113.0**	113.0
Development finance	**49.8**	49.8
TBMC	**1.6**	1.6
	164.4	164.4

(a) SME lending

The goodwill carried in the accounts relating to the SME lending CGU was recognised on acquisitions in the years ended 30 September 2016 and 30 September 2018.

An impairment review undertaken at 30 September 2021 indicated that no write down was required.

The recoverable amount of the SME lending CGU used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board in November 2021 covering a five-year period. These forecasts reflect the projected trajectory of the business recovery from the Covid pandemic with the five year average growth rate beginning to normalise following the initial bounce back phase in 2021, as well as the Group's current strategy for the business.

The key assumptions underlying the value in use calculation for the SME lending CGU are:

- Level of business activity, based on management expectations. The forecast assumes a compound annual growth rate ('CAGR') for new business over the five-year period of 13.9%, compared with 19.7% used in the calculation at 30 September 2020. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.6% (2020: 1.5%) which does not exceed the long term average growth rates for the markets in which the business is active

  Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment

- Discount rate, which is based on third party estimates of the implied industry cost of capital. The pre-tax discount rate applied to the cash flow projection is 13.4% (2020: 15.0%)

As an illustration of the sensitivity of this impairment test to movements in the key assumptions, the Group has calculated that a 0% growth rate combined with a 15.0% reduction in profit levels and a 159 basis point increase in the pre-tax discount rate would eliminate the headroom in the projection. A 0% growth rate combined with a 20.7% reduction in profit levels and a 125 basis point increase in the pre-tax discount rate would generate a write down of £10.0m.

In the testing carried out at 30 September 2020, a 10.0% reduction in profit levels coupled with a 100 basis point increase in the pre-tax discount rate would eliminate the headroom.

(b) Development finance

The goodwill carried in the accounts relating to the development finance CGU was first recognised on a business acquisition in the year ended 30 September 2018.

An impairment review undertaken at 30 September 2021 indicated that no write down was required.

The recoverable amount of the development finance CGU used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board in November 2021 covering a five-year period. These forecasts show growth slower than that originally forecast for 2021 which was inflated by the impact of the initial post Covid bounce back.

The key assumptions underlying the value in use calculation for the development finance CGU are:

- Level of business activity, based on management expectations. The forecast assumes a CAGR for drawdowns over the five-year period of 13.2%, compared with 16.9% used in the calculation at 30 September 2020. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.6% (2020: 1.5%) which does not exceed the long-term average growth rate for the UK economy

  Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment

- Discount rate, which is based on third party estimates of the implied industry cost of capital. The pre-tax discount rate applied to the cash flow projection is 13.2% (2020: 14.2%)

Management believes any reasonably possible change in the key assumptions above would not cause the recoverable amount of the development finance CGU to fall below the balance sheet carrying value. This was also the case in the testing carried out at 30 September 2020.

(c) TBMC

The goodwill carried in the accounts relating to the TBMC CGU was recognised on an acquisition in December 2008 and impaired by £6.0m in 2009.

An impairment review was undertaken at 30 September 2021 which indicated no further impairment. The recoverable amount of the TBMC CGU used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board covering a five year period. The pre-tax discount rate applied to the cash flow projection is 4.94% (2020: 4.41%) and cash flows beyond the five year budget are extrapolated using a 1.6% (2020: 1.6%) growth rate, being the average long term growth rate in the UK economy over a twenty year period.

The key assumptions underlying the value in use calculation for the TBMC business are:

- Level of business activity, based on management expectations. Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment

- Discount rate, which is based on market rates of interest plus a margin appropriate to the risk profile of the TBMC business as an investment

The directors believe that no reasonably possible change in any of the key assumptions above would cause the recoverable value of the CGU to fall below its balance sheet carrying value. This was also the case at 30 September 2020.

25. Investment in subsidiary undertakings

	Shares in group companies	Loans to group companies	Loans to ESOP Trusts	Total
	£m	£m	£m	£m
At 30 September 2019	640.5	300.0	0.2	940.7
Capital distributions	(15.6)	-	-	(15.6)
Loans advanced	-	90.0	4.7	94.7
Loans repaid	-	-	-	-
Provision movements	14.7	-	(4.4)	10.3
At 30 September 2020	639.6	390.0	0.5	1,030.1
Capital distributions	(0.7)	-	-	(0.7)
Loans advanced	-	256.0	3.9	259.9
Loans repaid	-	(306.5)	-	(306.5)
Provision movements	(0.2)	-	(4.1)	(4.3)
At 30 September 2021	**638.7**	**339.5**	**0.3**	**978.5**

During the years ended 30 September 2021 and 30 September 2020, the Group carried out capital reductions in various non-trading subsidiaries. Dividends were paid, or capital was distributed to the parent and the investments above were written off as a result of the reduction in these entities' net assets.

During the year ended 30 September 2021 the Company received £97.8m in dividend income from its subsidiaries (2020: £113.9m) and £22.5m of interest on loans to group companies (2020: £18.2m).

The Company's subsidiaries, and the nature of its interest in them, are shown in note 66.

26. Retail deposits

The Group's retail deposits, held by Paragon Bank PLC, were received from customers in the UK and are denominated in sterling. The deposits comprise principally term deposits, and notice and easy access accounts. The method of interest calculation on these deposits is analysed as follows:

	2021	2020	2019
	£m	£m	£m
Fixed rate	**5,466.0**	4,975.9	4,154.4
Variable rates	**3,834.4**	2,880.7	2,237.5
	9,300.4	7,856.6	6,391.9

The weighted average interest rate on retail deposits at 30 September 2021, analysed by charging method, was:

	2021	2020	2019
	%	%	%
Fixed rate	**1.25**	1.69	2.02
Variable rates	**0.42**	0.72	1.43
All deposits	**0.91**	1.34	1.81

The contractual maturity of these deposits is analysed below.

	2021	2020	2019
	£m	£m	£m
Amounts repayable			
In less than three months	**789.0**	565.0	466.6
In more than three months, but not more than one year	**3,105.4**	2,725.6	2,088.4
In more than one year, but not more than two years	**1,580.1**	1,541.6	1,158.0
In more than two years, but not more than five years	**507.4**	664.8	900.9
Total term deposits	**5,981.9**	5,497.0	4,613.9
Repayable on demand	**3,318.5**	2,359.6	1,778.0
	9,300.4	7,856.6	6,391.9
Fair value adjustments for portfolio hedging (note 19)	**(3.0)**	10.4	3.9
	9,297.4	7,867.0	6,395.8

27. Asset backed loan notes

The Group's asset backed loan notes ('Notes') are rated and publicly listed and are secured on portfolios comprising variable and fixed rate mortgages. The maturity date of the Notes matches the maturity date of the underlying assets. The Notes can be prepaid in part from time to time, but such prepayments are limited to the net capital received from borrowers in respect of the underlying assets. There is no requirement for the Group to make good any shortfall on the Notes out of general funds. It is likely that a substantial proportion of the Notes will be repaid within five years.

The Group also has an option to repay all the Notes on any issue at an earlier date (the 'call date'), at their outstanding principal amount.

During the year ended 30 September 2021 interest was payable at a fixed margin above:

- LIBOR on notes denominated in sterling, other than notes issued by Paragon Mortgages (No. 26) PLC, Paragon Mortgages (No. 27) PLC and Paragon Mortgages (No. 28) PLC
- The compounded Sterling Overnight Interbank Average Rate ('SONIA') on notes denominated in sterling issued by Paragon Mortgages (No. 26) PLC, Paragon Mortgages (No. 27) PLC and Paragon Mortgages (No. 28) PLC
- EURIBOR on notes denominated in EUR
- The London Interbank Offered Rate ('US dollar LIBOR') on notes denominated in US dollars

At 30 September 2021 all notes remaining in issue paid interest at rates referencing SONIA, other than those issued by Paragon Mortgages (No. 25) PLC, where LIBOR was used. An agreement for the transition of this arrangement to a SONIA basis was completed in the year, and is described below.

The Group therefore has no remaining loan note liabilities which will be affected by the withdrawal of IBOR rates, including LIBOR.

All payments in respect of the Notes are required to be made in the currency in which they are denominated.

The Group publishes detailed information on the performance of all its note issues on the Bond Investor Reporting section of its website at www.paragonbankinggroup.co.uk. A more detailed description of the securitisation structure under which these Notes are issued is given in note 56.

On 11 November 2020, a group company, Paragon Mortgages (No. 28) PLC, issued £703.1m of sterling mortgage backed floating rate notes, analysed below, at par.

Class	**Fitch rating**	**Moody's rating**	**Interest margin above compounded SONIA**	**Principal value £m**
A	AAA	Aaa	0.95%	623.8
B	AA	Aa1	1.35%	39.7
C	A	Aa3	1.65%	21.6
D	BBB	Baa1	1.95%	18.0
				703.1

All the above notes were retained by the Group.

Notes in issue at 30 September 2020 and 30 September 2019, net of any held by the Group, were:

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
			2021	2020	**2021**	2020
Sterling notes			**£m**	£m	**%**	%
Interest based on LIBOR						
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**-**	221.1	**-**	0.15
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**-**	416.4	**-**	0.27
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**-**	390.0	**-**	0.23
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**-**	108.5	**-**	0.30
Paragon Mortgages (No. 25) PLC	15/05/50	15/05/23	**338.9**	379.4	**0.73**	0.72
Interest based on SONIA						
Paragon Mortgages (No. 26) PLC	15/05/45	15/08/24	**179.2**	231.3	**1.05**	1.05
Paragon Mortgages (No. 27) PLC†	15/04/47	15/10/25	**-**	-	**-**	-
Paragon Mortgages (No. 28) PLC†	15/12/47	15/12/25	**-**	-	**-**	-
US dollar notes			**$m**	$m	**%**	%
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**-**	134.6	**-**	0.18
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**-**	150.7	**-**	0.20
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**-**	502.1	**-**	0.19
EUR notes			**€m**	€m	**%**	%
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**-**	**182.4**	**-**	**0.54**
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**-**	**268.3**	**-**	**0.42**
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**-**	**317.0**	**-**	**0.48**
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**-**	**244.0**	**-**	**0.73**

† All notes issued by Paragon Mortgages (No. 27) and Paragon Mortgages (No. 28) were retained by the Group (see note 56)

The details of the assets backing these securities are given in note 16.

On 25 August 2021 an agreement was reached with the senior noteholders of Paragon Mortgages (No. 25) PLC to transition to a SONIA-linked basis for interest charging, effective from the interest payment date on 15 February 2022. From that date the notes will bear interest calculated with reference to SONIA rather than LIBOR and the note margins will be increased by 0.12% in line with the ISDA fallback adjustment rate. Other terms of the notes remain unchanged. The agreement also provided for the transition of hedging arrangements in the securitisation to a SONIA basis.

During the year, the Group redeemed all of the outstanding notes of the following securitisations at par:

- Paragon Mortgages (No. 11) PLC on 15 October 2020
- Paragon Mortgages (No. 13) PLC on 15 April 2021
- Paragon Mortgages (No. 14) PLC on 15 June 2021
- Paragon Mortgages (No. 15) PLC on 15 December 2020

The underlying assets were subsequently funded by other group companies.

On 26 June 2019, the Group disposed of its beneficial interest in the Paragon Mortgages (No. 12) PLC securitisation. At that point, the FRN liabilities were derecognised by the Group, although the notes remain in issue. The Group's continuing involvement in the transaction is described in note 45.

28. Bank borrowings

New first mortgage loans may be financed by a secured bank loan, referred to as a 'warehouse facility'. The Group's warehouse facilities may also be used to acquire accounts from other group companies to be held on a temporary basis as part of the Group's overall management of funding and liquidity. Such internal transfers are on a no gain / no loss basis.

These facilities are drawn on the completion or acquisition of a mortgage and repayment of the facilities is restricted to the principal cash received in respect of the funded mortgages. Loans held in warehouse facilities are refinanced in the mortgage backed securitisation market when conditions are appropriate or through internal sales to access retail funding. More information on this process is given in note 56 and details of assets held within the warehouse facilities are given in note 16. Details of the Group's bank borrowings are set out below.

		2021			2020		
		Principal value	**Maximum available facility**	**Carrying value**	Principal value	Maximum available facility	Carrying value
		£m	**£m**	**£m**	£m	£m	£m
i)	Paragon Second Funding	**529.0**	**529.0**	**529.0**	657.8	657.8	657.8
ii)	Paragon Seventh Funding	**201.0**	**400.0**	**201.0**	-	400.0	-
		730.0	**929.0**	**730.0**	657.8	1,057.8	657.8

i) The Paragon Second Funding warehouse was available for further drawings until 29 February 2008 at which point it converted automatically to a term loan and no further drawings were allowed. This loan is a sterling facility provided to Paragon Second Funding Limited by a consortium of banks and is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance (1) Limited and Paragon Personal Finance (1) Limited. Its final repayment date is 28 February 2050, but it is likely that substantial repayments will be made within the next five years. Interest on this loan was payable monthly at 0.675% above LIBOR until 26 February 2021 and at 0.704% above SONIA thereafter.

ii) On 14 November 2018, a £200.0m warehouse funding facility was agreed between Paragon Seventh Funding Limited and Bank of America Merrill Lynch. The facility is secured over all the assets of Paragon Seventh Funding Limited, with a 12 month commitment period. This was renewed for 12 months on 24 October 2019 and was increased to £400.0m and renewed for a further 18 month commitment on 25 September 2020. Interest was payable at 0.95% over three month LIBOR up to 25 September 2020, 1.05% over three month LIBOR between that date and 25 March 2021 and 0.60% over three month LIBOR thereafter. The renewal also included terms on which the reference rate would be transitioned to SONIA during the commitment period.

On 8 November 2021, after the year end, revisions to the facility were agreed extending the commitment period for an initial 13-month period with the ability to extend monthly until a potential final maturity date of 24 November 2024. The maximum drawing was increased to £450.0m and the interest rate payable was transitioned to 0.5% above SONIA.

29. Retail bonds

On 11 February 2013 the Company inaugurated a £1,000.0m Euro Medium Term Note Programme under which it may issue retail bonds, or other notes, within a twelve-month period. The prospectus has been updated from time to time, most recently renewing the programme for a further twelve-month period on 15 July 2016, but may be further extended in the future.

The terms of issue for each tranche of notes are separately determined. These bonds are listed on the London Stock Exchange and have a fixed term, but are callable at the option of the Company. A summary of the retail bonds outstanding under this programme, shown with their principal values, is set out below.

Maturity date	**Interest terms**	**Issue price**	**Currency**	**2021**	2020
				£m	£m
5 December 2020	6.000% p.a. fixed	par	GBP	**-**	60.0
30 January 2022	6.125% p.a. fixed	par	GBP	**125.0**	125.0
28 August 2024	6.000% p.a. fixed	par	GBP	**112.5**	112.5
				237.5	297.5

The notes are unsubordinated unsecured liabilities of the Company and the amount included in the accounts of the Group and the Company in respect of these bonds is £237.1m (2020: £296.8m), of which £125.0m falls due within one year (2020: £60.0m).

30. Corporate bonds

On 25 March 2021 the Company issued £150.0m of Fixed Rate Callable Subordinated Tier-2 Notes due 2031 at par. These Notes bear interest at a rate of 4.375% per annum until 25 September 2026 after which interest will be payable at a reset rate which is 3.956% over that payable on UK Government bonds of similar duration at that time. These Notes are callable at the option of the Company between 25 June 2026 and 25 September 2026 and may be called at any time in the event of certain tax or regulatory changes. The Notes are unsecured and subordinated to all creditors of the Company. The Notes are rated BB+ by Fitch. The proceeds of the Notes are utilised in accordance with the Group's Green Bond Framework, which is available on its investor website.

At the same time as this issuance the Group purchased £130.9m of nominal value of its 2016 Tier-2 Notes by market tender for a total consideration of £134.6m. These Notes were derecognised and the premium paid taken to profit and loss as interest payable and similar charges. The remaining 2016 Bonds were redeemed at par at their call date in September 2021.

The redeemed notes were issued on 9 September 2016 and comprised £150.0m of 7.25% Fixed Rate Reset Callable Subordinated Tier-2 Notes due 2026 at par, issued to provide long term capital for the Group. These bonds bore interest at a fixed rate of 7.25% per annum until 9 September 2021, after which interest would have been payable at a fixed rate which was 6.731% over the sterling 5-year mid-market swap rate at that time. These bonds were unsecured and subordinated to any other creditors of the Company. At 30 September 2019 the Notes were rated BBB- by Fitch and, during the year ended 30 September 2020, the Notes were downgraded to BB+ following the application of updated bank rating criteria.

The carrying value of corporate bonds in the accounts of the Group and the Company at 30 September 2021 was £149.0m (2020: £149.8m).

31. Central bank facilities

During the year, the Group has utilised facilities provided by the Bank of England including through its Sterling Monetary Framework. These facilities enable either funding or off balance sheet liquidity to be provided to Paragon Bank PLC ('Paragon Bank' or 'the Bank') on the security of designated pools of the Bank's first mortgage assets and/or the retained Notes described in note 56, with the amount available based on the value of the security given, subject, where appropriate, to a haircut.

Drawings under the Term Funding Scheme for SMEs ('TFSME') have a maturity of four years and bear interest at BBR. The average remaining maturity of the Group's drawings is 40 months (2020: 46 months). As these drawings were provided at rates below those available commercially, by a government agency, they were accounted for under IAS 20.

Drawings under the original Term Funding Scheme ('TFS') have a maturity of four years and bear interest at BBR. The average remaining maturity of the Group's drawings at 30 September 2021 was 4 months (2020: 9 months). As these drawings were provided at rates below those available commercially, by a government agency, they were accounted for under IAS 20. The TFS is no longer available for new drawings.

Drawings under the Indexed Long-Term Repo Scheme ('ILTR') have a maturity of six months and a rate of interest set in an auction process. While the Group did not access the ILTR during the year, it retains access to this programme for liquidity purposes.

During the year ended 30 September 2020, the Group also accessed the Contingent Term Repo Facility ('CTRF'), which was a temporary short-term facility for collateralised drawings introduced by the Bank of England in response to the Covid pandemic.

Drawings under the Funding for Lending Scheme ('FLS') were used to provide off balance sheet liquidity and formed part of the Bank's High Quality Liquid Assets ('HQLA'). Fees were charged under the FLS at 0.25% of the market value of the liquidity drawn and the facility expired in June 2020.

The amounts drawn under these facilities are set out below.

	2021	2020
	£m	£m
TFSME	**2,750.0**	910.0
TFS	**69.0**	944.4
ILTR	**-**	-
Total central bank facilities	**2,819.0**	1,854.4

At 30 September 2021 £69.0 million of TFS borrowings were due within one year (2020: £700.0m). All TFSME borrowings fall due after more than one year.

Following the year end all the TFSME borrowings were repaid and redrawn, extending the maturity date to 21 October 2025.

Further first mortgage assets of the Bank have been pre-positioned with the Bank of England for future use in such schemes and eligible retained Notes can also be used to support this funding (note 56). The mortgage assets pledged in support of these drawings are set out in note 16.

The balances arising from the TFSME and TFS carried in the Group accounts are shown below.

	2021	**2021**	2020	2020
	£m	**£m**	£m	£m
TFSME at IAS 20 carrying value	**2,657.8**		874.1	
Deferred government assistance	**92.2**		35.9	
		2,750.0		910.0
TFS at IAS 20 carrying value	**68.7**		937.5	
Deferred government assistance	**0.3**		6.9	
		69.0		944.4
		2,819.0		1,854.4

32. Sundry liabilities

(a) The Group

	2021	2020	2019
	£m	£m	£m
Current liabilities			
Accrued interest	**22.2**	29.2	37.4
Trade creditors	**1.4**	1.6	0.9
Other accruals	**33.1**	29.5	29.7
Sundry financial liabilities at amortised cost	**56.7**	60.3	68.0
Contingent consideration (note 33)	**4.6**	3.2	2.2
Sundry financial liabilities	**61.3**	63.5	70.2
Lease payables (note 34)	**1.5**	1.5	-
Deferred income	**3.3**	1.0	1.3
Conduct (note 35)	**-**	-	-
Other taxation and social security	**2.5**	3.3	2.4
	68.6	69.3	73.9
Non-current liabilities			
Accrued interest	**9.5**	14.3	14.9
Other accruals	**-**	-	0.2
Sundry financial liabilities at amortised cost	**9.5**	14.3	15.1
Contingent consideration (note 33)	**2.9**	10.3	21.5
Sundry financial liabilities	**12.4**	24.6	36.6
Lease payables (note 34)	**8.0**	4.1	-
Deferred income	**1.7**	2.0	2.2
	22.1	30.7	38.8
Total sundry financial liabilities at amortised cost	**66.2**	74.6	83.1
Total sundry financial liabilities at fair value	**7.5**	13.5	23.7
Total other sundry liabilities	**17.0**	11.9	5.9
Total sundry liabilities	**90.7**	100.0	112.7

(b) The Company

	2021	2020	2019
	£m	£m	£m
Current liabilities			
Amounts owed to Group companies	**22.6**	22.7	23.8
Accrued interest	**2.0**	2.9	3.6
Other financial liabilities	**1.0**	-	-
Sundry financial assets at amortised cost	**25.6**	25.6	27.4
Lease payables (note 34)	**1.3**	1.2	-
	26.9	26.8	27.4
Non-current liabilities			
Lease payables (note 34)	**15.0**	16.3	-
Total sundry liabilities	**41.9**	43.1	27.4

33. Contingent consideration

The contingent consideration represents consideration payable in respect of corporate acquisitions which is dependent on the performance of the acquired businesses. Movements in the balance are set out below.

	2021	2020
	£m	£m
At 1 October 2020	**13.5**	23.7
Payments	**(2.5)**	(4.4)
Revaluation	**(3.8)**	(6.2)
Unwind of discounting (note 5)	**0.3**	0.4
At 30 September 2021 (note 32)	**7.5**	13.5

The write down is a result of the reconsideration of future business volumes following the impact of Covid, and the impact of the speed of post-Covid recovery on the contingent consideration calculation.

34. Lease payables

The Group's lease liabilities arise under the leasing arrangements described in note 46. Related right of use assets are shown in note 22.

	The Group		The Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Leasing liabilities falling due:				
In more than five years	**2.3**	0.6	**9.6**	11.0
In more than two but less than five years	**3.8**	2.4	**4.1**	4.0
In more than one year but less than two years	**1.9**	1.1	**1.3**	1.3
In more than one year (note 32)	**8.0**	4.1	**15.0**	16.3
In less than one year (note 32)	**1.5**	1.5	**1.3**	1.2
	9.5	5.6	**16.3**	17.5

35. Conduct

The Group, as a participant in the financial services industry, is exposed to a high level of regulatory supervision, which could in the event of conduct failures expose it to financial liabilities. The Group maintains a strong compliance and conduct culture, supervised by the second line compliance function, to mitigate the risk, although it is impossible to eliminate it entirely.

The regulatory environment continues to develop, through regulatory policies, legislative rules and court rulings, and while the Group's assessment is that it currently has no further potential liability for conduct issues, this is based on our current interpretation of requirements and hence further liabilities may arise as these develop over time.

36. Current tax liabilities / assets

Current tax in the Group and the Company represents UK corporation tax owed or recoverable.

37. Called-up share capital

The share capital of the Company consists of a single class of £1 ordinary shares.

Movements in the issued share capital in the year were:

	2021	2020
	Number	Number
Ordinary shares		
At 1 October 2020	**261,777,972**	261,573,351
Shares issued	**717,213**	204,621
Shares cancelled	**-**	-
At 30 September 2021	**262,495,185**	261,777,972

During the year, the Company issued 717,213 shares (2020: 204,621) to satisfy options granted under Sharesave schemes for a consideration of £2,196,934 (2020: £585,315).

On 24 November 2021, after the year end 12,100,834 shares, held in treasury at 30 September 2021 were cancelled.

38. Reserves

(a) The Group

	2021	2020	2019
	£m	£m	£m
Share premium account	**70.1**	68.7	68.3
Capital redemption reserve	**50.3**	50.3	50.3
Merger reserve	**(70.2)**	(70.2)	(70.2)
Cash flow hedging reserve (note 19)	**-**	2.5	3.0
Profit and loss account	**1,005.9**	880.7	835.9
	1,056.1	932.0	887.3

(b) The Company

	2021	2020	2019
	£m	£m	£m
Share premium account	**70.1**	68.7	68.3
Capital redemption reserve	**50.3**	50.3	50.3
Merger reserve	**(23.7)**	(23.7)	(23.7)
Profit and loss account	**358.9**	319.1	256.3
	455.6	414.4	351.2

The merger reserve arose, due to the provisions of UK company law at the time, on a group restructuring on 12 May 1989 when the Company became the parent entity of the Group.

39. Own shares

	The Group		The Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Treasury shares				
At 1 October 2020	**23.0**	23.0	**23.0**	23.0
Shares purchased	**37.7**	-	**37.7**	-
Shares cancelled	**-**	-	**-**	-
At 30 September 2021	**60.7**	23.0	**60.7**	23.0
ESOP shares				
At 1 October 2020	**14.8**	17.5	**-**	-
Shares purchased	**4.5**	5.2	**-**	-
Options exercised	**(3.3)**	(7.9)	**-**	-
At 30 September 2021	**16.0**	14.8	**-**	-
Balance at 30 September 2021	**76.7**	37.8	**60.7**	23.0
Balance at 1 October 2020	**37.8**	40.5	**23.0**	23.0

At 30 September 2021 the number of the Company's own shares held in treasury was 12,100,834 (2020: 5,218,702). These shares had a nominal value of £12,100,834 (2020: £5,218,702). These shares do not qualify for dividends. All these shares were cancelled on 24 November 2021, after the year end.

The ESOP shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon PSP and Deferred Share Bonus Plan. The trustees' costs are included in the operating expenses of the Group.

At 30 September 2021, the trust held 3,732,324 ordinary shares (2020: 3,636,218) with a nominal value of £3,732,324 (2020: £3,636,218) and a market value of £20,359,827 (2020: £12,108,606). Options, or other share-based awards, were outstanding against all of these shares at 30 September 2021 (2020: all). The dividends on all these shares have been waived (2020: all).

40. Equity dividend

Amounts recognised as distributions to equity shareholders in the Group and the Company in the period:

	2021	2020	**2021**	2020
	Per share	Per share	**£m**	£m
Equity dividends on ordinary shares				
Final dividend for the previous year	**14.4p**	14.2p	**36.5**	35.9
Interim dividend for the current year	**7.2p**	-	**18.1**	-
	21.6p	14.2p	**54.6**	35.9

Amounts paid and proposed in respect of the year:

	2021	2020	**2021**	2020
	Per share	Per share	**£m**	£m
Interim dividend for the current year	**7.2p**	-	**18.1**	-
Proposed final dividend for the current year	**18.9p**	14.4p	**46.6**	36.4
	26.1p	14.4p	**64.7**	36.4

The proposed final dividend for the year ended 30 September 2021 will be paid on 4 March 2022, subject to approval at the AGM, with a record date of 28 January 2022. The dividend will be recognised in the accounts when it is paid.

41. Net cash flow from operating activities

(a) The Group

	2021	2020
	£m	£m
Profit before tax	**213.7**	118.4
Non-cash items included in profit and other adjustments:		
Depreciation of operating property, plant and equipment	**4.3**	3.5
Profit on disposal of operating property, plant and equipment	**0.1**	-
Amortisation of intangible assets	**2.0**	2.0
Movements related to asset backed loan notes denominated in currency	**(442.3)**	(136.8)
Other non-cash movements on borrowings	**2.5**	1.5
Impairment losses on loans to customers	**(4.7)**	48.3
Charge for share based remuneration	**8.9**	2.7
Net (increase) / decrease in operating assets:		
Assets held for leasing	**0.2**	(3.2)
Loans to customers	**(766.6)**	(493.6)
Derivative financial instruments	**419.1**	129.1
Fair value of portfolio hedges	**104.2**	(45.5)
Other receivables	**58.8**	(35.6)
Net increase / (decrease) in operating liabilities:		
Retail deposits	**1,443.8**	1,464.7
Derivative financial instruments	**(88.5)**	51.9
Fair value of portfolio hedges	**(13.4)**	6.5
Other liabilities	**(15.7)**	(39.1)
Cash generated by operations	**926.4**	1,074.8
Income taxes (paid)	**(48.3)**	(46.1)
	878.1	1,028.7

Cash flows relating to plant and equipment held for leasing under operating leases are classified as operating cash flows.

(b) The Company

	2021	2020
	£m	£m
Profit before tax	**84.0**	93.7
Non-cash items included in profit and other adjustments:		
Depreciation on property, plant and equipment	**1.4**	1.4
Non-cash movements on borrowings	**4.3**	0.5
Impairment provision / (release) on investments in subsidiaries	**4.3**	5.3
Charge for share based remuneration	**8.9**	2.7
Net decrease in operating assets:		
Other receivables	**11.5**	22.7
Net (decrease) in operating liabilities:		
Other liabilities	**-**	(1.8)
Cash generated by operations	**114.4**	124.5
Income taxes received	**1.5**	5.3
	115.9	129.8

42. Net cash flow from investing activities

	The Group		The Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Proceeds from sales of operating property, plant and equipment	**-**	0.1	**-**	-
Purchases of operating property, plant and equipment	**(1.9)**	(1.9)	**-**	-
Purchases of intangible assets	**(2.4)**	(1.0)	**-**	-
Movement in loans to subsidiary undertakings	-	-	**47.3**	(94.7)
Net cash (utilised) / generated by investing activities	**(4.3)**	(2.8)	**47.3**	(94.7)

43. Net cash flow from financing activities

	The Group		The Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Shares issued (note 37)	**2.1**	0.6	**2.1**	0.6
Dividends paid (note 40)	**(54.6)**	(35.9)	**(54.6)**	(35.9)
Issue of Tier-2 bond	**148.9**	-	**148.9**	-
Repayment of asset backed floating rate notes	**(2,313.1)**	(1,013.3)	-	-
Repayment of Tier-2 bond	**(153.7)**	-	**(153.7)**	-
Repayment of retail bond	**(60.0)**	-	**(60.0)**	-
Movement on central bank facilities	**964.6**	860.0	-	-
Movement on other bank facilities	**71.9**	(130.1)	-	-
Capital element of lease payments	**(2.5)**	(2.0)	**(1.2)**	(1.3)
Purchase of shares (note 39)	**(42.2)**	(5.2)	**(37.7)**	-
Sale of shares	-	0.2	-	-
Net cash (utilised) by financing activities	**(1,438.6)**	(325.7)	**(156.2)**	(36.6)

44. Reconciliation of net debt

(a) The Group

		Cash flows		Non-cash movements			
	Opening debt	Debt issued	Other	Recognition	Currency loan notes	Other	Closing debt
	£m	£m	£m	£m	£m	£m	£m
30 September 2021							
Asset backed loan notes	**3,270.5**	-	**(2,313.1)**	-	**(442.3)**	**0.9**	**516.0**
Bank borrowings	**657.8**	-	**71.9**	-	-	**0.3**	**730.0**
Corporate bonds	**149.8**	**148.9**	**(153.7)**	-	-	**4.0**	**149.0**
Retail bonds	**296.8**	-	**(60.0)**	-	-	**0.3**	**237.1**
Central bank borrowings	**1,854.4**	-	**964.6**	-	-	**-**	**2,819.0**
Lease liabilities	**5.6**	-	**(2.5)**	-	-	**6.4**	**9.5**
Bank overdrafts	**0.4**	-	**(0.1)**	-	-	-	**0.3**
Gross debt	**6,235.3**	**148.9**	**(1,492.9)**	-	**(442.3)**	**11.9**	**4,460.9**
Cash	**(1,925.0)**	**(148.9)**	**713.8**	-	-	-	**(1,360.1)**
Net debt	**4,310.3**	-	**(779.1)**	-	**(442.3)**	**11.9**	**3,100.8**
30 September 2020							
Asset backed loan notes	4,419.4	-	(1,013.3)	-	(136.8)	1.2	3,270.5
Bank borrowings	787.5	-	(130.1)	-	-	0.4	657.8
Corporate bonds	149.6	-	-	-	-	0.2	149.8
Retail bonds	296.5	-	-	-	-	0.3	296.8
Central bank borrowings	994.4	-	860.0	-	-	-	1,854.4
Lease liabilities	-	-	(2.0)	7.3	-	0.3	5.6
Bank overdrafts	1.0	-	(0.6)	-	-	-	0.4
Gross debt	6,648.4	-	(286.0)	7.3	(136.8)	2.4	6,235.3
Cash	(1,225.4)	-	(699.6)	-	-	-	(1,925.0)
Net debt	5,423.0	-	(985.6)	7.3	(136.8)	2.4	4,310.3

Other cash movements relating to currency loan notes shown above relate to the settlement and translation of asset backed loan notes denominated in US dollars and euros (note 27), which are cashflow hedged under the arrangements described in note 19(b). The effect of these borrowings is described further in note 58. None of these notes remained outstanding at 30 September 2021.

Other non-cash changes shown above represent:

- EIR adjustments relating to the spreading of initial costs of the facilities concerned
- Premiums on redemptions of corporate bonds
- Inception of new lease assets under IFRS 16

Non-cash movements arising from recognition in the year ended 30 September 2020 include amounts recognised on transition to IFRS 16.

(b) The Company

	Opening debt	Debt issued	Other	Recognition	Other	Closing debt
		Cash flows		Non-cash movements		
	£m	£m	£m	£m	£m	£m
30 September 2021						
Corporate bonds	**149.8**	**148.9**	**(153.7)**	**-**	**4.0**	**149.0**
Retail bonds	**296.8**	**-**	**(60.0)**	**-**	**0.3**	**237.1**
Lease liabilities	**17.5**	**-**	**(1.2)**	**-**	**-**	**16.3**
Gross debt	**464.1**	**148.9**	**(214.9)**	**-**	**4.3**	**402.4**
Cash	**(12.6)**	**(148.9)**	**141.9**	**-**	**-**	**(19.6)**
Net debt	**451.5**	-	**(73.0)**	**-**	**4.3**	**382.8**
30 September 2020						
Corporate bonds	149.6	-	-	-	0.2	149.8
Retail bonds	296.5	-	-	-	0.3	296.8
Lease liabilities	-	-	(1.3)	18.8	-	17.5
Gross debt	446.1	-	(1.3)	18.8	0.5	464.1
Cash	(14.1)	-	1.5	-	-	(12.6)
Net debt	432.0	-	0.2	18.8	0.5	451.5

Other non-cash changes shown above represent EIR adjustments relating to the spreading of initial costs of the bonds and premium paid on redemption. Recognition includes amounts recognised on transition to IFRS 16 in the year ended 30 September 2020.

45. Unconsolidated structured entities

Following the Group's disposal of its residual interest in the Paragon Mortgages (No. 12) PLC securitisation in June 2019, it ceased to consolidate the assets and liabilities of the entity. The external securitisation borrowings remain in place with their terms unchanged and the Group 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.

Fee income from servicing arrangements of £1.6m is included in third party servicing fees (note 7) (2020: £1.9m) and £0.3m is included in other debtors in respect of unpaid fees at the year end (2020: £0.3m). Outstanding collection monies due to the structured entity of £0.3m are included in other creditors at 30 September 2021 (2020: £0.4m).

46. Leasing arrangements

(a) As Lessor

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

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

Disclosure	Note
Investment in finance leases	**17**
Finance income on net investment in finance leases	**4**
Assets leased under operating leases	**22**
Operating lease income	**6**

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

	2021	2020
	£m	£m
Amounts falling due:		
Within one year	**11.4**	12.4
Within one to two years	**6.8**	6.8
Within two to three years	**4.8**	4.3
Within three to four years	**3.3**	2.9
Within four to five years	**1.9**	1.7
After more than five years	**1.0**	1.3
	29.2	29.4

(b) As Lessee

The Group's use of leases as a lessee relates to the rental of office buildings and company cars. Under IFRS 16 these have been accounted for as right of use assets and corresponding lease liabilities.

The average term of the current building leases from inception or acquisition is 9 years (2020: 9 years) with rents subject to review every five years, while the average term of the vehicle leases is 3 years (2020: 3 years).

The Company's use of leases as lessee is limited to the rental of an office building from a subsidiary entity. The lease term from inception is 15 years.

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

Disclosure	Note
Depreciation on right of use assets	**22**
Interest expense on lease liabilities	**5**
Expense relating to short-term leases	**8**
Additions to right of use assets	**22**
Carrying amount of right of use assets	**22**
Maturity analysis of lease liabilities	**56**

There was no subleasing of any right of use asset and the total cash flows relating to leasing as a lessee were £2.0m (2020: £2.2m).

47. Related party transactions

(a) The Group

During the year, certain non-executive directors of the Group were beneficially interested in savings deposits made with Paragon Bank, on the same terms as were available to members of the public. Deposits of £16,000 were outstanding at the year-end (2020: £301,000), and the maximum amount outstanding during the year was £301,000 (2020: £500,000).

The Paragon Pension Plan ('the Plan') is a related party of the Group. Transactions with the Plan are described in note 52.

The Group had no other transactions with related parties other than the key management compensation disclosed in note 50.

(b) The Company

During the year, the parent company entered into transactions with its subsidiaries, which are related parties. Management services were provided to the Company by one of its subsidiaries and the Company granted awards to employees of subsidiary undertakings under the share based payment arrangements described in note 51.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 25 and 66.

Outstanding current account balances with subsidiaries are shown in notes 20 and 32.

During the year the Company incurred interest costs of £0.8m in respect of borrowings from its subsidiaries (2020: £1.0m).

The Company leased an office building from a subsidiary entity (note 46). Finance charges recognised in respect of this lease were £0.5m (2020: £0.5m).

48. Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of CRD IV. The objective of the country-by-country reporting requirements is to provide increased transparency regarding the source of the financial institution's income and the locations of its operations.

Paragon Banking Group PLC is a UK registered entity. Details of its subsidiaries are given in note 66 and the activities of the Group are described in Section A2.1.

The activities of the Group, described as required by the Regulations for the year ended 30 September 2021 were:

	United Kingdom
	£m
Year ended 30 September 2021	
Total operating income	**324.9**
Profit before tax	**213.7**
Corporation tax paid	**48.3**
Public subsidies received	-
Average number of full time equivalent employees	**1,327**

	United Kingdom
	£m
Year ended 30 September 2020	
Total operating income	**295.1**
Profit before tax	**118.4**
Corporation tax paid	**46.1**
Public subsidies received	**-**
Average number of full time equivalent employees	**1,285**

The Group's participation in Bank of England funding schemes is set out in note 31.

D2.2 Notes to the Accounts – Employment costs

For the year ended 30 September 2021

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

49. Employees

The average number of persons (including directors) employed by the Group during the year was 1,426 (2020: 1,385). The number of employees at the end of the year was 1,441 (2020: 1,391).

Costs incurred during the year in respect of these employees were:

	2021	**2021**	2020	2020
	£m	**£m**	£m	£m
Share based remuneration	**8.9**		2.7	
Other wages and salaries	**65.1**		64.0	
Total wages and salaries		**74.0**		66.7
National Insurance on share based remuneration	**2.4**		(0.1)	
Other social security costs	**8.3**		8.0	
Total social security costs		**10.7**		7.9
Defined benefit pension cost	**1.8**		2.0	
Other pension costs	**3.7**		3.1	
Total pension costs		**5.5**		5.1
Total employment costs		**90.2**		79.7
Of which				
Included in operating expenses (note 8)		**87.9**		77.6
Included in maintenance costs (note 6)		**2.3**		2.1
		90.2		79.7

Details of the pension schemes operated by the Group are given in note 52.

The Company has no employees. Details of the directors' remuneration are given in note 50.

50. Key management remuneration

The remuneration of the directors, who are the key management personnel of the Group and the Company, is set out below in aggregate in accordance with IAS 24 – 'Related Party Transactions'. Further information about the remuneration of individual directors is provided in the Annual Report on Remuneration in Section B7.2.2.

	2021	**2021**	2020	2020
	£m	**£m**	£m	£m
Salaries and fees	**1.9**		1.9	
Cash amount of bonus	**0.7**		-	
Social security costs	**0.3**		0.5	
Short-term employee benefits		**2.9**		2.4
Post-employment benefits		**0.2**		0.3
IFRS 2 cost in respect of directors	**1.5**		0.7	
National Insurance thereon	**0.3**		(0.1)	
Share based payment		**1.8**		0.6
		4.9		3.3

Post-employment benefits shown above are shown as 'pension allowance' in Section B7.2.2. Costs in respect of share awards shown in the Annual Report on Remuneration are determined on a different basis to the IFRS 2 charge shown above.

Directors' bonuses in the year ended 30 September 2020 were entirely deferred in shares, in response to the Covid pandemic. Normal payment arrangements have resumed in the current year. The negative charge in respect of National Insurance accrued on share-based payments in 2020 is principally a result of reduced vesting estimates.

Social security costs paid in respect of directors are required to be included in this note by IAS 24, but do not fall within the scope of the disclosures in the Annual Report on Remuneration.

51. Share based remuneration

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

The effect of the share based payment arrangements on the Group's profit is shown in note 49.

Further details of share based payment arrangements are given in the Annual Report on Remuneration in Section B7.2.2.

A summary of the number of share awards outstanding under each scheme at 30 September 2021 and at 30 September 2020 is set out below.

	2021	2020
	Number	Number
(a) Sharesave Plan	**3,561,675**	4,134,577
(b) Performance Share Plan	**5,375,494**	4,842,196
(c) Company Share Option Plan	**241,574**	444,771
(d) Deferred Bonus Plan	**1,387,137**	819,265
(e) Restricted Stock Units	**273,193**	265,672
	10,839,073	10,506,481

(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 Sharesave options over £1 ordinary shares during the year ended 30 September 2021 and the year ended 30 September 2020 is shown below.

	2021	**2021**	2020	2020
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		p		p
Options outstanding				
At 1 October 2020	**4,134,577**	**295.40**	2,558,569	338.06
Granted in the year	**432,095**	**424.00**	2,748,494	278.56
Exercised or surrendered in the year	**(717,213)**	**306.32**	(940,709)	348.35
Lapsed during the year	**(287,784)**	**319.15**	(231,777)	351.68
At 30 September 2021	**3,561,675**	**306.89**	4,134,577	295.40
Options exercisable	**105,945**	**303.07**	345,756	341.85

The weighted average remaining contractual life of options outstanding at 30 September 2021 was 32.4 months (2020: 36.8 months). The weighted average market price at exercise for share options exercised in the year was 526.83p (2020: 441.06p).

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

Grant date	**Period exercisable**	**Exercise price**	**Number 2021**	Number 2020
11/06/2015	01/08/2020 to 01/02/2021	345.68p	**-**	8,242
20/06/2016	01/08/2021 to 01/02/2022	249.44p	**68,546**	432,210
28/07/2017	01/09/2020 to 01/03/2021	341.76p	**2,633**	337,514
28/07/2017	01/09/2022 to 01/03/2023	341.76p	**20,971**	22,726
31/07/2018	01/09/2021 to 01/03/2022	408.80p	**34,766**	169,359
31/07/2018	01/09/2023 to 01/03/2024	408.80p	**21,124**	21,124
30/07/2019	01/09/2022 to 01/03/2023	360.16p	**379,915**	411,334
30/07/2019	01/09/2024 to 01/03/2025	360.16p	**5,409**	6,574
27/07/2020	01/09/2023 to 01/03/2024	278.56p	**2,078,709**	2,187,502
27/07/2020	01/09/2025 to 01/03/2026	278.56p	**518,610**	537,992
28/07/2021	01/09/2024 to 01/03/2025	424.00p	**350,345**	-
28/07/2021	01/09/2026 to 01/03/2027	424.00p	**80,647**	-
			3,561,675	4,134,577

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 2021 and the year ended 30 September 2020, are shown below.

Grant date	28/07/21	28/08/21	27/07/20	27/07/20
Number of awards granted	**351,448**	**80,647**	2,210,502	537,992
Market price at date of grant	**554.5p**	**554.5p**	343.2p	343.2p
Contractual life (years)	**3.5**	**5.5**	3.5	5.5
Fair value per share at date of grant (£)	**1.41**	**1.17**	0.62	0.55
Inputs to valuation model				
Expected volatility	**38.77%**	**33.10%**	34.24%	32.98%
Expected life at grant date (years)	**3.42**	**5.43**	3.45	5.45
Risk-free interest rate	**0.19%**	**0.31%**	(0.13)%	(0.11)%
Expected annual dividend yield	**3.90%**	**3.90%**	4.34%	4.34%
Expected annual departures	**5.00%**	**5.00%**	5.00%	5.00%

The expected volatility of the share price used in determining the fair value for the three-year schemes 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.

(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.

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and normally vest in the third financial year after the date of grant, to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group.

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

The conditional entitlements outstanding under this scheme at 30 September 2021 and 30 September 2020 were:

Grant date	Period exercisable	Number 2021	Number 2020
17/12/2010	17/12/2013 to 16/12/2020[†]	**-**	9,925
21/12/2011	21/12/2014 to 20/12/2021[†]	**5,093**	5,093
28/02/2013	28/02/2016 to 27/02/2023[†]	**4,578**	5,443
10/12/2013	10/12/2016 to 09/12/2023[†]	**2,132**	6,210
18/12/2014	18/12/2017 to 17/12/2024[†]	**5,366**	6,277
22/12/2015	22/12/2018 to 21/12/2025[†]	**14,927**	16,887
01/12/2016	01/12/2019 to 30/11/2026[†]	**341,168**	462,076
08/12/2017	03/12/2020* to 07/12/2027[β]	**347,715**	1,155,740
14/12/2018	14/12/2021* to 13/12/2028[ψ]	**1,477,203**	1,479,563
06/07/2020	07/12/2022* to 05/07/2030[φ]	**1,153,178**	1,185,790
06/07/2020	07/12/2024* to 05/07/2030[φ]	**509,192**	509,192
11/12/2020	07/12/2023* to 10/12/2030[δ]	**1,129,235**	-
11/12/2020	07/12/2025* to 10/12/2030[δ]	**385,707**	-
		5,375,494	4,842,196

* 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.

β These awards are (or were) subject to performance criteria, assessed over a period of three financial years, starting with the year of grant.

- 50% 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 EPS increases by at least 7% more than the retail price index ('RPI') over the test period, 25% vests if this increase is at least 3% more than the RPI and vesting between those points is determined on a straight line basis
- 25% to a risk test. The risk test is based on an internal scorecard of the Group's performance against its principal risk metrics

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.

At the point of exercise, the gross number of awards vesting will be reduced so that the gain to the recipient from the PSP and the CSOP described below, evaluated at that point, is equal to the gain from the gross PSP vesting.

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

- Under the EPS condition full vesting occurs if basic EPS for the third year of the test period is at least 68p, 25% vesting if EPS in this year is 60p and vesting between those points on a straight line basis

An individual performance condition relating to the grantee's performance in the final financial year of the vesting period also applies.

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

- The TSR condition related to 25% of the grant, not 50%
- Under the EPS condition full vesting occurs if basic EPS for the third year of the test period is at least 67p, 25% vesting if EPS in this year is 60p and vesting between those points on a straight line basis
- The risk condition comprises two components. 50% of the risk element is based on an assessment by the 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
- 12.5% of the grant is determined based on a customer service test. The customer service test is based on the performance of the Group against its most significant customer service metrics including insight feedback on key product lines and complaint levels. 50% of this tranche will vest for on-target performance
- 12.5% of the grant is determined based on a people test. The people test is based on the performance of the Group against its most significant employment metrics including employee engagement, voluntary attrition and gender diversity levels. 50% of this tranche will vest for on-target performance
- Due to the volatility of the share price at the time of grant, the Remuneration Committee may adjust the vesting levels at the vesting date if it believes that the use of this share price has created a potential windfall gain
- No CSOP grants were made in conjunction with this award, therefore no adjustment on vesting will take place

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 66p, 25% vesting if EPS in this year is 58p 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

For each of the customer and people tests set out above, the Remuneration Committee will determine the extent to which this condition has been met, between 0% and 100%, and vesting for the relevant tranche will occur at that level, subject to a 25% threshold, below which no awards in the tranche will vest.

On exercise, holders of awards granted in February 2013 and thereafter receive a payment equivalent to the dividends accruing on the vested shares during the vesting period.

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. Details of the awards over £1 ordinary shares made in the year ended 30 September 2021 and the year ended 30 September 2020 are shown below.

Grant date	**11/12/20**	06/07/20
Number of awards granted	**1,539,645**	1,694,982
Market price at date of grant	**446.8p**	360.60p
Contractual life (years)	**3.0**	2.4
Fair value per share at date of grant	**407.50p**	301.32p
Inputs to valuation model		
Expected volatility	**37.85%**	33.93%
Expected life (years)	**3.0**	2.4
Risk-free interest rate	**(0.12)%**	(0.06)%

For all the above grants no departures are expected. The expected volatility is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date.

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

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

The PSP includes 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 2021 or 30 September 2020.

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 2021 and the year ended 30 September 2020 is shown below.

	2021	**2021**	2020	2020
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		p		p
Options outstanding				
At 1 October 2020	**444,771**	**419.97**	730,816	398.19
Exercised or surrendered in the year	**(87,377)**	**397.33**	(218,008)	361.88
Lapsed during the year	**(115,820)**	**471.06**	(68,037)	372.15
At 30 September 2021	**241,574**	**403.66**	444,771	419.97
Options exercisable	**62,049**	**425.70**	93,974	361.88

The weighted average remaining contractual life of options outstanding at 30 September 2021 was 81.5 months (2020: 89.5 months). The weighted average market prices at exercise for share options exercised in the year was 466.70p.

The conditional entitlements outstanding under this scheme at 30 September 2021 and 30 September 2020 were:

Grant date	**Period exercisable**	**Exercise price**	**Number 2021**	Number 2020
01/12/2016	01/12/2019 to 30/11/2026†	361.88p	**27,875**	93,974
08/12/2017	08/12/2020 to 07/12/2027ᵝ	477.76p	**34,174**	169,502
14/12/2018	14/12/2021 to 13/12/2028ᵝ	396.04p	**179,525**	181,295
			241,574	444,771

†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.

ᵝ66.7% of these awards are (or were) subject to a TSR test and 33.3% are subject to an EPS test. These tests operate in the same manner and with the same conditions as those for the PSP grant of the same date.

To the extent that the CSOP awards vest, the vesting of the PSP award granted at the same time will be abated on exercise so that the overall gain to the grantee is the same as would be received on the related PSP award had the CSOP not been in place.

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

These plans are 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 2021 and 30 September 2020 were:

Grant date	Period exercisable	Number 2021	Number 2020
10/12/2013	10/12/2016 to 09/12/2023	**55,302**	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
01/12/2016	01/12/2019 to 30/11/2026	**71,235**	105,318
08/12/2017	08/12/2020 to 07/12/2027	**67,572**	102,516
14/12/2018	14/12/2021 to 13/12/2028	**334,498**	334,498
12/12/2019	12/12/2022 to 11/12/2029	**108,701**	108,701
11/12/2020	11/12/2023 to 10/12/2030	**382,334**	-
11/12/2020*	11/12/2023 to 01/06/2024	**254,565**	-
		1,387,137	819,265

*All-employee award.

The Deferred Bonus shares granted under the executive awards can be exercised from the third anniversary of the award date until the day before the tenth anniversary of the date of grant.

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 in December 2016 and thereafter accrue dividends only over the vesting period, unlike earlier grants which accrued dividends until the point of exercise. The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model.

Details of the awards made in the year ended 30 September 2021 and the year ended 30 September 2020 are shown below.

Grant date	11/12/20 All employee	11/12/20 Executive	12/12/19 Executive
Number of awards granted	**275,029**	**382,334**	108,701
Market price at date of grant	**446.80p**	**446.80p**	489.20p
Fair value per share at date of grant	**353.62p**	**446.80p**	489.20p

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.

(e) Restricted Stock Units ('RSUs')

Since 2016, the Company has permitted certain employees to elect to receive RSU awards instead of PSP 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.

The conditional entitlements outstanding under this scheme at 30 September 2021 and 30 September 2020 were:

Grant date	Period exercisable	Number 2021	Number 2020
08/12/2017	03/12/2020 to 07/12/2027	-	22,672
14/12/2018	14/12/2021* to 13/12/2028	**52,040**	52,040
06/07/2020	07/12/2022* to 05/07/2030	**190,960**	190,960
11/12/2020	11/12/2023* to 10/12/2030	**30,193**	-
		273,193	265,672

* Estimated date.

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The fair value of RSU awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards made in the year ended 30 September 2021 and the year ended 30 September 2020 are shown below.

Grant date	**11/12/20**	06/07/20
Number of awards granted	**30,193**	190,690
Market price at date of grant	**446.80p**	360.60p
Contractual life (years)	**3.0**	2.4
Fair value per share at date of grant	**446.80p**	360.60p

For all these grants no departures are expected.

52. 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.

Scheme benefit changes

During the year, following consultation with the active members of the Plan, changes were made affecting the accrual of benefits by members after 1 July 2021. The principal changes were:

- The earliest age that members can access benefits building up after 1 July 2021 without any reduction for early payment is 65, rather than 60
- The rate of salary increase counting towards benefits and contributions in the Plan is capped at 2.5% per annum
- Members were allowed to elect to either contribute 8% of capped salary to accrue benefits at the rate of 1/70 of capped final salary per year or continue to contribute 5% of capped salary to accrue benefits at the rate of 1/75 of capped final salary per year

The changes do not affect benefits already accrued to that date.

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.

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 increase the deficit. 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 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

- **Longevity risk** – The value of the Plan deficit 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 increase the deficit 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 deficit will be higher. 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 2019, by Aon Hewitt, the Plan's independent actuary. 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 £203.6m, with a shortfall against the assets of £85.0m (2016: £118.4m). 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 £18.2m (2016: £18.0m). This valuation forms the basis of the IAS 19 valuation.

Following the agreement of the 2019 actuarial valuation, the Trustee put in place a revised recovery plan. On current forecasts the Trustee's recovery plan would to 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 (note 22). No amount is included in the Plan assets in respect of the building, which remains within the Group's Property, Plant and Equipment balance (note 22) but this arrangement provides the Plan with additional security in a stress event.

(b) Defined benefit plan – financial impact

For accounting purposes, the valuation at 31 March 2019 was updated to 30 September 2021 in accordance with the requirements of IAS 19 (revised) by Mercer, the Group's independent consulting actuary.

As the changes in the Plan described above did not affect benefits built up before 1 July 2021, the impact on the IAS 19 basis was immaterial and no remeasurement of assets and liabilities at 30 June 2021 has taken place. The service cost for the period between 1 July 2021 and 30 September 2021, and the associated interest cost and expected return, have been adjusted to reflect the value of benefits accruing from 1 July 2021.

The major categories of assets in the Plan at 30 September 2021, 30 September 2020 and 30 September 2019 and their fair values were:

	2021	2020	2019
	£m	£m	£m
Cash and cash equivalents	**17.1**	28.6	7.1
Equity instruments	**73.4**	60.7	60.7
Debt instruments	**54.8**	34.9	34.2
Real estate funds	-	10.3	10.8
Total fair value of Plan assets	**145.3**	134.5	112.8
Present value of Plan liabilities	**(155.6)**	(154.9)	(147.3)
(Deficit) in the Plan	**(10.3)**	(20.4)	(34.5)

At 30 September 2021 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.

Towards the end of the year the Plan disposed of its holdings in real estate funds, following a review of its investment strategy. These are currently in the process of reinvestment in other asset classes, with part of the proceeds held in cash at the year end.

During October 2018, 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.

A further judgement relating to GMP equalisation within historic transfer values was handed down in November 2020. The impact has been allowed for in employment cost for the year ended 30 September 2021, but is not significant.

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

	2021	2020
	£m	£m
At 1 October 2020	**134.5**	112.8
Interest on Plan assets	**2.4**	2.3
Cash flows		
Contributions by the Group	**4.8**	24.5
Contributions by Plan members	**0.2**	0.2
Benefits paid	**(6.8)**	(2.9)
Administration expenses paid	**(0.8)**	(0.6)
Remeasurement gain		
Return on Plan assets (excluding amounts included in interest)	**11.0**	(1.8)
At 30 September 2021	**145.3**	134.5

Contributions by the Group in the year ended 30 September 2020 included a one-off £20.0m payment made as part of the new recovery plan agreed between the Group and the Trustee in that year.

The actual return on Plan assets in the year ended 30 September 2021 was £13.4m (2020: £0.5m).

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

	2021	2020
	£m	£m
At 1 October 2020	**154.9**	147.3
Current service cost	**1.8**	2.0
Past service cost	-	-
Funding cost	**2.7**	2.7
Cash flows		
Contributions by Plan members	**0.2**	0.2
Benefits paid	**(6.8)**	(2.9)
Remeasurement loss / (gain)		
Arising from demographic assumptions	**1.1**	1.2
Arising from financial assumptions	**1.7**	6.0
Arising from experience adjustments	-	(1.6)
At 30 September 2021	**155.6**	154.9

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 2021 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):

	2021	2020	2019
In determining net pension cost for the year			
Discount rate	**1.75%**	1.85%	2.95%
Rate of compensation increase			
Pre July 2021-accrual	**2.95%**	3.20%	3.60%
Post 1 July 2021 accrual	**2.50%**	n/a	n/a
Rate of price inflation	**2.95%**	2.70%	3.10%
Rate of increase of pensions	**2.85%**	2.65%	2.95%
In determining benefit obligations			
Discount rate	**2.00%**	1.75%	1.85%
Rate of compensation increase:			
Pre 1 July 2021 accrual	**3.40%**	2.95%	3.20%
Post 1 July 2021 accrual	**2.50%**	2.50%	n/a
Rate of price inflation	**3.40%**	2.95%	2.70%
Rate of increase of pensions	**3.15%**	2.85%	2.65%
Further life expectancy at age 60			
Male member aged 60	**28**	28	28
Female member aged 60	**29**	29	29
Male member aged 40	**29**	30	30
Female member aged 40	**31**	31	31

In determining benefit obligations, mortality is projected using the S3PA Chartered Management Institute ('CMI') Projection Model with a 1.5% long-term improvement rate. At 30 September 2021 the 2020 (All) Year of Birth version of the model was used (2020: 2019 (All) Year of Birth, 2019: 2018 Light Year of Birth)

The amounts charged in the consolidated income statement in respect of the Plan are:

	Note	**2021**	2020
		£m	£m
Current service cost		**1.8**	2.0
Past service cost		-	-
Total service cost	*49*	**1.8**	2.0
Administration expenses		**0.8**	0.6
Included within operating expenses		**2.6**	2.6
Funding cost of Plan liabilities		**2.7**	2.7
Interest on Plan assets		**(2.4)**	(2.3)
Net interest expense	*5*	**0.3**	0.4
Components of defined benefit costs recognised in profit or loss		**2.9**	3.0

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

	2021	2020
	£m	£m
Return on Plan assets (excluding amounts included in interest)	**11.0**	(1.8)
Actuarial gains/(losses)		
Arising from demographic assumptions	**(1.1)**	(1.2)
Arising from financial assumptions	**(1.7)**	(6.0)
Arising from experience adjustments	-	1.6
Total actuarial gain / (loss)	**8.2**	(7.4)
Tax thereon	**(0.9)**	2.1
Net actuarial gain / (loss)	**7.3**	(5.3)

Of the remeasurement movements reflected above:

- The return on plan assets to 30 September 2021 represents better than expected investment performance, including an element of post-Covid recovery in investment markets generally, as well as a reversal of the lower than expected returns in the year ended 30 September 2020.
- The change in demographic assumptions in the year ended 30 September 2021 predominantly reflects the adoption of new commutation factors by the Trustee from January 2021, which increased liabilities in respect of non-retired members. For the year ended 30 September 2020, the change in demographic assumption related to updated mortality assumptions, using the most recent version of the tables adopted by the Trustee in the triennial valuation, which predict marginally higher life expectancy among members than the previous versions
- The change in financial assumptions in the year ended 30 September 2021 reflects principally the impact of market implied inflation expectations increasing the value of Plan liabilities, although this was partially offset by higher discount rates, which are derived from market bond yields. Much of the change in the year ended 30 September 2020 resulted from the impact of falling bond yields on the discount rate used in the valuation
- The experience adjustments in 2020 arose on the adoption of the 2019 Plan valuation as the basis of the IAS 19 valuation in that year. This exercise only 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 2021, 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**
Discount rate	0.1%	(2.2)%
Rate of inflation*	0.1%	2.0%
Rate of salary growth	0.1%	0.4%
Rates of mortality	1 year of life expectancy	3.0%

* 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.

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 2022 are 60% growth assets (primarily equities), and 40% matching assets (primarily bonds).

Following the finalisation of the March 2019 valuation, the agreed rate of employer contributions in respect of future service increased to 43.8% from 32.0% with effect from 1 July 2020. Additional contributions of £2.5m per annum for deficit reduction, including amounts payable under the PFP, and £0.4m per annum in respect of costs, each payable monthly, were also agreed. An additional contribution of £20.0m was made by the Group in June 2020. With effect from 1 July 2021, when the changes in the Plan benefits described above were implemented, the level of employer contributions for future service reduced to 25.0% of capped salary.

The present best estimate of the contributions to be made to the Plan by the Group in the year ending 30 September 2022 is £4.1m.

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

	2021	2020
	Years	Years
Category of member		
Active members	**24**	24
Deferred pensioners	**23**	23
Current pensioners	**15**	15
All members	**22**	22

(d) Defined contribution arrangements

The Group sponsors a defined contribution (Worksave) pension scheme, open to all employees who are not members of the Plan. The Group successfully completed the auto-enrolment process mandated by the UK Government in November 2013, using this scheme. During the year ended 30 September 2020 the Group increased its contribution to the scheme for those employees making the maximum 6% contribution to 10% of salary from 6%, generating an increase in the amounts being saved by employees.

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 2021, which represent the total cost charged against income, were £3.7m (2020: £3.1m) (note 49).

D2.3 Notes to the Accounts – Capital and financial risk

For the year ended 30 September 2021

The notes below describe the processes and measurements which the Group and the Company use to manage their capital position and their exposure to financial risks including credit, liquidity, interest rate and foreign exchange risk. It should be noted that certain capital measures, which are presented to illustrate the Group's position, are not subject to audit. Where this is the case, the relevant disclosures are marked as such.

53. Capital management

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk
- To ensure that sufficient regulatory capital is available to meet any externally imposed requirements

The Group's response to the Covid situation has been planned and executed with the protection of its capital base and its long-term viability as key strategic priorities.

The Group sets its target amount of capital in proportion to risk, availability, regulatory requirements and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as retail or corporate bonds, or sell assets to reduce debt.

The Group is subject to regulatory capital rules imposed by the PRA on a consolidated basis as a group containing an authorised bank. This is discussed further below.

(a) Regulatory capital

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. As part of this supervision the regulator will issue an individual capital requirement setting an amount of regulatory capital, which the Group is required to hold in order to safeguard depositors from loss in the event of severe losses being incurred by the Group. This comprises variable elements based on its total risk exposure and also fixed elements. This requirement is set in accordance with the international Basel III rules, issued by the Basel Committee on Banking Supervision ('BCBS') and currently implemented in UK law by EU Regulation 575/2013, referred to as the CRR. Following the UK's exit from the EU in December 2020 the PRA launched a consultation in February 2021 which would result in the Basel III rules being applied in the UK through the PRA Rulebook.

The Group's regulatory capital is monitored by the Board, its Risk and Compliance Committee and the Asset and Liability Committee, which ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

The Group has elected to take advantage of the IFRS 9 transitional arrangements set out in Article 473a of the CRR, which allow the capital impact of expected credit losses to be phased in over a five-year period. The phase-in factors applying to transition adjustments will allow for a 95% add back to CET1 capital and Risk Weighted Assets ('RWA') in the financial year ended 30 September 2019, reducing to 85%, 70%, 50% and 25% for the financial years ending in 2020 to 2023, with full recognition of the impact on CET1 capital in the 2024 financial year.

As part of the regulatory response to Covid, Article 473a was revised to extend the transitional arrangements for Stage 1 and Stage 2 impairment provisions created in the financial year ended 30 September 2020 and the financial year ended 30 September 2021, while maintaining the transitional arrangements for impairment provisions created before the current period. In order to increase institutions lending capacity in the short term, the EU has determined that these additional provisions should be phased into capital over the financial years ending 30 September 2022 to 30 September 2024, rather than recognising the reduction in capital immediately.

These responses also allow, under paragraph 7a of the Article, the impact of transitional adjustments to be weighted at 100% in calculating RWA. The Group has taken advantage of this derogation and hence the IFRS 9 adjustment to RWA is equal to the adjustment to capital at 30 September 2021 and 30 September 2020.

Where these reliefs are taken, firms are also required to disclose their capital positions calculated as if the reliefs were not available (the 'fully loaded' basis).

The tables below demonstrate that at 30 September 2021 the Group's regulatory capital of £1,205.8m (2020: £1,141.2m) exceeded the amounts required by the regulator, including £604.2m (2020: £749.6m) in respect of its Total Capital Requirement ('TCR'), which is comprised of fixed and variable elements (amounts not subject to audit).

The total regulatory capital at 30 September 2021 on the fully loaded basis of £1,176.1m (2020: £1,098.9m) was in excess of the TCR of £601.8m (2020: £745.3m) on the same basis (amounts not subject to audit).

During the year the Group's TCR reduced from 10.8% of Total Risk Exposure ('TRE') at 30 September 2020 to 8.8% of TRE at 30 September 2021, principally as a result of the regulator's most recent review of the Group's risk profile and exposures.

The CRR also requires firms to hold additional capital buffers, including a Capital Conservation Buffer ('CCoB') of 2.5% of risk weighted assets (at 30 September 2021) (2020: 2.5%) and a Counter-Cyclical Buffer ('CCyB'), currently 0.0% of risk weighted assets (2020: 0.0%). The long term rate of the UK CCyB in a standard risk environment is expected to be 2.0%. Firm specific buffers may also be required.

The Group's regulatory capital differs from its equity as certain adjustments are required by the regulator. A reconciliation of the Group's equity to its regulatory capital determined in accordance with CRD IV at 30 September 2021 is set out below.

		Regulatory basis		Fully loaded basis	
	Note	**2021**	2020	**2021**	2020
		£m	£m	**£m**	£m
Total equity		**1,241.9**	1,156.0	**1,241.9**	1,156.0
Deductions					
Proposed final dividend	*40*	**(46.6)**	(36.4)	**(46.6)**	(36.4)
IFRS 9 transitional relief	*	**29.7**	42.3	-	-
Intangible assets	*23*	**(170.5)**	(170.1)	**(170.5)**	(170.1)
Software relief	†	**1.4**	-	**1.4**	-
Prudent valuation adjustments	§	**(0.1)**	(0.6)	**(0.1)**	(0.6)
Common Equity Tier 1 ('CET1') capital		**1,055.8**	991.2	**1,026.1**	948.9
Other tier 1 capital		-	-	-	-
Total Tier 1 capital		**1,055.8**	991.2	**1,026.1**	948.9
Corporate bond	*30*	**150.0**	150.0	**150.0**	150.0
Eligibility cap	*Φ*	-	-	-	-
Total Tier 2 capital		**150.0**	150.0	**150.0**	150.0
Total regulatory capital ('TRC')		**1,205.8**	1,141.2	**1,176.1**	1,098.9

*Firms are permitted to phase in the impact of IFRS 9 transition over a five-year period.

§ For capital purposes, assets and liabilities held at fair value, such as the Group's derivatives, are required to be valued on a more conservative basis than the market value basis set out in IFRS 13. This difference is represented by the prudent valuation adjustment above, calculated using the 'Simplified Approach' set out in the CRR.

† Under a relief enacted by the EU in December 2020 an amount in respect of software assets in intangibles is added back to capital. This is calculated in accordance with Article 36 (1) (b) of the CRR. In July 2021 the PRA reaffirmed its view that software assets would not absorb losses effectively in a stress. It therefore commenced a consultation on a proposal to remove this relief with effect from 1 January 2022.

Φ CRD IV restricts the amount of tier 2 capital which is eligible for regulatory purposes to 25% of TCR.

The total risk exposure amount calculated under the CRD IV framework against which this capital is held, and the proportion of these assets it represents, are calculated as shown below.

	Regulatory basis		Fully loaded basis	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Credit risk				
Balance sheet assets	**6,073.5**	6,171.7	**6,073.5**	6,171.7
Off balance sheet	**143.9**	104.1	**143.9**	104.1
IFRS 9 transitional relief	**29.7**	42.3	-	-
Total credit risk	**6,247.1**	6,318.1	**6,217.4**	6,275.8
Operational risk	**576.0**	544.3	**576.0**	544.3
Market risk	-	-	-	-
Other	**13.7**	85.7	**13.7**	85.7
Total risk exposure amount ('TRE')	**6,836.9**	6,948.1	**6,807.2**	6,905.8
Solvency ratios	**%**	%	**%**	%
CET1	**15.4**	14.3	**15.1**	13.7
TRC	**17.6**	16.4	**17.3**	15.9

This table is not subject to audit

The CRD IV risk weightings for credit risk exposures are currently calculated using the Standardised Approach ('SA'). The Basic Indicator Approach is used for operational risk.

The Accounts

The table below shows the calculation of the UK leverage ratio, based on the consolidated balance sheet assets adjusted as shown. The PRA has proposed a minimum UK leverage ratio of 3.25% for UK firms, with retail deposits of over £50.0 billion. In addition, in October 2021 the PRA stated its expectation that all other UK firms should manage their leverage risk so that this ratio does not ordinarily fall below 3.25%.

	Note	**2021**	2020
		£m	£m
Total balance sheet assets		**15,137.0**	15,505.5
Less: Derivative assets	*19*	**(44.2)**	(463.3)
Central bank deposits	*14*	**(1,142.0)**	(1,637.1)
CRDs	*20*	**(23.7)**	(15.1)
Accrued interest on sovereign exposures		**-**	-
On-balance sheet items		**13,927.1**	13,390.0
Less: Intangible assets	*23*	**(170.5)**	(170.1)
Add back: Software relief		**1.4**	-
Total on balance sheet exposures		**13,758.0**	13,219.9
Derivative assets	*19*	**44.2**	463.3
Potential future exposure on derivatives		**36.3**	92.3
Total derivative exposures		**80.5**	555.6
Post offer pipeline at gross notional amount		**1,380.3**	949.1
Adjustment to convert to credit equivalent amounts		**(1,128.3)**	(773.8)
Off balance sheet items		**252.0**	175.3
Tier 1 capital		**1,055.8**	991.2
Total leverage exposure before IFRS 9 relief		**14,090.5**	13,950.8
IFRS 9 relief		**29.7**	42.3
Total leverage exposure		**14,120.2**	13,993.1
UK leverage ratio		**7.5%**	7.1%

This table is not subject to audit

The fully loaded leverage ratio is calculated as follows

	2021	2020
	£m	£m
Fully loaded Tier 1 capital	**1,026.1**	948.9
Total leverage exposure before IFRS 9 relief	**14,090.5**	13,950.8
Fully loaded UK leverage exposure	**7.3%**	6.8%

This table is not subject to audit

The UK leverage ratio is prescribed by the PRA and differs from the leverage ratio defined by Basel and the CRR due to the exclusion of central bank balances from exposures.

The regulatory capital disclosures in these financial statements relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the year.

(b) Return on tangible equity ('RoTE')

RoTE is a measure of an entity's profitability used by investors. RoTE is defined by the Group by comparing the profit after tax for the year, adjusted for amortisation charged on intangible assets, to the average of the opening and closing equity positions, excluding intangible assets and goodwill.

It effectively reflects a return on equity as if all intangible assets are eliminated immediately against reserves. As this is similar to the approach used for the capital of financial institutions it is widely used in the sector.

The Group's consolidated RoTE for the year ended 30 September 2021 is derived as follows:

	Note	**2021**	2021
		£m	£m
Profit for the year after tax		**164.5**	91.3
Amortisation of intangible assets	*23*	**2.0**	2.0
Adjusted profit		**166.5**	93.3
Divided by			
Opening equity		**1,156.0**	1,108.4
Opening intangible assets	*23*	**(170.1)**	(171.1)
Opening tangible equity		**985.9**	937.3
Closing equity		**1,241.9**	1,156.0
Closing intangible assets	*23*	**(170.5)**	(170.1)
Closing tangible equity		**1,071.4**	985.9
Average tangible equity		**1,028.7**	961.6
Return on Tangible Equity		**16.2%**	9.7%

This table is not subject to audit

(c) Dividend and distribution policy

The Company is committed to a long-term sustainable dividend policy. Ordinarily, dividends will increase in line with earnings, subject to the requirements of the business and the availability of cash resources. The Board reviews the policy at least twice a year in advance of announcing its results, taking into account the Group's strategy, capital requirements, principal risks and the objective of enhancing shareholder value. In determining the level of dividend for any year, the Board expects to follow the dividend policy, but will also take into account the level of available retained earnings in the Company, its cash resources and the cash and capital requirements inherent in its business plans.

The distributable reserves of the Company comprise its profit and loss account balance (note 38) and, other than the regulatory requirement to retain an appropriate level of capital in Paragon Bank PLC, there are no restrictions preventing profits elsewhere in the Group from being distributed to the parent.

Since the year ended 30 September 2018, the Company has adopted a policy of paying out approximately 40% of its basic earnings per share as dividend (a dividend cover ratio of around 2.5 times), in the absence of any idiosyncratic factors which might make such a dividend inappropriate. This policy is reviewed by the Board at least annually. The Company considers it has access to sufficient cash resources to pay dividends at this level and that its distributable reserves are abundant for this purpose.

To provide greater transparency, the Board also adopted a policy of paying an interim dividend in each year equivalent to half of the preceding final dividend in the absence of any factors which might make such a distribution inappropriate. After consideration of the Group's capital position an interim dividend for the year of 7.2p per share was declared, in line with this policy (2020: nil).

The Group's dividend and distribution decisions in the 2020 financial year were dominated by the potential impact of the Covid pandemic. The strategic decision to build capital in response to the inherent risks posed by the virus meant that no interim dividend was declared for the year. However, at the 2020 year end a dividend was declared in line with the Group's stated policy.

The appropriate level of final dividend for the current year was considered by the Board in light of economic and regulatory developments in the year, and the various potential paths for the UK economy as the pandemic recedes. In particular the levels of provision in the Group's loan portfolios and the potential for further provision under stress were considered by the Board, along with the capital impacts of stress testing carried out as part of the ICAAP and forecasting processes, discounting the effects of the current temporary reduction in regulatory buffers. On the basis of the analysis the Board concluded that a dividend payment for the year of around 40% of earnings, in line with policy, could be made.

The Board will therefore propose a final dividend for the year of 18.9p per share (2020: 14.4p per share) for approval of the 2022 AGM, making a total dividend for the year of 26.1p per share (2020: 14.4p per share).

In addition, at the time of approving the half year report in June 2021, the Board authorised a buy-back of up to £40.0m of shares in the market, initially to be held in treasury. This programme commenced that month, and by the year end funds of £37.7m (including costs) had been disbursed. This programme will be completed following the publication of the results for the year.

At the time of approving the final dividend for the year the Board also authorised a further buy-back programme of £50.0m. This programme will commence after the completion of the June 2021 programme and the shares purchased will initially be held in Treasury.

The dividend cover for the year, which is subject to approval at the forthcoming AGM, is set out below.

	Note	**2021**	2020
Earnings per share (p)	*13*	**65.2**	36.0
Proposed dividend per share in respect of the year (p)	*40*	**26.1**	14.4
Dividend cover (times)		**2.50**	2.50

For the purposes of dividend policy, the Group defines dividend cover based on basic earnings per share, adjusted where considered appropriate, and dividend per share. This is the most common measure used by financial analysts.

The most recent policy review, in November 2021, also confirmed the existing dividend policy would continue to apply for future periods, subject to the impact of any future events, and the Board will consider the appropriateness and scale of any interim dividend in the context of the Group's results and the operating and economic environment at the time.

54. Financial risk management

The principal risks arising from the Group's exposure to financial instruments are credit risk, liquidity risk and market risk (particularly, interest rate risk and currency risk). These risks are discussed in notes 55 to 58 respectively.

The Board has a Risk and Compliance Committee, consisting of the Chair of the Board and the non-executive directors which is responsible for providing oversight and challenge to the Group's risk management arrangements. Executive responsibility for the oversight and operation of the Group's risk management framework is delegated to the Executive Risk Committee ('ERC'). ERC discharges its duties through a number of sub-committees and escalates issues of concern to the Risk and Compliance Committee where appropriate.

The Credit Committee and the Asset and Liability Committee ('ALCO') are sub-committees of the ERC which monitor performance against the risk appetites set by the Board and make recommendations for changes in risk appetite where appropriate. They also review and, where authorised to do so, agree or amend policies for managing each of these risks, which are summarised in the relevant note. The Corporate Governance Statement in Section B3 (which is not subject to audit) provides further detail on the operations of these committees.

The financial risk management policies have remained unchanged throughout the year and since the year end. The position discussed in notes 55 to 58 is materially similar to that existing throughout the year.

55. Credit risk

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

	Note	The Group		The Company	
		2021	2020	**2021**	2020
		£m	£m	**£m**	£m
Financial assets at amortised cost					
Loans to customers	*15*	**13,402.7**	12,631.4	-	-
Trade receivables	*20*	**1.3**	3.2	-	-
Amounts owed by Group companies	*20*	-	-	**73.0**	84.0
Cash	*14*	**1,360.1**	1,925.0	**19.6**	12.6
CSA assets	*20*	**36.6**	103.5	-	-
CRDs	*20*	**23.7**	15.1	-	-
Accrued interest income	*20*	-	0.1	**0.1**	0.6
		14,824.4	14,678.3	**92.7**	97.2
Financial assets at fair value					
Derivative financial assets	*19*	**44.2**	463.3	-	-
Maximum exposure to credit risk		**14,868.6**	15,141.6	**92.7**	97.2

While this maximum exposure represents the potential loss which might have to be accounted for by the Group, the terms on which a significant proportion of the Group's loan assets are funded, described under Liquidity Risk in note 56, limit the amount of principal repayments on the Group's securitised and warehouse borrowings in cases of capital losses on assets, considerably reducing the effective shareholder value at risk.

All financial assets at amortised cost are subject to the requirements of IFRS 9 relating to impairment.

Further information on the Group's exposure to credit risk by asset type, including the credit quality of assets and any potential concentrations of credit risk, is set out below for:

- Loans to customers
- Cash balances (including CSA assets, CRDs and accrued interest)
- Trade receivables
- Derivative financial assets

Loans to customers

The Group's credit risk is primarily attributable to its loans to customers and its business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of acquiring or underwriting a new loan, where strict lending criteria are applied, and throughout the loan's life.

Primary responsibility for the management of credit risk relating to lending activities across the Group lies with the Credit Committee. The Credit Committee is made up of senior employees, drawn from financial and risk functions independent of the underwriting process. It is chaired by the Credit Risk Director. Its key responsibilities include setting and reviewing credit policy, controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

The Group's underwriting philosophy is based on a combination of sophisticated individual credit assessment and the automated efficiencies of statistically-based decision making models. Information on each applicant is combined with data taken from credit reference agencies and other external sources to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provides evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement. Similarly, where assets form part of the security to support the loan, robust asset valuation processes ensure appropriate risk mitigation is in place. Even so, in assessing credit risk an applicant's ability and propensity to repay the loan remain the principal factors in the decision to lend, even where the Group would have security on the proposed loan.

In considering whether to acquire pools of loan assets, the Group will undertake a due diligence exercise on the underlying loan accounts. Such assets are generally not fully performing and are offered at a discount to their current balance. The Group's procedures may include inspection of original loan documents, verification of security and the examination of the credit status of borrowers. Current and historic cash flow data will also be examined. The objective of the exercise is to establish, to a level of confidence similar to that provided by the underwriting process, that the assets will generate sufficient cash flows to recover the Group's investment and generate an appropriate return without exposing the Group to material operational or conduct risks.

This section sets out information relevant to assessing the credit risk inherent in the Group's loans to customers balances. It is set out in the following subsections:

- Types of lending and related security
- Overall credit grading
- Credit characteristics of particular portfolios
- Arrears performance
- Acquired assets

Types of lending

The Group's balance sheet loan assets at 30 September 2020 are analysed as follows:

	2021	**2021**	2020	2020
	£m	**%**	£m	%
Buy-to-let mortgages	**11,424.3**	**85.2%**	10,583.8	83.8%
Owner-occupied mortgages	**36.3**	**0.3%**	53.1	0.4%
Total first charge residential mortgages	**11,460.6**	**85.5%**	10,636.9	84.2%
Second charge mortgage loans	**281.7**	**2.1%**	354.5	2.8%
Loans secured on residential property	**11,742.3**	**87.6%**	10,991.4	87.0%
Development finance	**608.2**	**4.5%**	609.0	4.8%
Loans secured on property	**12,350.5**	**92.1%**	11,600.4	91.8%
Asset finance loans	**440.5**	**3.3%**	452.0	3.6%
Motor finance loans	**229.2**	**1.7%**	272.4	2.2%
Aircraft mortgages	**28.2**	**0.2%**	26.0	0.2%
Structured lending	**118.9**	**0.9%**	94.9	0.7%
Invoice finance	**20.9**	**0.2%**	13.5	0.1%
Total secured loans	**13,188.2**	**98.4%**	12,459.2	98.6%
Professions finance	**33.1**	**0.3%**	22.3	0.2%
RLS, CBILS and BBLS	**83.8**	**0.6%**	25.2	0.2%
Other unsecured commercial loans	**10.3**	**0.1%**	15.0	0.1%
Unsecured consumer loans	**87.3**	**0.6%**	109.7	0.9%
Total loans to customers	**13,402.7**	**100.0%**	12,631.4	100.0%

First and second charge mortgages are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities.

Development finance loans are secured by a first charge (or similar Scottish security) over the development property and various charges over the build.

Asset finance loans and motor finance loans are effectively secured by the financed asset, while aircraft mortgages are secured by a charge on the aircraft funded.

Structured lending and invoice finance balances are effectively secured over the assets of the customer, with security enhanced by maintaining balances at a level less than the total amount of the security (the advance percentage).

Professions finance balances are generally short term unsecured loans made to firms of lawyers and accountants for working capital purposes.

Loans made under the Recovery Loan Scheme ('RLS'), the Coronavirus Business Interruption Loan Scheme ('CBILS') and the Bounce Back Loan Scheme ('BBLS') have the benefit of a guarantee underwritten by the UK Government.

Other unsecured consumer loans include unsecured loans either advanced by group companies or acquired from their originators at a discount.

There are no significant concentrations of credit risk to individual counterparties due to the large number of customers included in the portfolios. All lending is to customers within the UK. The total gross carrying value of the Group's loans to customers due from customers with total portfolio exposures over £10.0m is analysed below by product type.

	2021	2020
	£m	£m
Buy-to-let mortgages	**163.3**	154.3
Development finance	**217.9**	240.0
Structured lending	**108.7**	72.7
Asset finance	**10.4**	-
	500.3	467.0

The threshold of £10.0m is used internally for monitoring large exposures.

Credit grading

An analysis of the Group's loans to customers by absolute level of credit risk at 30 September 2021 is set out below. The analysed amount represents gross carrying amount.

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
30 September 2021					
Very low risk	**9,834.5**	**563.8**	**1.3**	**41.9**	**10,441.5**
Low risk	**1,716.9**	**532.2**	**78.5**	**16.3**	**2,343.9**
Moderate risk	**149.2**	**130.2**	**3.8**	**22.4**	**305.6**
High risk	**42.0**	**23.7**	**11.6**	**21.7**	**99.0**
Very high risk	**42.0**	**27.5**	**62.0**	**17.4**	**148.9**
Not graded	**115.8**	**1.7**	**7.1**	**4.6**	**129.2**
Total gross carrying amount	**11,900.4**	**1,279.1**	**164.3**	**124.3**	**13,468.1**
Impairment	**(15.0)**	**(11.3)**	**(38.9)**	**(0.2)**	**(65.4)**
Total loans to customers	**11,885.4**	**1,267.8**	**125.4**	**124.1**	**13,402.7**
30 September 2020					
Very low risk	8,771.2	453.3	20.8	45.9	9,291.2
Low risk	1,229.2	120.9	10.7	21.7	1,382.5
Moderate risk	742.2	184.7	12.1	32.8	971.8
High risk	285.2	143.9	50.7	32.0	511.8
Very high risk	48.3	67.9	49.9	22.9	189.0
Not graded	253.6	74.7	31.9	6.7	366.9
Total gross carrying amount	11,329.7	1,045.4	176.1	162.0	12,713.2
Impairment	(22.2)	(15.8)	(43.4)	(0.4)	(81.8)
Total loans to customers	11,307.5	1,029.6	132.7	161.6	12,631.4

Gradings above are based on credit scorecards or internally assigned risk ratings as appropriate for the individual asset class. These measures are calibrated across product types and used internally to monitor the Group's overall credit risk profile against its risk appetite.

These gradings represent current credit quality on an absolute basis and this may result in assets in higher IFRS 9 stages with low risk grades, especially where a case qualifies through breaching, for example, an arrears threshold but is making regular payments. This will apply especially to Stage 3 cases reported in note 18, other than those shown as 'realisations'.

Examples of lower risk cases in higher IFRS 9 stages include fully up-to-date receiver of rent cases; accounts where the customer is in arrears on their account with the Group but up to date on accounts with other lenders, creating a overall positive credit rating; and accounts where the default on the Group's loan has yet to impact on the external credit score.

A small proportion of the loan book (2021: 1.0%, 2020: 2.9%) is classed as 'not graded' above. This rating relates to loans that have been fully underwritten at origination but where the customer falls outside the automated assessment techniques used post-completion.

Credit characteristics by portfolio

Loans secured on residential property

First mortgage loans have a contractual term of up to thirty years and second charge mortgage loans up to twenty five years. In all cases the customer is entitled to settle the loan at any point and in most cases early settlement does take place. All customers on these accounts are required to make monthly payments.

An analysis of the indexed Loan-to-Value ('LTV') ratio for those loan accounts secured on residential property by value at 30 September 2021 is set out below. LTVs for second charge mortgages are calculated allowing for the interest of the first charge holder, based on the most recent first charge amount held by the Group, while for acquired accounts the effect of any discount on purchase is allowed for.

	First charge mortgages		Second charge mortgages	
	2021	2020	**2021**	2020
	%	%	**%**	%
Loan to value ratio				
Less than 70%	**83.8**	59.9	**88.4**	74.5
70% to 80%	**14.3**	35.9	**8.5**	16.7
80% to 90%	**0.5**	2.3	**1.5**	5.2
90% to 100%	**0.3**	0.4	**0.6**	1.2
Over 100%	**1.1**	1.5	**1.0**	2.4
	100.0	100.0	**100.0**	100.0
Average LTV ratio	**61.1**	65.7	**56.1**	62.2
Of which:				
Buy-to-let	**61.2**	65.8		
Owner-occupied	**42.0**	49.2		

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an annual increase of 10.0% in the year ended 30 September 2021 (2020: 5.0%).

The geographical distribution of the Group's residential mortgage assets by gross carrying value is set out below.

	First charge		Second charge	
	2021	2020	**2021**	2020
	%	%	**%**	%
East Anglia	**3.3**	3.2	**3.3**	3.3
East Midlands	**5.5**	5.4	**6.3**	6.1
Greater London	**18.5**	18.7	**7.8**	8.2
North	**3.1**	3.2	**4.0**	3.9
North West	**10.3**	10.4	**7.4**	7.4
South East	**31.8**	31.6	**39.3**	39.5
South West	**8.7**	8.7	**8.3**	8.0
West Midlands	**5.5**	5.4	**7.1**	7.3
Yorkshire and Humberside	**8.1**	8.4	**6.0**	5.9
Total England	**94.8**	95.0	**89.5**	89.6
Northern Ireland	**0.1**	0.1	**1.8**	1.7
Scotland	**2.0**	1.7	**5.2**	5.2
Wales	**3.1**	3.2	**3.5**	3.5
	100.0	100.0	**100.0**	100.0

Development finance

Development finance loans have an average term of 21 months (2020: 21 months). Settlement of principal and accrued interest takes place once the development is sold or refinanced following its completion and the customer is not normally required to make payments during the term of the loan. The loans are secured by a legal charge over the site and / or property together with other charges and warranties related to the build.

As customers are not required to make payments during the life of the loan, arrears and past due measures cannot be used to monitor credit risk. Instead, cases are monitored on an individual basis against the costs and progress in the agreed development programme by management and Credit Risk. The average loan to gross development value ('LTGDV') ratio for the portfolio at year end, a measure of security cover, is analysed below.

	2021	**2021**	2020	2020
	By value	**By number**	By value	By number
	%	**%**	%	%
LTGDV				
50% or less	**2.9**	**5.3**	7.6	4.8
50% to 60%	**27.3**	**20.6**	22.4	13.2
60% to 65%	**44.3**	**49.4**	34.0	41.0
65% to 70%	**22.8**	**21.9**	31.3	36.1
70% to 75%	**1.4**	**1.6**	2.8	4.0
Over 75%	**1.3**	**1.2**	1.9	0.9
	100.0	**100.0**	100.0	100.0

The average LTGDV cover at the year end was 61.7% (2020: 63.1%).

LTGDV is calculated by comparing the current expected end of term exposure with the latest estimate of the value of the completed development based on surveyors' reports. The focus on residential property development within the portfolio means that asset values will generally move in line with the UK residential property market.

At 30 September 2021, the development finance portfolio comprised 247 accounts (2020: 229) with a total carrying value of £608.2m (2020: £609.0m). Of these accounts only 10 were included in Stage 2 at 30 September 2021 (2020: seven), with no accounts classified as Stage 3 (2020: one). In addition, one acquired account had been classified as POCI (2020: one). An allowance for this loss was made in the IFRS 3 fair value calculation.

The geographical distribution of the Group's development finance loans by gross carrying value is set out below.

	2021	2020
	%	%
East Anglia	**3.6**	5.1
East Midlands	**6.3**	5.5
Greater London	**6.1**	8.2
North	**2.4**	1.8
North West	**1.1**	0.4
South East	**57.5**	58.8
South West	**13.5**	14.0
West Midlands	**4.8**	4.0
Yorkshire and Humberside	**3.5**	1.1
Total England	**98.8**	98.9
Northern Ireland	-	-
Scotland	**1.2**	1.1
Wales	-	-
	100.0	100.0

Asset finance and motor finance

Asset and motor finance lending includes finance lease and hire purchase arrangements, which are accounted for as finance leases under IFRS 16. The average contractual life of the asset finance loans was 51 months (2020: 52 months) while that of the motor finance loans was 64 months (2020: 60 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

Asset finance customers are generally small or medium sized businesses. The nature of the assets underlying the Group's asset finance lending by gross carrying value is set out below.

	2021	2020
	%	%
Commercial vehicles	**33.4**	32.0
Construction plant	**34.2**	33.7
Technology	**7.0**	6.9
Manufacturing	**6.2**	6.7
Print and paper	**2.3**	3.7
Refuse disposal vehicles	**4.3**	4.8
Other vehicles	**4.3**	3.6
Agriculture	**3.1**	2.9
Other	**5.2**	5.7
	100.0	100.0

Motor finance loans are secured over cars, motorhomes and light commercial vehicles and represent exposure to consumers and small businesses.

Structured lending

The Group's structured lending division provides revolving loan facilities to support non-bank lending businesses. Loans are made to a Special Purpose Vehicle ('SPV') company controlled by the customer and effectively secured on the loans made by the SPV. Exposure is limited to a percentage of the underlying assets, providing a buffer against credit loss.

Summary details of the structured lending portfolio are set out below.

	2021	2020
Number of active facilities	**8**	8
Total facilities (£m)	**185.5**	139.0
Carrying value (£m)	**118.9**	94.9

The maximum advance under these facilities was 80% of the underlying assets.

These accounts do not have a requirement to make regular payments, operating on a revolving basis. The performance of each loan is monitored monthly on a case by case basis by the Group's Credit Risk function, assessing compliance with covenants relating to both the customer and the performance and composition of the asset pool. These assessments, which are reported to Credit Committee, are used to inform the assessment of expected credit loss under IFRS 9.

At 30 September 2021, one of these facilities was identified as Stage 2 (2020: four) with the remainder in Stage 1.

RLS, CBILS and BBLS

Loans under these schemes have the benefit of guarantees underwritten by the UK Government, which launched them as a response to the impact of Covid on UK SMEs.

CBILS and BBLS were launched in 2020 and remained open for new applications until March 2021. RLS was launched in April 2021 as a successor scheme and is expected to be available until June 2022.

The Group offered term loans and asset finance loans under the CBIL scheme. Interest and fees are paid by the UK Government for the first twelve months and the government guarantee covers up to 80% of the lender's principal loss after the application of any proceeds from the asset financed (if applicable).

Loans under the BBL scheme are six year term loans at a standard 2.5% per annum interest rate. The UK Government pays the interest on the loan for the first twelve months and provides lenders with a guarantee covering the whole outstanding balance.

The Group offers term loans and asset finance loans under the RLS. Interest and fees are payable by the customer from inception. The Government guarantee covers up to 80% of the lender's principal loss, after the application of any proceeds from the asset financed (if applicable), although the Government has announced its intent to reduce this cover to 70% for applications received after 1 January 2022.

The Group's outstanding RLS, CBILS and BBLS loans at 30 September 2021 were:

	2021	2020
	£m	£m
RLS		
Term loans	**0.1**	-
Asset finance	**20.7**	-
Total RLS	**20.8**	-
CBILS		
Term loans	**28.1**	20.6
Asset finance	**29.9**	1.0
Total CBILS	**58.0**	21.6
BBLS	**5.0**	3.6
	83.8	25.2

At 30 September 2021, only £0.2m of this balance was considered to be non-performing (2020: £nil).

Unsecured consumer loans

Almost all the Group's unsecured consumer loan assets are part of purchased debt portfolios where the consideration paid will have been based on the credit quality and performance of the loans at the point of the transaction. Collections on purchased accounts remain in excess of those implicit in the purchase prices.

Arrears performance

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2021 and 30 September 2020, compared to the industry averages at those dates published by UK Finance ('UKF') and the FLA, was:

	2021	2020
	%	%
First mortgages		
Accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.21**	0.15
Buy-to-let accounts excluding receiver of rent cases	**0.14**	0.10
Owner-occupied accounts	**4.48**	3.72
UKF data for mortgage accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.45**	0.52
Buy-to-let accounts excluding receiver of rent cases	**0.43**	0.50
Owner-occupied accounts	**0.85**	0.90
All mortgages	**0.78**	0.82
Second charge mortgage loans		
Accounts more than 2 months in arrears		
All accounts	**19.08**	14.77
Post-2010 originations	**1.18**	0.62
Legacy cases (Pre-2010 originations)	**23.12**	21.17
Purchased assets	**24.76**	17.85
FLA data for secured loans	**8.60**	8.40
Motor finance loans		
Accounts more than 2 months in arrears		
All accounts	**4.15**	4.58
Originated cases	**2.30**	1.76
Purchased assets	**14.07**	13.10
Asset finance loans		
Accounts more than 2 months in arrears	**0.27**	1.75
FLA data for business lease / hire purchase loans	**0.60**	1.70

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2020 has been published by the FLA or UKF, the comparative industry figures above have been amended.

Arrears information is not given for development finance, structured lending or invoice finance activities as the structure of the products means that such a measure is not appropriate.

It should be noted that, where customers were allowed to defer payments as part of Covid reliefs, these deferrals were not classified as arrears, in accordance with regulatory guidance.

Few of these arrangements remained in place at 30 September 2021, meaning that some of the increases shown above will relate to the suppression of arrears at the previous year end.

The Group calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, including purchased Idem Capital assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by UKF in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will naturally be higher for legacy books, such as the Group's legacy second charge mortgages and residential first mortgages than for comparable active ones, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The figures shown above for secured loans incorporate purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price. However, this will lead to higher than average reported arrears.

Acquired assets

Almost all the Group's unsecured consumer loan assets are part of purchased debt portfolios where the consideration paid was based on the credit quality and performance of the loans at the point of the transaction. No additional loans to customers treated as POCI were acquired in the year ended 30 September 2021.

Collections on purchased accounts have been comfortably in excess of those implicit in the purchase prices.

In the debt purchase industry, Estimated Remaining Collections ('ERC') is commonly used as a measure of the value of a portfolio. This is defined as the sum of the undiscounted cash flows expected to be received over a specified future period. In the Group's view, this measure may be suitable for heavily discounted, unsecured, distressed portfolios (which will be treated as POCI under IFRS 9), but is less applicable for the types of portfolio in which the Group has invested, where cash flows are higher on acquisition, loans may be secured on property and customers may not be in default. In such cases, the IFRS 9 amortised cost balance, at which these assets are carried in the Group balance sheet, provides a better indication of value.

However, to aid comparability, the 84 and 120 month ERCs value for the Group's purchased consumer loan assets, are set out below. These are derived using the same models and assumptions used in the EIR calculations. ERCs are set out both for all purchased consumer portfolios and for those classified as POCI under IFRS 9.

	2021	2020	2019
	£m	£m	£m
All purchased consumer assets			
Carrying value	**185.2**	235.3	291.1
84 month ERC	**221.2**	277.8	342.3
120 month ERC	**245.2**	313.7	387.5
POCI assets only			
Carrying value	**113.2**	139.8	168.3
84 month ERC	**143.9**	176.9	214.1
120 month ERC	**163.4**	203.7	246.0

Amounts shown above are disclosed as loans to customers (note 15). They include first mortgages, second charge mortgage loans and unsecured consumer loans.

Cash balances

The credit risk inherent in the cash positions of the Group and the Company is controlled by ALCO, which determines which institutions deposits may be placed with. The Group has formal risk policies, approved by the Risk and Compliance Committee. These include limitations on large exposures to mitigate any concentration risk in respect of its investments.

For cash deposits within the Group's securitisation structures, the scheme documents will set out criteria for allowable investments, including rating thresholds, which are monitored by the external trustees of each transaction.

The Group's cash balances are held in sterling at the Bank of England and at highly rated banks in current and call accounts. Cash is also invested in UK government securities and as short fixed term money market deposits from time to time.

The carrying value of the Group's and the Company's cash balances analysed by their long-term credit rating as determined by Fitch is set out below.

	2021	2020
	£m	£m
The Group		
Cash with central banks rated:		
AA-	**1,142.0**	1,637.1
	1,142.0	1,637.1
Cash with retail banks rated:		
AA-	**50.5**	112.0
A+	**167.6**	175.9
	218.1	287.9
Total exposure	**1,360.1**	1,925.0

The Accounts

	2021	2020
	£m	£m
The Company		
Cash with retail banks rated:		
A+	**19.6**	12.6

CRDs are exposures to the Bank of England and thus share the central bank rating noted above while CSA assets, placed with retail banks, have similar ratings to those shown above for retail bank deposits.

Credit risk on all these balances, and any interest accrued thereon, is considered to be minimal. These balances are considered as Stage 1 for IFRS 9 impairment purposes with a PD such that any provision required would be immaterial.

Trade debtors

The Group's trade debtors balance represents principally amounts outstanding on unpaid operating lease obligations in the asset finance business, where similar acceptance criteria to those used for finance lease cases apply.

Financial assets at fair value

The Group's financial assets held at fair value comprise solely derivative financial instruments used for hedging purposes (note 19).

In order to control credit risk relating to counterparties to the Group's derivative financial instruments, ALCO determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits. Such counterparties are typically highly rated banks and, for all derivative positions held within the Group's securitisation structures, must comply with criteria set out in the financing arrangements, which are monitored externally.

The Group uses the ISDA Master Agreement for documenting certain derivative activity. For certain counterparties a CSA has been executed in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between counterparties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral pledged to such counterparties by the Group is shown in note 20, while collateral pledged to the Group is shown in note 32.

Since June 2019, the Group has been centrally clearing certain eligible derivatives with a Central Clearing Counterparty ('CCP') which removes credit risk between bilateral counterparties and ensures timely settlement and / or porting of derivative contracts in the event of the failure of a counterparty.

The Group's cross-currency basis swaps, the last of which terminated in the year, had arrangements requiring any counterparty failing to meet required credit criteria, to provide a cash collateral deposit. These cash collateral deposits were held in escrow and not recognised as assets of the Group so did not form part of the Group's cash position.

The Group's exposure to credit risk in respect of the counterparties to its derivative financial assets, analysed by their long-term credit rating as determined by Fitch is set out below.

	2021	2020
	£m	£m
Carrying value of derivative financial assets		
Counterparties rated		
AA	**0.1**	-
AA-	**0.4**	97.8
A+	**43.1**	364.2
A	**0.6**	1.3
Gross exposure (note 19)	**44.2**	463.3
Collateral amounts posted		
Cross-currency basis swap arrangements	-	-
CSA collateral amounts (note 33)	-	-
Total collateral	-	-
Net exposure	**44.2**	463.3

The reduction in exposure shown above relates principally to the termination of cross-currency basis swaps on the repayment of the related securitisation borrowings.

56. Liquidity risk

Liquidity risk is the risk that the Group might be unable meet its liabilities as they fall due.

The Group's principal source of liquidity risk is from its retail deposit funding. Deposit balances raised are typically used to support lending activities where maturity is over a longer period than that of the deposits. This maturity transformation exposes the Group to liquidity risk.

Further liquidity risk arises:

- In the medium term from the Group's corporate and retail bonds which are used to support its general operations and from its participation in central bank funding schemes
- From the Group's derivatives portfolio which gives rise to liquidity risk due to the collateral requirements to cover adverse changes in valuation
- From the Group's participation in the SPVs where sufficient funding must be available

Liquidity is also required to provide capital support for new loans and working capital for the Group.

Where assets are funded by non-recourse arrangements, through the securitisation process, liquidity risk is effectively eliminated.

As an authorised deposit taker, the liquidity position of Paragon Bank PLC, the Group's banking subsidiary, is also managed on a stand-alone basis.

Set out below is a summary of the contractual cash flows expected to arise from the Group's financial and leasing liabilities, based on the earliest date at which repayment can be demanded.

	Amounts payable				
	In one year or less, or on demand	In more than one year, but not more than two years	In more than two years but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
30 September 2021					
Retail deposits	**7,306.3**	**1,626.9**	**540.1**	**12.3**	**9,485.6**
Borrowings	**220.3**	**25.0**	**2,913.7**	**185.6**	**3,344.6**
Total non-derivative liabilities	**7,526.6**	**1,651.9**	**3,453.8**	**197.9**	**12,830.2**
Derivative liabilities	**1.8**	**11.7**	**28.9**	**0.4**	**42.8**
	7,528.4	**1,663.6**	**3,482.7**	**198.3**	**12,873.0**
30 September 2020					
Retail deposits	5,740.0	1,608.2	704.5	-	8,052.7
Borrowings	792.9	398.1	1,079.0	161.5	2,431.5
Total non-derivative liabilities	6,532.9	2,006.3	1,783.5	161.5	10,484.2
Derivative liabilities	5.1	5.2	1.8	-	12.1
	6,538.0	2,011.5	1,785.3	161.5	10,496.3

Non-recourse balances are payable only to the extent that funds are available, as described further below, and do not expose the Group to any material liquidity risk. They are therefore not included in the table above.

As the amounts set out above include all expected future cash flows, including principal and interest, they will not agree to amortised cost or fair value amounts reported in the balance sheet.

Further information on the liquidity exposure arising from the Group's retail deposits, securitisation and other borrowings is set out below.

The liquidity exposures of the Company arise only from its borrowings, and are set out below.

The overall responsibility for the management of liquidity risk rests with ALCO which makes recommendations for the Group's liquidity policy for board approval. ALCO monitors liquidity risk metrics within limits set by the Board or regulators and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

The Group's and the Bank's liquidity position is managed on a day to day basis by the treasury function, under the supervision of ALCO.

Retail deposits

The Group's retail funding strategy is focussed on building a stable mix of deposit products. A high proportion of balances, 97.0% (2020: 97.3%), are protected by the FSCS which mitigates against the possibility of a retail run.

The cash outflows, including principal and estimated interest contractually required by the Group's retail deposit balances, analysed by the earliest date at which repayment can be demanded are set out below:

	2021	2020
	£m	£m
Payable on demand	3,308.7	2,363.8
Payable in less than three months	808.1	598.3
Payable in less than one year but more than three months	3,189.5	2,777.9
Payable in less than one year or on demand	7,306.3	5,740.0
Payable in one to two years	1,626.9	1,608.2
Payable in two to five years	540.1	704.5
Payable after more than five years	12.3	-
	9,485.6	8,052.7

In order to reduce the liquidity risk inherent in the Group's retail deposit balances, the PRA requires that the Bank, like other regulated banks, maintains a buffer of liquid assets to ensure it has sufficient available funds at all times to protect against unforeseen circumstances. The amount of this buffer is calculated using Individual Liquidity Guidance ('ILG') set by the PRA based on the Internal Liquidity Adequacy Assessment Process ('ILAAP') undertaken by the Bank. The ILAAP determines the liquid resources that must be maintained in the Bank to meet its Overall Liquidity Adequacy Requirement ('OLAR') and to ensure that it can meet its liabilities as they fall due. It is based on an analysis of its business as usual forecast cash requirements but also considers their predicted behaviour in stressed conditions.

At 30 September 2021 the liquidity buffer comprised the following on and off balance sheet assets. All these assets are held within the Bank and are readily realisable.

	2021	2020
	£m	£m
Balances with central banks	942.7	1,386.9
Total on balance sheet liquidity	942.7	1,386.9
Long / short repo transaction	150.0	150.0
	1,092.7	1,536.9

Balances with central banks above exclude group cash balances placed on deposit at the Bank of England through Paragon Bank.

Paragon Bank manages its Liquidity Coverage Ratio ('LCR'), the level of its High Quality Liquid Assets ('HQLA') relative to its short-term forecast net cash outflows. A minimum level of LCR, the Liquidity Coverage Requirement, is set through regulation for all regulated financial institutions. As at 30 September 2021, the Bank's LCR was comfortably above the required minimum regulatory standard. The Bank also monitors its Net Stable Funding Ratio ('NSFR') which measures the stability of the funding profile in relation to the composition of its assets and off balance sheet activities.

Liquidity is not regulated at Group level.

Borrowings

Set out below is the contractual maturity profile of the Group's and the Company's borrowings at 30 September 2021 and 30 September 2020 based on their carrying values. These are analysed between non-recourse (securitisation) and other funding, with the liquidity position arising principally from the other funding.

The Group

	Financial liabilities falling due:				
	In one year or less, or on demand	In more than one year, but not more than two years	In more than two years but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
30 September 2021					
Secured bank borrowings	**201.0**	-	-	**529.0**	**730.0**
Asset backed loan notes	-	-	-	**516.0**	**516.0**
Total non-recourse funding	**201.0**	-	-	**1,045.0**	**1,246.0**
Bank overdrafts	**0.3**	-	-	-	**0.3**
Retail bonds	**125.0**	-	**112.1**	-	**237.1**
Corporate bond	-	-	-	**149.0**	**149.0**
Central bank facilities	**69.0**	-	**2,750.0**	-	**2,819.0**
Lease liabilities	**1.5**	**1.9**	**3.8**	**2.3**	**9.5**
	396.8	**1.9**	**2,865.9**	**1,196.3**	**4,460.9**
30 September 2020					
Secured bank borrowings	-	-	-	657.8	657.8
Asset backed loan notes	-	-	-	3,270.5	3,270.5
Total non-recourse funding	-	-	-	3,928.3	3,928.3
Bank overdrafts	0.4	-	-	-	0.4
Retail bonds	60.0	124.8	112.0	-	296.8
Corporate bond	-	-	-	149.8	149.8
Central bank facilities	700.0	244.4	910.0	-	1,854.4
Lease liabilities	1.5	1.1	2.4	0.6	5.6
	761.9	370.3	1,024.4	4,078.7	6,235.3

The Company

	Financial liabilities falling due:				
	In one year or less, or on demand	In more than one year, but not more than two years	In more than two years but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
30 September 2021					
Retail bonds	**125.0**	-	**112.1**	-	**237.1**
Corporate bond	-	-	-	**149.0**	**149.0**
Lease liabilities	**1.3**	**1.3**	**4.1**	**9.6**	**16.3**
	126.3	**1.3**	**116.2**	**158.6**	**402.4**
30 September 2020					
Retail bonds	60.0	124.8	112.0	-	296.8
Corporate Bond	-	-	-	149.8	149.8
Lease liabilities	1.2	1.3	4.0	11.0	17.5
	61.2	126.1	116.0	160.8	464.1

IFRS 7 requires the disclosure of future contractual cash flows (including interest) on these borrowings, and these are described and set out on the following pages.

Non-recourse funding

The Group has historically used securitisation as a principal source of funding, but currently only accesses this market on a strategic basis. In a securitisation an SPV company within the Group will issue asset backed loan notes ('Notes') secured on a pool of mortgage or other loan assets beneficially owned by the SPV in a public offer. The Notes have a maturity date later than the final repayment date for any asset in the pool, typically over thirty years from the issue date. The noteholders are entitled to receive repayment of the Note principal from principal funds generated by the loan assets from time to time, but their right to the repayment of principal is limited to the cash available in the SPV. Similarly, payment of accrued interest to the noteholders is limited to cash generated within the SPV. There is no requirement for any Group company other than the issuing SPV to make principal or interest payments in respect of the Notes. This matching of the maturities of the assets and the related funding substantially reduces the Group's exposure to liquidity risk. Details of Notes in issue are given in note 27 and the assets backing the Notes are shown in note 16.

In each case the Group provides funding to the SPV at inception, subordinated to the Notes, which means that the primary credit risk on the pool assets is retained within the Group. The Group receives the residual income generated by the assets. These factors mean that the risks and rewards of ownership of the assets remain with the Group, and hence the loans remain on the Group's balance sheet.

Cash received from time to time in each SPV is held until the next interest payment date when, following payment of principal, interest and the associated costs of the SPV, the remaining balances become available to the Group. Cash balances are also held within each SPV to provide credit enhancement for the particular securitisation, allowing interest and principal payments to be made even if some of the loans default.

To provide further credit enhancement in certain SPVs, specific economic trigger events existed which caused additional cash to be retained in the SPV rather than being transferred to the Group. While the Group could, if it chose, contribute additional cash to cover these requirements, it was under no obligation to do so. No such events occurred in the year ended 30 September 2021 or the year ended 30 September 2020 and no such SPVs remained live at 30 September 2021. The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 14 as 'securitisation cash'.

Newly originated mortgage loans may be initially funded by a revolving loan facility or 'warehouse' from the point of their origination until their inclusion in a securitisation transaction or other refinancing. A warehouse may also be used to hold acquired loans or to refinance group loans on a short-term basis. A warehouse company functions in a similar way to an SPV, except that funds are drawn down as advances are made or loans are sold in, repaid when loans are securitised or refinanced by an internal asset sale and may subsequently be redrawn up to the end of a commitment period. The Group's Paragon Second Funding facility was initiated as a warehouse, but is no longer available for new drawings.

Repayment of the principal amount of the facilities is not required unless amounts are realised from the secured assets either through repayment, securitisation or asset sales, even after the end of the commitment period. There is no further recourse to other assets of the Group in respect of either interest or principal on the borrowings.

As with the SPVs, the Group provides subordinated funding to active warehouse companies and restricted cash balances are held within them. Contributions to the subordinated funding are made each time a drawing on the facility concerned is made. These amounts provide credit enhancement to the warehouse and cover certain fees. This funding is repaid when assets are securitised or refinanced by an internal asset sale. Credit enhancement in the active warehouse at 30 September 2021 was £27.4m (2020: £nil) and undrawn facilities of £199.0m were available at the year-end (2020: £400.0m).

Further details of the warehouse facilities are given in note 28 and details of the loan assets within the warehouses are given in note 16.

The final repayment date for all of the securitisation borrowings and the Paragon Second Funding warehouse borrowing is more than five years from the balance sheet date, the earliest falling due in 2045 and the latest in 2050.

The equivalent sterling principal amount outstanding at 30 September 2021 under the SPV and warehouse arrangements, allowing for the effect of the cross-currency basis swaps, described under currency risk (note 58), which are net settled with the loan payments, was £1,248.1m (2020: £3,489.1m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date, would be £1,886.9m (2020: £4,423.0m). As the principal will, as discussed above, reduce as customers repay or redeem their accounts, the cash flow will be far less than this amount in practice.

Corporate debt

In February 2013, the Company initiated a Euro Medium Term Note issuance programme, with a maximum issuance of £1,000.0m. The Company had the ability to issue further notes under the programme and has issued three fixed rate bonds for a total of £297.5m, with interest rates ranging from 6.000% to 6.125% and maturities ranging from December 2020 to August 2024, the most recent issue of £112.5m being made in August 2015. The oldest outstanding bond was redeemed in the year in accordance with its terms of issue, reducing the outstanding principal to £237.5m. This programme offers the Group opportunities to raise further working capital if needed.

The Group issued £150.0m of tier 2 debt in September 2016 with an optional call date in September 2021 and a final maturity of September 2026. This was called during the year and a replacement green bond was issued in March 2021. This bond is optionally callable between 25 June 2026 and 25 September 2026 and has a final maturity date of 25 September 2031.

The Group's ability to issue debt is supported by its credit rating issued by Fitch which was confirmed at BBB- in March 2021 with the published outlook for the rating revised to stable (from negative), in common with the ratings of other UK banks.

Of the Group's corporate and retail bond issuance, £125.0m falls due for payment in the next twelve months.

Central bank facilities

The Group has accessed term facilities under the central bank schemes described in note 31. The Group has prepositioned further assets with the Bank of England which can be used to release more funds for liquidity or other purposes. At 30 September 2021 the amount of drawings available in respect of prepositioned assets was £1,424.2m (2020: £684.0m).

Additional liquidity

The Group holds certain of its own listed, externally rated, asset backed securities which may be used as security to access credit facilities, including those offered by the Bank of England. The principal value of these notes is analysed by credit grade and utilisation status below.

		2021			2020	
	Utilised	**Available**	**Total**	Utilised	Available	Total
	£m	**£m**	**£m**	£m	£m	£m
Rating						
AAA	**1,276.1**	**287.0**	**1,563.1**	367.8	643.6	1,011.4
AA+ / AA / AA-	**5.3**	**100.9**	**106.2**	3.4	64.2	67.6
A+ / A / A-	**4.6**	**59.9**	**64.5**	3.6	51.8	55.4
BBB+ / BBB / BBB-	**4.3**	**81.4**	**85.7**	3.4	64.2	67.6
	1,290.3	**529.2**	**1,819.5**	378.2	823.8	1,202.0

As these notes are held internally, they are not included in balance sheet liabilities. Mortgage assets backing these securities remain on the Group's balance sheet and are included in amounts pledged as collateral in note 16.

Utilised notes includes those which the Group is obliged to hold under regulations governing securitisation issuance.

The available AAA notes would give access to £149.3m (2020: £502.5m) if used to secure drawings on Bank of England facilities. This is expected to increase to £297.1m when approval of the Group's LIBOR transition arrangements is received.

During the year ended 30 September 2020, the Group entered into a back-to-back long / short sale and repurchase ('repo') transaction with a UK bank which continued throughout the current year. This provides £150.0m of liquidity (2020: £150.0m), utilising £26.8m of the loan notes shown above, but does not appear on the Group's balance sheet.

The Group has also entered into short-term repo transactions from time to time during the year and maintains the capability to access the repo market for liquidity purposes.

Contractual cash flows

The total undiscounted amounts, inclusive of estimated interest, which would be payable in respect of the non-securitisation borrowings of the Group and the Company, should those balances remain outstanding until the contracted repayment date, or the earliest date on which repayment can be required, are set out below.

	Contingent consideration	Corporate bonds	Retail bonds	Central bank facilities	Lease liabilities	Total
	£m	£m	£m	£m	£m	£m
a) The Group						
30 September 2021						
Payable in:						
Less than one year	**4.6**	**6.6**	**135.6**	**71.8**	**1.7**	**220.3**
One to two years	**3.0**	**6.6**	**6.8**	**6.7**	**1.9**	**25.0**
Two to five years	-	**19.7**	**119.2**	**2,770.9**	**3.9**	**2,913.7**
Over five years	-	**182.7**	-	-	**2.9**	**185.6**
	7.6	**215.6**	**261.6**	**2,849.4**	**10.4**	**3,344.6**
30 September 2020						
Payable in:						
Less than one year	3.2	10.9	75.3	701.9	1.6	792.9
One to two years	5.0	10.9	135.6	245.4	1.2	398.1
Two to five years	5.8	32.6	126.0	912.0	2.6	1,079.0
Over five years	-	160.9	-	-	0.6	161.5
	14.0	215.3	336.9	1,859.3	6.0	2,431.5

	Corporate bonds	Retail bonds	Lease liabilities	Total
	£m	£m	£m	£m
b) The Company				
30 September 2021				
Payable in:				
Less than one year	**6.6**	**135.6**	**1.7**	**143.9**
One to two years	**6.6**	**6.8**	**1.7**	**15.1**
Two to five years	**19.7**	**119.2**	**5.0**	**143.9**
Over five years	**182.7**	-	**10.3**	**193.0**
	215.6	**261.6**	**18.7**	**495.9**
30 September 2020				
Payable in:				
Less than one year	10.9	75.3	1.7	87.9
One to two years	10.9	135.6	1.7	148.2
Two to five years	32.6	126.0	5.0	163.6
Over five years	160.9	-	12.0	172.9
	215.3	336.9	20.4	572.6

Amounts payable in respect of the ‘other accruals’ and ‘trade creditors’ shown in note 32 fall due within one year. The cash flows described above will include those for interest on borrowings accrued at 30 September 2021 disclosed in note 32.

The cash flows which are expected to arise from derivative contracts in place at the year end, estimating future floating rate payments and receipts on the basis of the yield curve at the balance sheet date are as follows:

	2021	2020
	Total cash outflow / (inflow)	Total cash outflow / (inflow)
	£m	£m
On derivative liabilities		
Payable in less than one year	**1.8**	5.1
Payable in one to two years	**11.7**	5.2
Payable in two to five years	**28.9**	1.8
Payable in over five years	**0.4**	-
	42.8	12.1
On derivative assets		
Payable in less than one year	**(25.1)**	(38.1)
Payable in one to two years	**(13.6)**	(43.4)
Payable in two to five years	**(3.8)**	(45.7)
Payable in over five years	-	(0.1)
	(42.5)	(127.3)
	0.3	(115.2)

The reduction in the level of expected flows is a result of the termination of cross-currency basis swaps in the year.

57. Interest rate risk

Interest rate risk is the current or prospective risk to capital or earnings arising from adverse movements in interest rates. The Group's exposure to this risk is a natural consequence of its lending, deposit taking and other borrowing activities, as some of its financial assets and liabilities bear interest at rates which float with various market rates while others are fixed, either for a term or for their whole lives. Such risk is referred to as Interest Rate Risk in the Banking Book ('IRRBB'). The Group does not seek to generate income from taking interest rate risk and aims to minimise exposures that occur as a natural consequence of carrying out its normal business activities.

The principal market-set interest rate used by the Group has historically been LIBOR, which has been used to set rates for certain loan assets and borrowings. However, the Group has continued to move towards the use of alternative reference rates, principally SONIA, during the year. All new wholesale debt and interest rate swaps recognised since that point have referenced SONIA, while existing LIBOR linked instruments have either been transitioned or are in the process of transitioning in response to the expected withdrawal of LIBOR from late 2021. This process is expected to be completed in the first half of new financial year, before the LIBOR withdrawal date.

The Group's risk management framework for IRRBB continues to evolve in line with updates in regulatory guidance on methods expected to be used by banks measuring, managing, monitoring and controlling such risks. The Group will continue to develop these processes as interpretation of these standards becomes clearer as they become more widely implemented.

IRRBB is managed through board approved risk appetite limits and policies. The Group seeks to match the structure of assets and liabilities naturally where possible or by using appropriate financial instruments, such as interest rate swaps. Day-to-day management of interest rate risk is the responsibility of the Group's Treasury function, with control and oversight provided by ALCO.

IRRBB exposures

- Duration or re-pricing risk. The risk created when interest rates on assets, liabilities and off-balance sheet items reprice at different times causing them to move by different amounts
- Basis risk. The risk arising where assets and liabilities re-price with reference to different reference interest rates, for example rates set by the Group and market rates, such as Bank of England base rate, SONIA and LIBOR. Relative changes in the difference between the reference rates over time may impact earnings
- Optionality or prepayment risk. The risk that settlement of asset and liability balances at different times from those forecast due to economic conditions or customer behaviour may create a mismatch in future periods

Due to the maturity transformation inherent in the Group's business model it is also exposed to the risk that the relationship between the rates affecting the shorter term funding balance and the rates affecting the longer term lending balance will have altered when the funding has to be refinanced.

The Group measures these risks through a combination of economic value and earnings-based measures considering prepayment risk:

- Economic Value ('EV') – a range of parallel and non-parallel interest rate stresses are applied to assess the change in market value from assets, liabilities and off balance sheet items re-pricing at different times
- Net Interest Income ('NII') – impact on earnings from a range of interest rate stresses

The Group's use of financial derivatives for hedging interest rate risk is discussed further in note 19.

IBOR transition

In July 2017 the FCA announced that by the end of 2021 it would no longer compel banks to make submissions to the LIBOR setting process. As a result of this, LIBOR will be discontinued in the early part of the financial year ending 30 September 2022. The UK Working Group on Sterling Risk-Free Interest Rates has recommended SONIA as its replacement and this recommendation has been adopted by the Group where appropriate.

LIBOR was historically used in setting interest rates on significant amounts of the Group's loan assets and borrowings and an internal working group was established to identify the impact on the business and ensure an orderly transition from LIBOR to other reference rates across all classes of financial instrument. This process is well progressed and the Group is on course to complete its transition ahead of the required date.

The current balances of the Group's loans to customers where the interest rate or the reversionary interest rate is set by reference to IBOR rates are set out below.

	2021	2020
	£m	£m
First mortgages	-	3,750.0
Development finance facilities	**63.3**	234.6
Second charge mortgages	**45.0**	61.4
Structured lending	**43.4**	94.9
Aviation mortgages	**12.1**	24.1
	163.8	4,165.0

All these loans reference sterling LIBOR, except certain aviation mortgages denominated in US dollars which reference US dollar LIBOR.

All of the Group's LIBOR-linked first mortgage loans were transitioned to a SONIA-linked basis in line with appropriate regulatory expectations during the year.

The Group's development finance operation ceased to lend on a LIBOR linked basis from 1 April 2020. A programme to transition the remaining LIBOR linked facilities to the Group's Commercial Variable Rate ('CVR') commenced in the year. Of the balance shown above, £21.0m transitioned with effect from 1 October 2021 and the remaining balances are expected to be repaid before 31 December 2021.

The second charge mortgages shown above were moved to LIBOR as a temporary measure following the withdrawal of the Finance House Base Rate in 2020. These will be transitioned to a basis linked to Bank Base Rate ('BBR') by 31 December 2021.

Structured finance facilities agreed since 22 February 2021 have interest rates linked to Daily Compounded SONIA. The majority of extant LIBOR loans were transitioned to the SONIA basis during the year with the remainder expected to transition before the end of December 2021.

No new aviation mortgages referencing sterling LIBOR have been written since 1 October 2020. During the year all extant LIBOR linked loans were transitioned to BBR linked arrangements.

Aviation mortgages referencing US Dollar LIBOR remained in place at year end. US Dollar LIBOR will continue to be published until June 2023.

Borrowings where interest rates are based on LIBOR and other IBOR rates are shown in notes 27 and 28. All such arrangements have either expired, transitioned to SONIA in the year, or an agreement to transition to SONIA on an appropriate timescale is in place.

Derivative financial assets and liabilities where cash flows are based on IBOR rates are shown in note 19. All remaining LIBOR linked derivatives will transition to SONIA in line with ISDA protocols at the LIBOR withdrawal date.

Interest rate sensitivity

To provide a broad indication of the Group's exposure to interest rate movements, the notional impact of a 1.0% change in UK interest rates on the equity of the Group at 30 September 2021, and the notional annualised impact of such a change on the operating profit of the Group, based on the year-end balance sheet have been calculated.

As a simplification this calculation assumes that all relevant UK interest rates move by the same amount in parallel and that all repricing takes place at the balance sheet date.

On this basis, a 1.0% increase in UK interest rates would reduce the Group's equity at 30 September 2021 by £25.6m (2020: reduced by £0.9m) and increase profit before tax by £16.7m (2020: increase by £19.8m).

This calculation allows only for the direct effects of any change in UK interest rates. In practice, such a change might have wider economic consequences which would themselves potentially affect the Group's business and results.

In previous years certain of the Group's borrowings have had interest rates dependent on US dollar and Euro LIBOR rates, with the effect of related cross-currency basis swaps being such that the Group's results had no material exposure to movements in these rates. None of these borrowings remained in place at 30 September 2021 and therefore independent 1.0% increases in US dollar or Euro interest rates would have no impact on the Group's equity (2020: increase by £0.3m and £0.9m respectively).

It should be noted that these sensitivities are illustrative only, and much simplified from those used to manage IRRBB in practice.

The Company

All the borrowings of the Company have fixed interest rates. The Company's investments in loans to subsidiary companies include a Tier-2 Bond issued by Paragon Bank PLC, with terms matching the Tier-2 Bond issued by the Company. Its intercompany balance with Paragon Bank also includes £199.3m which is placed on deposit with the Bank of England. Interest is received on this balance at the same rate as that paid by the Bank of England. Other assets and liabilities with group entities bore interest at rates based on LIBOR up to 30 September 2021, after which they were transitioned to a SONIA basis. All other balances in the Company balance sheet are non-interest bearing.

58. Currency risk

The Group has little appetite for material amounts of exposure to foreign currency movements and applies a hedging strategy for any material open positions through the use of spot or forward contracts or derivatives.

All the Group's significant assets and liabilities at 30 September 2021 are denominated in sterling. In previous years certain of the asset backed loan notes were denominated in US dollars or euros, as described in note 27. Although IFRS 9 required that they were accounted for as currency liabilities and valued at their spot rates, a condition of the issue of these notes was that bespoke interest rate and currency swaps ('cross-currency basis swaps') were put in place for the duration of the borrowing, having the effect of converting the liability to a LIBOR-linked floating rate sterling borrowing eliminating currency risk for these exposures. The amount of this effective borrowing, the amount of the currency borrowing translated at the exchange rate on inception, is referred to as the 'equivalent sterling principal'. The final examples of such notes were repaid in the year.

The equivalent sterling principal amounts of notes in issue under the arrangements described above, and their carrying values at 30 September 2021 and 30 September 2020 are set out below:

	2021	**2021**	2020	2020
	Equivalent sterling principal	**Carrying value**	Equivalent sterling principal	Carrying value
	£m	**£m**	£m	£m
US dollar notes	-	-	397.0	609.6
Euro notes	-	-	687.5	917.8
	-	-	1,084.5	1,527.4

The asset finance business has a limited amount of lending denominated in US dollars and may contract to purchase assets for leasing in currency. These balances are hedged by the purchase of currency derivatives and / or appropriate currency balances.

As a result of these arrangements the Group has no material exposure to foreign currency risk, and no sensitivity analysis is presented for currency risk.

The Group's use of financial derivatives to manage currency risk is described further in note 19.

None of the assets or liabilities of the Company are denominated in foreign currencies.

D2.4 Notes to the Accounts – Basis of preparation

For the year ended 30 September 2021

The notes set out below describe the accounting basis on which the Group and the Company prepare their accounts, the particular accounting policies adopted by the Group 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.

59. Basis of preparation

The Group is required to prepare its financial statements for the year ended 30 September 2021 in accordance with IFRS in conformity with the requirements of the Companies Act 2006. They must also be prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('EU'). In the financial years reported on this will also mean that, in the Group's circumstances, the financial statements also accord with IFRS as approved by the International Accounting Standards Board.

The "requirements of the Companies Act 2006" here means accounts being prepared in accordance with "IAS" as defined in section 474(1) of that Act, as it applied immediately before IP Completion Day (the end of the UK's transition period following its departure from the EU) ('IPCD'), including where the Company also makes use of standards which have been adopted for use within the United Kingdom in accordance with regulation 1(5) of the IAS and European Public Limited Liability Company (Amendment etc.) (EU Exit) Regulations 2019, subsequent to the IPCD.

Under the Listing Rules of the FCA, despite the UK's exit from the EU on 31 January 2020, the EU endorsed IFRS regime remains applicable to the Group until its first financial year commencing after the IPCD on 31 December 2020.

Therefore, while EU endorsed IFRS applies to these financial statements, those for the year ending 30 September 2022 will instead be prepared under 'UK-adopted IAS.

The changes in the way that the basis of preparation is described, which result from the UK's exit from the EU, including the move to UK-adopted IAS from the Group's financial year commencing 1 October 2021, do not represent a change in the basis of accounting which would necessitate a prior year restatement.

The particular accounting policies adopted have been set out in note 61 and the critical accounting judgements and estimates which have been required in preparing these financial statements are described in notes 62 and 63 respectively.

The Group has historically chosen to present an additional comparative balance sheet.

Adoption of new and revised reporting standards

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

- 2020 amendments to IAS 39 – 'Interest Rate Benchmark Reform' and consequential amendments to IFRS 7

Comparability of information

IFRS 16 did not require that the balance sheet information at 30 September 2019 was restated on the adoption of the Standard. The information presented for that period in these financial statements is derived in accordance with IAS 17 – 'Leases' ('IAS 17'), and therefore may not be directly comparable with the balance sheet at 30 September 2021 and 30 September 2020 which are prepared under IFRS 16.

Standards not yet adopted

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

60. Changes in accounting standards

IAS 39 amendments 'Interest Rate Benchmark Reform'

In August 2020 the IASB issued a further amendment to IAS 39 'Interest Rate Benchmark Reform – Phase 2'. This amendment sets out accounting requirements for the treatment of IBOR-linked financial assets and liabilities under the amortised cost method and IBOR related hedge accounting when a firm replaces the IBOR linkage in the underlying instruments with a replacement benchmark. It is therefore potentially applicable to the Group's LIBOR-linked loan assets and those FRN liabilities where interest is charged on the basis of LIBOR or other IBOR rates. It also affects the Group's LIBOR (and other IBOR) referenced derivative assets and liabilities and the hedging relationships which they form part of.

The intention of the standard is that, where the transition is effectively a like for like replacement, no windfall gain or loss should occur on transition, and hedging relationships should be able to continue.

This amendment is effective from the Group's financial year ending 30 September 2022 but has been endorsed by both the EU and the UK and has been early adopted by the Group as permitted. The Group has utilised, and will continue to utilise, the provisions of the amendment as it transitions its IBOR-linked assets and liabilities. The impact of the amendment will depend upon the IBOR related assets, liabilities and hedging relationships at the point at which transition occurs.

61. Accounting policies

The particular policies applied by the Group in preparing these financial statements in accordance with the EU endorsed IFRS regime are described below.

As comparative financial information relating to the year ended 30 September 2019 and earlier periods has not been restated for IFRS 16, as permitted by that standard, the accounting policies applied differ to those used in the accounts for the year ended 30 September 2021. Where this is significant both policies are shown.

(a) 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.

(b) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2021. Subsidiaries comprise all those entities over which the Group has control, as defined by IFRS 10 – 'Consolidated Financial Statements'.

In addition to legal subsidiaries, where the Company owns shares in the entity, directly or indirectly, in accordance with IFRS 10, companies owned by charitable trusts into which loans originated by group companies were sold as part of its warehouse and securitisation funding arrangements, where the Group enjoys the benefits of ownership and which, therefore, it is considered to control, are treated as subsidiaries.

Similarly, trusts set up to hold shares in conjunction with the Group's employee share ownership arrangements are also treated as subsidiaries.

A full list of the Group's subsidiaries is set out in note 66, together with further information on the basis on which they are considered to be controlled by the Company. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

(c) Going concern

The consolidated 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 64.

(d) Acquisitions and goodwill

Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair value of the purchase consideration over the fair values of acquired assets, including intangible assets, is held on the balance sheet and reviewed annually to determine whether any impairment has occurred.

As permitted by IFRS 1, the Group has elected not to apply IFRS 3 – 'Business Combinations' to combinations taking place before its transition date to IFRS (1 October 2004). Therefore any goodwill which was written off to reserves under UK GAAP will not be charged or credited to the profit and loss account on any future disposal of the business to which it relates.

Contingent consideration arising on acquisitions is first recognised in the accounts at its fair value at the acquisition date and subsequently revalued at each accounting date until it falls due for payment or the final amount is otherwise determined.

(e) Cash and cash equivalents

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

(f) Leases

For leases where the Group 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 Group is lessor are accounted for as operating or finance leases in accordance with IFRS 16 – 'Leases'. 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.

Finance lease receivables are accounted for as loans to customers, with impairment provisions determined in accordance with IFRS 9.

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.

(g) Loans to customers

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

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

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

Where financial assets are credit-impaired at initial recognition the EIR is calculated on the basis of expected future cash receipts allowing for the effect of credit risk. In other cases, the expected contractual cash flows are used.

(h) Finance lease receivables

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

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

(i) Impairment of loans to customers

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

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

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

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

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

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

While the Group uses statistical models as the basis for its calculation of ECLs where appropriate, expert judgement will always be used to assess the adequacy of any calculated amount and additional provision made if required.

Within its buy-to-let portfolio the Group utilises a receiver of rent process, whereby the receiver stands between the landlord and tenant and will determine an appropriate strategy for dealing with any delinquency. This strategy may involve the immediate sale of any underlying security or the short or long term letting of the property to cover arrears and principal shortfalls. Such cases are automatically considered to have an SICR, but where a letting strategy is adopted by the receiver and a tenant is in place, arrears may be reduced or cleared. Properties in receivership are eventually either returned to their landlord owners or sold.

For loan portfolios acquired at a discount, the discounts take account of future expected impairments and such assets are treated as POCI. For these assets, the Group recognises all changes in future cash flows arising from changes in credit quality since initial recognition as a loss allowance with any changes recognised in profit or loss.

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

(j) Amounts owed by or to group companies

In the accounts of the Company, 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.

(k) Property, plant and equipment

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

Assets held for letting under operating leases are depreciated in equal annual instalments to their estimated residual value over the life of the related lease. Vehicles held for short term hire are depreciated in equal annual instalments to their estimated residual value over their expected useful life. This depreciation is deducted in arriving at net lease income and is shown in note 6.

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:

Freehold premises	Short leasehold premises	Computer hardware	Furniture, fixtures and office equipment	Company motor vehicles
2% per annum	over the term of the lease	25% per annum	15% per annum	25% 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.

(l) 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.

Other intangible assets acquired in business combinations include brands and business networks and are capitalised in accordance with the requirements of IFRS 3 – 'Business Combinations'. Such assets are stated at attributed cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate determined at the point of acquisition.

(m) Investments in subsidiaries

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

(n) Own shares

Shares in Paragon Banking Group PLC held in treasury or by the trustee of the Group's employee share ownership plan are shown on the balance sheet as a deduction in arriving at total equity. Own shares are stated at cost.

(o) Retail deposits

Retail deposits are carried in the balance sheet on the amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

Interest payable to the customer is expensed to the income statement as interest payable over the deposit term on an EIR basis.

(p) 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 income statement as interest payable over the term of the borrowing on an EIR basis.

(q) Central bank facilities

Where central bank facilities are provided at a below market rate of interest, and therefore fall within the definition of government assistance as defined by IAS 20 – 'Accounting for Government Grants and Disclosure of Government Assistance', the liability is initially recognised at the value of its expected cash flows discounted at a market rate of interest for a comparable commercial borrowing. Interest is recognised on this liability on an EIR basis, using the imputed market rate to determine the EIR.

The remaining amount of the advance is recognised as deferred government assistance and released to the profit and loss account through interest payable over the periods during which the arrangement affects profit.

(r) Derivative financial instruments

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

(s) Hedging

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

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

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

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

(t) Taxation

The charge for taxation represents the expected UK corporation tax (including the Bank Corporation Tax Surcharge where applicable) and other income taxes arising from the Group'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.

The Group will hold a provision for any uncertain tax positions at the balance sheet date based on a global assessment of the expected amount that will ultimately be payable.

Tax relating to items taken directly to equity is also taken directly to equity.

(u) 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.

(v) 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 income statement. 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 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 income statement for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

(w) Revenue

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

(x) 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 cost), which are credited when the related service is performed
- Fees charged to third parties for account administration services, which are credited as those services are performed
- Commissions receivable on the sale of insurances, as agent of the third-party insurer, which are taken to profit at the point at which the Group becomes unconditionally entitled to the income
- Maintenance income charged as part of the Group's contract hire arrangements which is recognised as the services are provided. Costs of these services are deducted in other income
- Broker fees receivable on the arrangement of loans funded by third parties, on an agency basis, which are taken to profit at the point of completion of the related loan

(y) Share based payments

In accordance with IFRS 2 – 'Share-based Payments', the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date.

National Insurance on share based payments is accrued over the vesting period, based on the share price at the balance sheet date.

Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

(z) Dividends

In accordance with IAS 10 – 'Events after the balance sheet date', dividends payable on ordinary shares are recognised in equity once they are appropriately authorised and are no longer at the discretion of the Company. Dividends declared after the balance sheet date, but before the authorisation of the financial statements remain within shareholders' funds.

However, such dividends are deducted from regulatory capital from the point at which they are announced, and capital disclosures are prepared on this basis.

(aa) Foreign currency

Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 – 'The Effects of Changes in Foreign Exchange Rates'. The functional currency of the Company and all of the other entities in the Group is the pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

Gains and losses on retranslation are included in interest payable or interest receivable depending on whether the underlying instrument is an asset or a liability, except where deferred in equity in accordance with the cash flow hedging provisions of IAS 39.

(bb) Segmental reporting

The accounting policies of the segments are the same as those described above for the Group as a whole. Interest payable by each segment includes directly attributable funding and the allocated cost of retail deposit funds utilised. Costs attributed to each segment represent the direct costs incurred by the segment operations.

62. Critical accounting judgements

The most significant judgements which the directors have made in the application of the accounting policies set out in note 61 relate to:

(a) Significant Increase in Credit Risk ('SICR')

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

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

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

Where accounts have received secondary periods of relief beyond the initial three month period, this has generally been considered to be strongly indicative of underlying problems and such accounts have been identified as having an SICR. Furthermore, adjustments to correct probabilities of default in models will also have a consequent result of identifying more SICRs.

More information on the definition of SICR adopted is given in note 18.

(b) Definition of default

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

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

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

More information on the Group's definition of default adopted is given in note 18.

(c) Classification of financial assets

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

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

Financial assets are classified as held at amortised cost, at fair value through OCI, or at fair value through profit and loss.

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

This is because all the Group's lending arrangements involve the advancing of amounts to customers, either as loans or finance lease products and the receipt of repayments of principal and charges, where those charges are calculated based on the amount loaned. There are no 'success fee' or other compensation arrangements not linked to the loan principal.

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

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

63. Critical accounting estimates

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

(a) Impairment losses on loans to customers

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

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

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

Key internal assumptions in the models relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property or other charged assets. These cash flows will include payments received from the customer, and, for buy-to-let cases where a receiver of rent is appointed, rental receipts from tenants, after allowing for void periods and running costs. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

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

All of this information may be impacted by the ongoing effects of the Covid pandemic, its economic effect on customers and the forms of the reliefs given to ameliorate that impact. These may both change the underlying data and impact on the derivation of metrics normally used to monitor credit performance.

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

In order to provide forward looking economic inputs to the modelling of the ECL, the Group must derive a set of scenarios which are internally coherent. The Group addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes. These scenarios at 30 September 2021 have been derived in light of the current economic situation, modelling a variety of possible outcomes as described in note 18. It should be noted, however, that there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK and, while these positions are converging, this is likely to remain the case for some time to come.

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

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

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

In addition to uncertainty created by the economic scenarios, the Group recognises that the present situation lies outside the range of situations considered when it originally derived its IFRS 9 approach to impairment. It therefore considered, for each class of asset, whether any adjustment to the normal approach was required to ensure sufficient provision was created and also reviewed other available data, both from account performance and customer feedback to form a view of the underlying reasons for observed customer behaviours and of their future intentions and prospects.

As a result of this exercise additional requirements for provision were identified, to compensate for potential model weakness and to allow for economic pressures in the wider economy which cannot be identified by a modelled approach. By their nature such adjustments are less systematic and therefore subject to a wider range of outturns. The nature and amounts of these PMA's are set out in note 18.

The position after considering all these matters is set out in note 18, together with further information on the Group's approach and sensitivity analysis. The economic scenarios described above and their impact on the overall provision are also set out in that note.

(b) Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each asset or liability and hence the cash flows relating thereto, including those relating to early redemption charges. For purchased loan accounts this will involve estimating the likely future credit performance of the accounts at the time of acquisition. For each portfolio a model is in place to ensure that income is appropriately spread.

The underlying estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and those predicted, which in turn would depend directly or indirectly (in the case of borrowings) on customer behaviour.

To illustrate the potential variability of the estimate, the amortised cost values were recalculated by changing one factor in the EIR calculation and keeping all others at their current levels. This exercise indicated that:

- A reduction of the assumed average lives of loans secured on residential property by three months would reduce balance sheet assets by £12.0m (2020: £11.2m), while an increase of the assumed asset lives of such assets by three months would increase balance sheet assets by £12.1m (2020: £10.3m)
- An increase of 50% in the number of five year fixed rate buy-to-let loan assets assumed to redeem before the end of the fixed rate period, generating additional early redemption charges would increase balance sheet assets by £11.2m (2020: £7.3m)
- A reduction (or increase) in estimated cash flows from purchased loan assets of 5% would reduce (or increase) balance sheet assets by £7.1m (2020: £9.4m)

As any of these changes would, in reality, be accompanied by movements in other factors, actual outcomes may differ from these estimates.

(c) Impairment of goodwill

The carrying value of goodwill recognised on acquisitions is verified by use of an impairment test based on the projected cash flows for the CGU, based on management forecasts and other assumptions described in note 24, including a discount factor.

The accuracy of this impairment calculation would therefore be compromised by any differences between these forecasts and the levels of business activity that the CGU is able to achieve in practice. As the Group forecasts are based on the Group's central economic scenario, any variance from this will potentially impact on the valuation. This test will also be affected by the accuracy of the discount factor used.

The sensitivity of the impairment test to reasonably possible movements in these assumptions is discussed in note 24.

(d) Retirement benefits

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions relating to inflation, long-term return on investments and mortality. These are listed in note 52. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

Information on the sensitivity of the valuation to the various assumptions is given in note 52.

64. Going concern

Accounting standards require the directors to assess the Group's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014.

Particular focus is given to the Group's financial forecasts to ensure the adequacy of resources available for the Group to meet its business objectives on both a short term and strategic basis. The guidance requires that this assessment covers a period of at least twelve months from the date of approval of these financial statements.

The Group makes extensive use of stress testing in compiling and reviewing its forecasts. This stress testing approach was reviewed in detail during the year as part of the annual ICAAP cycle, where testing considered the impact of a number of severe but plausible scenarios. During the planning process, sensitivity analysis was carried out on a number of key assumptions that underpin the forecast to evaluate the impact of the Group's principal risks.

The key stresses modelled in detail to evaluate the forecast were:

- Increased business volumes an increase of 20% in buy-to-let application volumes. This examined the impact of volumes on profitability and illustrated the extent to which capital resources and liquidity would be stretched due to the higher cash and capital requirements
- Higher funding costs – 25bps higher cost on all new savings deposits throughout. This scenario illustrated the impact of a significant prolonged margin squeeze on profitability and whether this would cause significant impacts on any capital, liquidity or encumbrance ratios
- Lower development finance growth – 50% lower loan book growth across the plan horizon coupled with a 50bp margin reduction. This scenario replicated a significant increase in competition within the sector, illustrating the impact of a lower proportion of the high-yielding development finance product in the Group's long-term asset mix on contribution to costs and other key ratios for the Group
- Higher buy-to-let redemptions – double redemption rates on all cohorts for the first three months post-reversion. With a significant volume of five-year fixes coming to an end in 2022, this scenario highlighted the potential risk that is inherent in the accounting difference between current and amortised cost balances on such loans, and invited discussion as to what mitigating action could be taken to avoid such an impact
- High impairment a stress that modelled the IFRS 9 year end severe scenario across the plan horizon, simulating a significant short-term capital and profitability shock with prolonged house price deflation, but maintaining the same lending levels as the base case. This scenario is described in more detail in Note 18 and is derived from, but more severe than the stress testing scenario published by the Bank of England in January 2021. Although it is not deemed likely that such a scenario would materialise, since severe stresses almost always result in lower lending volumes, the output from this stress provides a benchmark for a plausible worst-case position that impacts all aspects of business performance and ratios, in particular, capital

These stresses did not take account of management actions which might mitigate the impact of the adverse assumptions used. They were designed to demonstrate how such stresses would affect the Group's financing, capital and liquidity positions and highlight any areas which might impact the Group's going concern and viability assessments. Under all these scenarios, the Group had the ability to meet its obligations over the forecast horizon and maintain a surplus over its regulatory requirements for both capital and liquidity through normal balance sheet management activities.

As part of the ICAAP process the Group also assessed the potential operational risks it could face. This was done through the analysis of the impact and cost of a series of severe but plausible scenarios. This analysis did not highlight any factors which cast doubt on the Group's ability to continue as a going concern.

The Group begins the forecast period with a strong capital and liquidity position, enabling the management of any significant outflows of deposits and / or reduced inflows from customer receipts. Overall, the forecasts, even under reasonable further levels of stress show the Group retaining sufficient equity, capital, cash and liquidity throughout the forecast period to satisfy its regulatory and operational requirements.

The availability of funding and liquidity is a key consideration, including retail deposit, wholesale funding, central bank and other contingent liquidity options.

The Group's retail deposits of £9,300.4m (note 26), raised through Paragon Bank, are repayable within five years, with 77.6% of this balance (£7,212.9m) payable within twelve months of the balance sheet date. The liquidity exposure represented by these deposits is closely monitored; a process supervised by the Asset and Liability Committee. The Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 30 September 2021 Paragon Bank held £942.7m of balance sheet assets for liquidity purposes, in the form of central bank deposits (note 56). A further £150.0 million of liquidity was provided by an off balance sheet swap arrangement (note 56), bringing the total to £1,092.7m.

Paragon Bank manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented in the Board's approved ILAAP, updated annually. The Bank maintains a liquidity framework that includes a short to medium term cash flow requirement analysis, a longer-term funding plan and access to the Bank of England's liquidity insurance facilities, where pre-positioned assets would support drawings of £1,424.2m. Holdings of the Group's own externally rated mortgage backed loan notes can also be used to access the Bank of England's liquidity facilities or other funding arrangements. At 30 September 2021 the Group had £529.2m of such notes available for use, of which £287.0m were rated AAA. The available AAA notes would give access to £149.3m if used to support drawings on Bank of England facilities.

The Group's securitisation funding structures, described in note 56, provide match funding for part of the asset base. Repayment of the securitisation borrowings is restricted to funds generated by the underlying assets and there is limited recourse to the Group's general funds. Recent and current loan originations are financed through retail deposits and may be refinanced through securitisation where this is appropriate and cost-effective. While the Group has not accessed the public securitisation market in the year, the market remains active with strong levels of demand and the Group maintains the infrastructure required to access it.

The earliest maturity of any of the Group's bond debt is the £125.0m retail bond, due January 2022. £69.0m of TFS debt was paid down after the year end and all other central bank debt was refinanced and is not payable until 2025.

The Group's access to debt is enhanced by its corporate BBB rating, affirmed by Fitch Ratings in March 2021, and its status as an issuer is evidenced by the BB+ rating of its £150.0m Tier-2 bond issued in the year. It has regularly accessed the capital markets for warehouse funding and corporate and retail bonds over recent years and continues to be able to access these markets.

The Group has access to the short-term repo market for liquidity purposes which it uses from time to time, including during the financial year ended 30 September 2021.

The Group's cash analysis, which includes the impact of all scheduled debt and deposit repayments, continues to show a strong position, even after allowing scope for significant discretionary payments and capital distributions.

As described in note 53 the Group's capital base is subject to consolidated supervision by the PRA. The most recent review of the Group's capital position and management systems resulted in a reduction of the minimum capital level. Its capital at 30 September 2021 was in excess of regulatory requirements and its forecasts indicate this will continue to be the case.

After performing this assessment, the directors concluded that there was no material uncertainty as to whether the Group and the Company would be able to maintain adequate capital and liquidity for at least twelve months following the date of approval of these financial statements and consequently that it was appropriate for them to continue to adopt the going concern basis in preparing the financial statements of the Group and the Company.

65. Financial assets and financial liabilities

The Group's financial assets and financial liabilities are valued on one of two bases, defined by IFRS 9:

- Financial assets and liabilities carried at fair value through profit and loss ('FVTPL')
- Financial assets and liabilities carried at amortised cost

IFRS 7 – 'Financial Instruments: Disclosures' requires that where assets are measured at fair value these measurements should be classified using the fair value hierarchy set out in IFRS 13 – 'Fair Value Measurement'. This hierarchy reflects the inputs used and defines three levels:

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

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

The Group had no financial assets or liabilities in the year ended 30 September 2021 or the year ended 30 September 2020 carried at fair value and valued using level 3 measurements, other than contingent consideration amounts (note 33).

The Group has not reclassified any of its measurements during the year.

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

(a) Assets and liabilities carried at fair value

The following table summarises the Group's financial assets and liabilities which are carried at fair value.

	Note	**2021**	2020
		£m	£m
Financial assets			
Derivative financial assets	*19*	**44.2**	463.3
		44.2	463.3
Financial liabilities			
Derivative financial liabilities	*19*	**43.9**	132.4
Contingent consideration	*33*	**7.5**	13.5
		51.4	145.9

All of these financial assets and financial liabilities are required to be carried at fair value by IFRS 9.

The Company has no financial assets or liabilities carried at fair value.

Derivative financial assets and liabilities

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a market interest rate, adjusted for risk as appropriate.

The principal inputs to these valuation models are LIBOR and SONIA benchmark interest rates for the currencies in which the instruments are denominated, being sterling, euro and dollars. The cross-currency basis swaps have a notional principal related to the outstanding currency borrowings and therefore the estimated rate of repayment of these notes also affects the valuation of the swaps. However, variability in this input does not have a significant impact on the valuation, compared to other inputs.

In order to determine the fair values, the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counterparty. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors. These valuations are based on market information and they are therefore classified as level 2 measurements. Details of these assets are given in note 19.

Contingent consideration

The value of the contingent consideration balances shown in note 33 are required to be stated at fair value in the accounts. These amounts are valued based on the expected outcomes of the performance tests set out in the respective sale and purchase agreements, discounted as appropriate. The most significant inputs to these valuations are the Group's forecasts on future activity relating to business generated by operational units acquired, business derived as a result of the vendor's contacts or other goodwill and any other new business flows which are or might be attributable to the acquisition agreement, which are drawn from the overall Group forecasting model. As such, these are classified as unobservable inputs and the valuations classified as level 3 measurements.

(b) Assets and liabilities carried at amortised cost

The fair values for financial assets and financial liabilities held at amortised cost, determined in accordance with the methodologies set out below are summarised below.

	Note	**2021 Carrying amount £m**	**2021 Fair value £m**	2020 Carrying amount £m	2020 Fair value £m
The Group					
Financial assets					
Cash	*14*	**1,360.1**	**1,360.1**	1,925.0	1,925.0
Loans to customers	*15*	**13,402.7**	**13,470.6**	12,631.4	12,856.1
Sundry financial assets	*20*	**65.7**	**65.7**	125.3	125.3
		14,828.5	**14,896.4**	14,681.7	14,906.4
Financial liabilities					
Short-term bank borrowings		**0.3**	**0.3**	0.4	0.4
Asset backed loan notes		**516.0**	**516.0**	3,270.5	3,270.5
Secured bank borrowings		**730.0**	**730.0**	657.8	657.8
Retail deposits	*26*	**9,300.4**	**9,308.5**	7,856.6	7,900.6
Corporate and retail bonds		**386.1**	**411.9**	446.6	455.7
Other financial liabilities	*32*	**66.2**	**66.2**	74.6	74.6
		10,999.0	**11,032.9**	12,306.5	12,359.6

	Note	**2021 Carrying amount £m**	**2021 Fair value £m**	2020 Carrying amount £m	2020 Fair value £m
The Company					
Financial assets					
Cash	*14*	**19.6**	**19.6**	12.6	12.6
Loans to group companies	*20*	**73.0**	**73.0**	84.0	84.0
Sundry financial assets	*20*	**0.1**	**0.1**	0.6	0.6
		92.7	**92.7**	97.2	97.2
Financial liabilities					
Corporate and retail bonds		**386.1**	**411.9**	446.6	455.7
Amounts owed to group companies	*32*	**22.6**	**22.6**	22.7	22.7
Other financial liabilities	*32*	**3.0**	**3.0**	2.9	2.9
		411.7	**437.5**	472.2	481.3

The fair values of retail deposits and corporate and retail bonds shown above will include amounts for the related accrued interest.

Cash, bank loans and securitisation borrowings

The fair values of cash and cash equivalents, bank loans and overdrafts and asset backed loan notes, which are carried at amortised cost are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises. This also applies to the parent company's loans to its subsidiaries.

While the Group's asset backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it.

As these valuation exercises are not wholly market based, they are considered to be level 2 measurements.

Loans to customers

To assess the likely fair value of the Group's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as redemption rates. Given the mixture of observable and non-observable inputs these are considered to be level 3 measurements.

Corporate debt

The Group's retail and corporate bonds are listed on the London Stock Exchange and there is presently a reasonably liquid market in the instruments. It is therefore appropriate to consider that the market price of these borrowings constitutes a fair value. As this valuation is based on a market price, it is considered to be a level 1 measurement.

Retail deposits

To assess the likely fair value of the Group's retail deposit liabilities, the directors have considered the estimated cash flows expected to arise based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as withdrawal rates. Given the mixture of observable and non-observable inputs, these are considered to be level 3 measurements.

Sundry assets and liabilities

Fair values of financial assets and liabilities disclosed as sundry assets and sundry liabilities are not considered to be materially different to their carrying values.

These assets and liabilities are of relatively low value and may be settled at their carrying value at the balance sheet date or shortly thereafter.

66. Details of subsidiary undertakings

Subsidiary undertakings of the Group at 30 September 2021, where the share capital is held within the Group are shown below. The holdings shown are those held within the Group. The shareholdings of the Company in the direct subsidiaries listed below are the same as those held by the Group, except that for the shareholdings marked * the Company holds only 74% of the share capital. In these cases, the remainder is held by other group companies.

The issued share capital of all subsidiaries consists of ordinary share capital, except those companies marked § which have additional preference share capital held within the Group.

Company	Holding	Principal activity
Direct subsidiaries of Paragon Banking Group PLC		
Paragon Bank PLC	100%	Deposit taking, residential mortgages and loan and vehicle finance
Paragon Car Finance Limited	100%	Vehicle finance
Idem Capital Holdings Limited	100%	Intermediate holding company
Moorgate Servicing Limited	100%	Intermediate holding company
The Business Mortgage Company Limited	100%	Mortgage broker
Paragon Mortgages (No. 11) PLC	100%*	Residential mortgages
Paragon Mortgages (No. 12) PLC	100%*	Residential mortgages
Paragon Mortgages (No. 13) PLC	100%*	Residential mortgages
Paragon Mortgages (No. 14) PLC	100%*	Residential mortgages
Paragon Mortgages (No. 15) PLC	100%*	Residential mortgages
Colonial Finance (UK) Limited	100%	Non-trading
Earlswood Finance Limited	100%	Non-trading
Herbert (1) PLC	100%	Non-trading
Herbert (2) PLC	100%	Non-trading
Herbert (4) PLC	100%	Non-trading
Herbert (5) PLC	100%	Non-trading
Herbert (6) PLC	100%	Non-trading
Herbert (7) PLC	100%	Non-trading
Herbert (8) PLC	100%	Non-trading
Herbert (9) PLC	100%	Non-trading
Herbert (10) PLC	100%	Non-trading
Paragon Car Finance (1) Limited	100%	Non-trading
Paragon Dealer Finance Limited	100%	Non-trading
Paragon Loan Finance (No. 3) Limited	100%	Non-trading
Paragon Mortgages (No. 5) PLC	100%	Non-trading
Paragon Pension Investments GP Limited	100%	Non-trading
Paragon Pension Plan Trustees Limited	100%	Non-trading
Paragon Personal Finance (1) Limited	100%	Non-trading
Paragon Third Funding Limited	100%	Non-trading
Paragon Vehicle Contracts Limited	100%	Non-trading
Plymouth Funding Limited	100%	Non-trading
Universal Credit Limited	100%	Non-trading
Yorkshire Freeholds Limited	100%	Non-trading
Yorkshire Leaseholds Limited	100%	Non-trading
Plymouth Funding Limited	100%	Non-trading
Universal Credit Limited	100%	Non-trading
Yorkshire Freeholds Limited	100%	Non-trading
Yorkshire Leaseholds Limited	100%	Non-trading

Direct and indirect subsidiaries of Paragon Bank PLC

Paragon Finance PLC	100%	Residential mortgages and asset administration
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Paragon Mortgages (2010) Limited	100%	Residential mortgages
Mortgage Trust Services PLC	100%	Residential mortgages and asset administration
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance
Paragon Asset Finance Limited	100%	Holding company and portfolio administration
Paragon Business Finance PLC	100%	Asset finance
Paragon Commercial Finance Limited	100%	Asset finance
Paragon Development Finance Limited	100%	Development Finance
Paragon Development Finance Services Limited	100%	Development Finance
Paragon Technology Finance Limited	100%	Asset finance
PBAF Acquisitions Limited	100%	Residential mortgages and loan finance
PBAF (No.1) Limited	100%	Holding Company
Premier Asset Finance Limited	100%	Asset finance broker
Specialist Fleet Services Limited	100%	Asset finance and contract hire
City Business Finance Limited	100%	Non-trading
Collett Transport Services Limited	100%	Non-trading
Fineline Holdings Limited	100%	Non-trading
Fineline Media Finance Limited	100%	Non-trading
Homer Management Limited	100%	Non-trading
Lease Portfolio Management Limited	100%	Non-trading
Paragon Options PLC	100%	Non-trading
State Securities Holdings Limited	100%	Non-trading
State Security Limited	100%	Non-trading

Other indirect subsidiary undertakings

Moorgate Loan Servicing Limited	100%	Asset administration
Idem Capital Securities Limited	100%	Asset investment
Paragon Personal Finance Limited	100%	Consumer loan finance
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Buy to Let Direct Limited	100%	Non-trading
Moorgate Asset Administration Limited	100%	Non-trading
TBMC Group Limited	100%	Non-trading
The Business Mortgage Company Services Limited	100%	Non-trading

The financial year end of all the Group's subsidiary companies is 30 September. They are all registered in England and Wales and operate in the UK except Paragon Pension Investments GP Limited, which is registered in Scotland and operates in the UK.

As part of the Group's financing arrangements certain mortgage and consumer loans originated by Paragon Mortgages (2010) Limited and Mortgage Trust Limited or acquired by Idem Capital Securities Limited have been sold to special purpose entity companies, which had raised non-recourse finance to fund these purchases. The shares of these companies are ultimately beneficially owned through independent trusts, but they are considered to be controlled by the Group, as defined by IFRS 10, due to the Group's exposures to the variable returns from the assets of each entity and its ability to direct their activities, within the constraints imposed by the lending documents. Hence, they are considered to be subsidiaries of the Group.

The principal companies party to these arrangements at 30 September 2021 comprise:

Company	Principal activity
Paragon Seventh Funding Limited	Residential mortgages
Paragon Mortgages (No. 25) Holdings Limited	Holding company
Paragon Mortgages (No. 25) PLC	Residential mortgages
Paragon Mortgages (No. 26) Holdings Limited	Holding company
Paragon Mortgages (No. 26) PLC	Residential mortgages
Paragon Mortgages (No. 27) Holdings Limited	Holding company
Paragon Mortgages (No. 27) PLC	Residential mortgages
Paragon Mortgages (No. 28) Holdings Limited	Holding company
Paragon Mortgages (No. 28) PLC	Residential mortgages
Arianty Holdings Limited	Holding company
Arianty No. 1 PLC	Non-trading
Paragon Fifth Funding Limited	Non-trading
Paragon Sixth Funding Limited	Non-trading
Paragon Mortgages (No. 18) Holdings Limited	Non-trading
Paragon Mortgages (No. 18) PLC	Non-trading
Paragon Mortgages (No. 19) Holdings Limited	Non-trading
Paragon Mortgages (No. 19) PLC	Non-trading
Paragon Mortgages (No. 20) Holdings Limited	Non-trading
Paragon Mortgages (No. 20) PLC	Non-trading
Paragon Mortgages (No. 21) Holdings Limited	Non-trading
Paragon Mortgages (No. 21) PLC	Non-trading
Paragon Mortgages (No. 22) Holdings Limited	Non-trading
Paragon Mortgages (No. 22) PLC	Non-trading
Paragon Mortgages (No. 23) Holdings Limited	Non-trading
Paragon Mortgages (No. 23) PLC	Non-trading
Paragon Mortgages (No. 24) Holdings Limited	Non-trading
Paragon Mortgages (No. 24) PLC	Non-trading

All these companies are registered and operate in the UK.

Earlswood Finance (No. 3) Limited, a company limited by guarantee, is registered in England and Wales and operates in the UK. It is included in the consolidation as it is ultimately controlled by the parent company.

The Paragon Pension Partnership LP is a limited partnership established under Scots law, in which control is vested in members which are group companies. It is therefore considered to be a subsidiary entity. The outside member is the Group's Pension Plan and the Plan's rights to income from the partnership are set out in the partnership agreement. Therefore, no minority interest arises. The partnership is registered in Scotland and operates in the UK.

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

- The registered office of The Business Mortgage Company Limited, Buy to Let Direct Limited, TBMC Group Limited, and The Business Mortgage Company Services Limited was Greenmeadow House, 2 Village Way, Greenmeadow Springs Business Park, Cardiff, CF15 7NE at 30 September 2021, and was changed on 1 November 2021 to Regus House, Malthouse Avenue, Cardiff Gate Business Park, Cardiff CF23 8RU
- The registered office of State Security Limited is Burlington House, Botleigh Grange Office Campus, Grange Drive, Hedge End, Southampton, SO30 2AF
- The registered office of the Scottish entities is Citypoint, 65 Haymarket Terrace, Edinburgh, EH12 5HD

All the entities listed above are included in the consolidated accounts of the Group.

The following legal subsidiaries of the Group are currently in liquidation. They do not form part of the consolidation as they are considered to be controlled by the liquidator.

Company	Holding	Principal activity
Direct subsidiaries of Paragon Banking Group PLC		
First Flexible (No.7) PLC	100%*	Non-trading
Paragon Fourth Funding Limited	100%	Non-trading
Paragon Loan Finance (No. 1) Limited	100%§	Non-trading
Paragon Loan Finance (No. 2) Limited	100%§	Non-trading
Paragon Mortgages (No. 9) PLC	100%*	Residential mortgages
Paragon Mortgages (No. 10) PLC	100%*	Residential mortgages
Paragon Secured Finance (No. 1) PLC	100%	Non-trading
Indirect subsidiaries		
First Flexible No.6 PLC	100%§	Residential Mortgages
Idem (No.3) Limited	100%	Asset investment

The shareholdings of the Company in each of the direct subsidiaries shown above is the same as that of the Group, except for companies marked * where the shareholding of the company is 74%. The issued share capital of each of the companies listed above consists of ordinary shares only, except for companies marked § which have additional preference share capital held within the Group.

First Flexible No.5 PLC a company previously controlled but not legally owned by the Group which had been party to the type of financing arrangements described above was also in liquidation at 30 September 2021.