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

Our values

COMMITMENT

To drive the business forward with determination and to do so with effort and enthusiasm

D1. Primary Financial Statements

D1.1 Consolidated statement of profit or loss

For the year ended 30 September 2023

	Note	**2023**	**2023**	2022	2022
		£m	**£m**	£m	£m
Interest receivable	*4*		**1,010.6**		545.7
Interest payable and similar charges	*5*		**(561.7)**		(174.5)
Net interest income			**448.9**		371.2
Other leasing income	*6*	**27.4**		24.6	
Related costs	*6*	**(21.8)**		(20.0)	
Net operating lease income		**5.6**		4.6	
Gain on disposal of financial assets	*7*	**-**		4.6	
Other income	*8*	**11.5**		12.6	
Other operating income			**17.1**		21.8
Total operating income			**466.0**		393.0
Operating expenses	*9*		**(170.4)**		(153.0)
Provisions for losses	*12*		**(18.0)**		(14.0)
Operating profit before fair value items			**277.6**		226.0
Fair value net (losses) / gains	*13*		**(77.7)**		191.9
Operating profit being profit on ordinary activities before taxation			**199.9**		417.9
Tax charge on profit on ordinary activities	*14*		**(46.0)**		(104.3)
Profit on ordinary activities after taxation for the financial year			**153.9**		313.6

	Note	**2023**	2022
Earnings per share			
- basic	*16*	**68.7p**	129.2p
- diluted	*16*	**66.3p**	125.9p

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 2023

	Note	**2023**	**2023**	2022	2022
		£m	**£m**	£m	£m
Profit for the year			**153.9**		313.6
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain on pension scheme	*60*	**2.4**		15.3	
Tax thereon		**(0.8)**		(3.7)	
Other comprehensive income for the year net of tax			**1.6**		11.6
Total comprehensive income for the year			**155.5**		325.2

The Accounts

D1.3 Consolidated balance sheet

For the year ended 30 September 2023

	Note	2023 £m	2022 £m	2021 £m
Assets				
Cash – central banks	*17*	**2,783.3**	1,612.5	1,142.0
Cash – retail banks	*17*	**211.0**	318.4	218.1
Loans to customers	*18*	**14,495.0**	13,650.4	13,408.2
Derivative financial assets	*26*	**615.4**	779.0	44.2
Sundry assets	*27*	**51.0**	39.2	69.2
Current tax assets	*28*	**8.9**	5.4	-
Deferred tax assets	*44*	**-**	-	14.4
Retirement benefit obligations	*60*	**12.7**	7.1	-
Property, plant and equipment	*29*	**74.7**	71.4	70.4
Intangible assets	*30*	**168.2**	170.2	170.5
Total assets		**18,420.2**	16,653.6	15,137.0
Liabilities				
Short-term bank borrowings		**0.2**	0.4	0.3
Retail deposits	*33*	**13,234.4**	10,569.5	9,297.4
Derivative financial liabilities	*26*	**39.9**	102.1	43.9
Asset backed loan notes	*34*	**28.0**	409.3	516.0
Secured bank borrowings	*35*	**-**	586.0	730.0
Retail bond issuance	*36*	**112.4**	112.3	237.1
Corporate bond issuance	*37*	**145.8**	149.2	149.0
Central bank facilities	*38*	**2,750.0**	2,750.0	2,819.0
Sale and repurchase agreements	*39*	**50.0**	-	-
Sundry liabilities	*40*	**631.2**	513.1	90.7
Current tax liabilities	*28*	**-**	-	1.4
Deferred tax liabilities	*44*	**17.7**	44.4	-
Retirement benefit obligations	*60*	**-**	-	10.3
Total liabilities		**17,009.6**	15,236.3	13,895.1
Called up share capital	*45*	**228.7**	241.4	262.5
Reserves	*46*	**1,257.5**	1,223.9	1,056.1
Own shares	*47*	**(75.6)**	(48.0)	(76.7)
Total equity		**1,410.6**	1,417.3	1,241.9
Total liabilities and equity		**18,420.2**	16,653.6	15,137.0

Approved by the Board of Directors on 6 December 2023.

Signed of behalf of the Board of Directors.

N S Terrington
Chief Executive

R J Woodman
Chief Financial Officer

D1.4 Company balance sheet

For the year ended 30 September 2023

	Note	**2023**	2022	2021
		£m	£m	£m
Assets				
Cash – retail banks	*17*	**27.6**	19.7	19.6
Sundry assets	*27*	**228.8**	39.2	73.1
Deferred tax assets	*44*	**1.6**	-	-
Property, plant and equipment	*29*	**13.2**	14.6	16.0
Investment in subsidiary undertakings	*32*	**787.9**	897.1	978.5
Total assets		**1,059.1**	970.6	1,087.2
Liabilities				
Retail bond issuance	*36*	**112.4**	112.3	237.1
Corporate bond issuance	*37*	**149.4**	149.2	149.0
Sundry liabilities	*40*	**38.4**	51.1	41.9
Current tax liabilities	*28*	**1.8**	-	-
Deferred tax liabilities	*44*	**-**	0.1	1.8
Total liabilities		**302.0**	312.7	429.8
Called up share capital	*45*	**228.7**	241.4	262.5
Reserves	*46*	**582.4**	445.5	455.6
Own shares	*47*	**(54.0)**	(29.0)	(60.7)
Total equity		**757.1**	657.9	657.4
		1,059.1	970.6	1,087.2

Approved by the Board of Directors on 6 December 2023.

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 2023

	Note	2023 £m	2022 £m
Net cash generated by operating activities	*49*	**2,171.7**	1,168.7
Net cash (utilised) by investing activities	*50*	**(3.1)**	(2.4)
Net cash (utilised) by financing activities	*51*	**(1,105.0)**	(595.6)
Net increase in cash and cash equivalents		**1,063.6**	570.7
Opening cash and cash equivalents		**1,930.5**	1,359.8
Closing cash and cash equivalents		**2,994.1**	1,930.5
Represented by balances within:			
Cash	*17*	**2,994.3**	1,930.9
Short-term bank borrowings		**(0.2)**	(0.4)
		2,994.1	1,930.5

D1.6 Company cash flow statement

For the year ended 30 September 2023

	Note	2023 £m	2022 £m
Net cash generated by operating activities	*49*	**86.0**	191.3
Net cash generated by investing activities	*50*	**99.0**	69.5
Net cash (utilised) by financing activities	*51*	**(177.1)**	(260.7)
Net increase in cash and cash equivalents		**7.9**	0.1
Opening cash and cash equivalents		**19.7**	19.6
Closing cash and cash equivalents		**27.6**	19.7
Represented by balances within:			
Cash	*17*	**27.6**	19.7
Short-term bank borrowings		**-**	-
		27.6	19.7

D1.7 Consolidated statement of movements in equity

For the year ended 30 September 2023

	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	-	-	-	-	**153.9**	-	**153.9**
Other comprehensive income	-	-	-	-	**1.6**	-	**1.6**
Total comprehensive income	-	-	-	-	**155.5**	-	**155.5**
Transactions with owners							
Dividends paid (note 48)	-	-	-	-	**(67.9)**	-	**(67.9)**
Own shares purchased	-	-	-	-	-	**(120.5)**	**(120.5)**
Irrevocable instruction accrual	-	-	-	-	-	**10.8**	**10.8**
Exercise of share awards	**0.2**	**0.3**	-	-	**(11.4)**	**14.8**	**3.9**
Shares cancelled	**(12.9)**	-	**12.9**	-	**(67.3)**	**67.3**	-
Capital reorganisation	-	-	**(71.8)**	-	**71.8**	-	-
Charge for share based remuneration (note 57)	-	-	-	-	**9.6**	-	**9.6**
Tax on share based remuneration	-	-	-	-	**1.9**	-	**1.9**
Net movement in equity in the year	**(12.7)**	**0.3**	**(58.9)**	-	**92.2**	**(27.6)**	**(6.7)**
Opening equity	**241.4**	**71.1**	**71.8**	**(70.2)**	**1,151.2**	**(48.0)**	**1,417.3**
Closing equity	**228.7**	**71.4**	**12.9**	**(70.2)**	**1,243.4**	**(75.6)**	**1,410.6**

For the year ended 30 September 2022

	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	-	-	-	-	313.6	-	313.6
Other comprehensive income	-	-	-	-	11.6	-	11.6
Total comprehensive income	-	-	-	-	325.2	-	325.2
Transactions with owners							
Dividends paid (note 48)	-	-	-	-	(68.9)	-	(68.9)
Own shares purchased	-	-	-	-	-	(79.5)	(79.5)
Irrevocable instruction accrual	-	-	-	-	-	(10.8)	(10.8)
Exercise of share awards	0.4	1.0	-	-	(10.3)	9.6	0.7
Shares cancelled	(21.5)	-	21.5	-	(109.4)	109.4	-
Capital reorganisation	-	-	-	-	-	-	-
Charge for share based remuneration (note 57)	-	-	-	-	9.2	-	9.2
Tax on share based remuneration	-	-	-	-	(0.5)	-	(0.5)
Net movement in equity in the year	(21.1)	1.0	21.5	-	145.3	28.7	175.4
Opening equity	262.5	70.1	50.3	(70.2)	1,005.9	(76.7)	1,241.9
Closing equity	241.4	71.1	71.8	(70.2)	1,151.2	(48.0)	1,417.3

D1.8 Company statement of movements in equity

For the year ended 30 September 2023

	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	-	-	-	-	**254.6**	-	**254.6**
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**254.6**	-	**254.6**
Transactions with owners							
Dividends paid (note 48)	-	-	-	-	**(67.9)**	-	**(67.9)**
Own shares purchased	-	-	-	-	-	**(111.5)**	**(111.5)**
Irrevocable instruction accrual	-	-	-	-	-	**10.8**	**10.8**
Exercise of share awards	**0.2**	**0.3**	-	-	**(5.3)**	**8.4**	**3.6**
Shares cancelled	**(12.9)**	-	**12.9**	-	**(67.3)**	**67.3**	-
Capital reorganisation	-	-	**(71.8)**	-	**71.8**	-	-
Charge for share based remuneration (note 57)	-	-	-	-	**9.6**	-	**9.6**
Net movement in equity in the year	**(12.7)**	**0.3**	**(58.9)**	-	**195.5**	**(25.0)**	**99.2**
Opening equity	**241.4**	**71.1**	**71.8**	**(23.7)**	**326.3**	**(29.0)**	**657.9**
Closing equity	**228.7**	**71.4**	**12.9**	**(23.7)**	**521.8**	**(54.0)**	**757.1**

For the year ended 30 September 2022

	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	-	-	-	-	136.5	-	136.5
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	136.5	-	136.5
Transactions with owners							
Dividends paid (note 48)	-	-	-	-	(68.9)	-	(68.9)
Own shares purchased	-	-	-	-	-	(66.9)	(66.9)
Irrevocable instruction accrual	-	-	-	-	-	(10.8)	(10.8)
Exercise of share awards	0.4	1.0	-	-	-	-	1.4
Shares cancelled	(21.5)	-	21.5	-	(109.4)	109.4	-
Capital reorganisation	-	-	-	-	-	-	-
Charge for share based remuneration (note 57)	-	-	-	-	9.2	-	9.2
Net movement in equity in the year	(21.1)	1.0	21.5	-	(32.6)	31.7	0.5
Opening equity	262.5	70.1	50.3	(23.7)	358.9	(60.7)	657.4
Closing equity	241.4	71.1	71.8	(23.7)	326.3	(29.0)	657.9

D2. Notes to the Accounts

For the year ended 30 September 2023

1. General information

Paragon Banking Group PLC (the 'Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 2336032. The Company controls a number of subsidiary entities and presents financial statements on a consolidated basis for the Company and all its subsidiaries (together the 'Group'). The address of the Company's 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 2023

The notes set out below give more detailed analysis of the balances shown in the primary financial statements and further information on how they relate to the operations, results and financial position of the 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 at 30 September 2023 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

These segments are the same as those used at 30 September 2022.

Dedicated financing and administration costs of each of these businesses are allocated to the segment. With effect from the 2023 financial year, interest impacts of fair value hedging activities have been allocated to segments for management accounting purposes. Comparative figures have been adjusted for consistency. 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 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 2023

	Mortgage Lending	Commercial Lending	Unallocated items	Total
	£m	£m	£m	£m
Interest receivable	713.6	207.4	89.6	1,010.6
Interest payable	(436.0)	(71.7)	(54.0)	(561.7)
Net interest income	277.6	135.7	35.6	448.9
Other operating income	5.6	11.5	-	17.1
Total operating income	283.2	147.2	35.6	466.0
Operating expenses	(26.2)	(26.4)	(117.8)	(170.4)
Provisions for losses	(10.4)	(7.6)	-	(18.0)
	246.6	113.2	(82.2)	277.6

Year ended 30 September 2022 (restated)

	Mortgage Lending	Commercial Lending	Unallocated items	Total
	£m	£m	£m	£m
Interest receivable	399.7	134.8	11.2	545.7
Interest payable	(148.5)	(23.6)	(2.4)	(174.5)
Net interest income	251.2	111.2	8.8	371.2
Other operating income	7.4	9.8	4.6	21.8
Total operating income	258.6	121.0	13.4	393.0
Operating expenses	(24.4)	(24.9)	(103.7)	(153.0)
Provisions for losses	(4.6)	(9.4)	-	(14.0)
	229.6	86.7	(90.3)	226.0

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

	2023	2022
	£m	£m
Results shown above	277.6	226.0
Fair value items	(77.7)	191.9
Operating profit	199.9	417.9

The assets and liabilities attributable to each of the segments at 30 September 2023, 30 September 2022 and 30 September 2021 on the basis described above were:

	Note	Mortgage Lending £m	Commercial Lending £m	Total Segments £m
30 September 2023				
Segment assets				
Loans to customers	*18*	**12,902.3**	**1,972.0**	**14,874.3**
Operating lease assets	*29*	**-**	**44.3**	**44.3**
Securitisation cash	*17*	**86.1**	**-**	**86.1**
		12,988.4	**2,016.3**	**15,004.7**
Segment liabilities				
Allocated deposits		**13,160.4**	**2,199.4**	**15,359.8**
Securitisation funding		**28.0**	**-**	**28.0**
		13,188.4	**2,199.4**	**15,387.8**

	Note	Mortgage Lending £m	Commercial Lending £m	Total Segments £m
30 September 2022				
Segment assets				
Loans to customers	*18*	12,328.7	1,881.6	14,210.3
Operating lease assets	*29*	-	41.6	41.6
Securitisation cash	*17*	240.5	-	240.5
		12,569.2	1,923.2	14,492.4
Segment liabilities				
Allocated deposits		11,864.7	2,193.7	14,058.4
Securitisation funding		995.3	-	995.3
		12,860.0	2,193.7	15,053.7

	Note	Mortgage Lending £m	Commercial Lending £m	Total Segments £m
30 September 2021				
Segment assets				
Loans to customers	*18*	11,829.6	1,573.1	13,402.7
Operating lease assets	*29*	-	39.3	39.3
Securitisation cash	*17*	123.3	-	123.3
		11,952.9	1,612.4	13,565.3
Segment liabilities				
Allocated deposits		10,943.2	1,901.2	12,844.4
Securitisation funding		1,246.0	-	1,246.0
		12,189.2	1,901.2	14,090.4

An analysis of the Group's financial assets by type and segment is shown in note 18. 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 £15.3m (2022: £14.5m) 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.

	2023	2022
	£m	£m
Total segment assets	**15,004.7**	14,492.4
Unallocated assets		
Central cash and investments	**2,908.2**	1,690.4
Derivative financial instruments	**615.4**	779.0
Fair value hedging adjustments	**(379.3)**	(559.9)
Operational property, plant and equipment	**30.4**	29.8
Retirement benefit obligations	**12.7**	7.1
Intangible assets	**168.2**	170.2
Other	**59.9**	44.6
Total assets	**18,420.2**	16,653.6

	2023	2022
	£m	£m
Total segment liabilities	**15,387.8**	15,053.7
Unallocated liabilities		
Unallocated retail deposits	**(2,094.5)**	(3,389.2)
Derivative financial instruments	**39.9**	102.1
Central borrowings	**3,058.4**	3,011.9
Tax liabilities	**17.7**	44.4
Other	**600.3**	413.4
Total liabilities	**17,009.6**	15,236.3

3. Revenue

	Note	**2023**	2022
		£m	£m
Interest receivable	*4*	**1,010.6**	545.7
Operating lease income	*6*	**27.4**	24.6
Other income	*8*	**11.5**	12.6
Total revenue		**1,049.5**	582.9
Arising from:			
Mortgage Lending		**719.2**	407.1
Commercial Lending		**240.6**	164.6
Total revenue from segments		**959.8**	571.7
Unallocated revenue		**89.7**	11.2
Total revenue		**1,049.5**	582.9

4. Interest receivable

Interest receivable is analysed as follows.

	Note	**2023**	2022
		£m	£m
Interest receivable in respect of			
Loans and receivables		**642.9**	486.7
Finance leases		**59.6**	45.0
Invoice finance income		**4.3**	3.4
Interest on loans to customers		**706.8**	535.1
Effect of fair value hedging of loan assets		**210.0**	(1.5)
Interest on loans to customers after hedging		**916.8**	533.6
Pension scheme surplus	*60*	**0.4**	-
Other interest receivable		**93.4**	12.1
Total interest on financial assets		**1,010.6**	545.7

The above amounts relate to:

	2023	2022
	£m	£m
Financial assets held at amortised cost	**740.6**	502.2
Finance leases	**59.6**	45.0
Pension scheme surplus	**0.4**	-
Derivative financial instruments held at fair value	**210.0**	(1.5)
	1,010.6	545.7

Other interest receivable relates principally to cash deposits at central and retail banks.

5. Interest payable and similar charges

	Note	2023	2022
		£m	£m
On financial liabilities			
Retail deposits		**334.1**	108.8
Effect of fair value hedging of deposits		**54.4**	4.2
Interest on retail deposits after hedging		**388.5**	113.0
Asset backed loan notes		**10.9**	9.1
Bank loans and overdrafts		**34.8**	13.3
Corporate bonds		**6.6**	6.6
Effect of fair value hedging of bonds		**0.6**	-
Retail bonds		**6.5**	9.1
Central bank facilities		**111.9**	22.2
Sale and repurchase agreements		**0.7**	-
Total interest on financial liabilities		**560.5**	173.3
Pension scheme deficit	*60*	**-**	0.2
Discounting on contingent consideration	*41*	**-**	0.1
Discounting on lease liabilities		**0.3**	0.2
Other finance costs		**0.9**	0.7
		561.7	174.5

The above amounts relate to:

	2023	2022
	£m	£m
Financial liabilities held at amortised cost	**505.5**	169.1
Derivative financial instruments held at fair value	**55.0**	4.2
Other items	**1.2**	1.2
	561.7	174.5

6. Net operating lease income

	Note	2023	2022
		£m	£m
Income			
Operating lease rentals		**19.5**	17.7
Maintenance income		**7.9**	6.9
Total operating lease income		**27.4**	24.6
Costs			
Depreciation of lease assets	*29*	**(10.7)**	(10.1)
Maintenance salaries	*57*	**(3.2)**	(2.7)
Other maintenance costs		**(7.9)**	(7.2)
Total operating lease costs		**(21.8)**	(20.0)
Net operating lease income		**5.6**	4.6

7. Gain on derecognition of financial assets

On 8 June 2022 the Group disposed of almost all of its unsecured consumer loan balances, and has no continuing interest in these assets. The carrying value of the loans disposed of was £74.1m and cash consideration of £78.9m was received, resulting in a gain on disposal of £4.6m after allowing for costs arising from the transaction.

8. Other income

	2023	2022
	£m	£m
Loan account fee income	**4.8**	6.1
Broker commissions	**2.1**	2.3
Third party servicing	**4.3**	3.5
Other income	**0.3**	0.7
	11.5	12.6

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

9. Operating expenses

	Note	**2023**	2022
		£m	£m
Employment costs	*57*	**108.3**	103.6
Auditor remuneration	*10*	**2.9**	2.5
Amortisation of intangible assets	*30*	**1.8**	2.0
Depreciation of operational assets	*29*	**3.9**	3.5
TBMC closure	*11*	**2.0**	-
Restructuring costs		**2.6**	-
Other administrative costs		**48.9**	41.4
		170.4	153.0

Restructuring costs arise from a strategic review of the Group's operational structures and resources carried out in the year and include consultancy costs and redundancy-related expenses.

The Group incurred no costs in respect of short-term operating leases in the year (2022: none).

10. 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.

	2023	2022
	£m	£m
Audit fee of the company	**0.7**	0.7
Other services		
Audit of subsidiary undertakings pursuant to legislation	**1.5**	1.2
Total audit fees	**2.2**	1.9
Audit related assurance services		
Interim review	**0.2**	0.2
Other	**-**	-
Total fees	**2.4**	2.1
Irrecoverable VAT	**0.5**	0.4
Total cost to the Group (note 9)	**2.9**	2.5

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.

11. TBMC closure

During the year, after a review of strategic priorities, the Group announced the closure of its TBMC mortgage brokerage business, which it considered to be non-core. As a result of this decision the remaining goodwill balance of the TBMC CGU and the other intangible assets relating to the business have been derecognised.

The total amount expensed to the profit and loss account on the closure is set out below.

	Note	**2023**
		£m
Goodwill derecognised	*30*	**1.6**
Intangible assets derecognised	*29*	**0.2**
Other closure costs		**0.2**
Total closure costs	*9*	**2.0**

The contribution to profit of the closed business in the year, which was included in the Mortgage Lending segment, was a loss of £0.5m excluding the costs shown above (2022: loss of £0.8m).

12. Loan impairments – provisions charged / credited to income

The amounts charged / (credited) to the profit and loss account in the year are analysed as follows.

	Mortgage Lending £m	Commercial Lending £m	Total £m
30 September 2023			
Provided in period (note 23)	**10.8**	**8.3**	**19.1**
Recovery of written off amounts	**(0.4)**	**(0.7)**	**(1.1)**
	10.4	**7.6**	**18.0**
Of which			
Loan accounts	**10.4**	**10.5**	**20.9**
Finance leases	**-**	**(2.9)**	**(2.9)**
	10.4	**7.6**	**18.0**
30 September 2022			
Provided in period (note 23)	5.1	10.7	15.8
Recovery of written off amounts	(0.5)	(1.3)	(1.8)
	4.6	9.4	14.0
Of which			
Loan accounts	4.6	2.4	7.0
Finance leases	-	7.0	7.0
	4.6	9.4	14.0

13. Fair value net (losses) / gains

	2023 £m	2022 £m
Ineffectiveness of fair value hedges (note 26)		
Portfolio hedges of interest rate risk		
Deposit hedge	**7.8**	11.6
Loan hedge	**(23.7)**	15.1
	(15.9)	26.7
Individual hedges of interest rate risk	**-**	-
	(15.9)	26.7
Other hedging movements	**(53.5)**	4.7
Net gains / (losses) on other derivatives	**(8.3)**	160.5
	(77.7)	191.9

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.

The impact of hedging arrangements on the Group's balance sheet is summarised in note 26 which also provides a full description of the Group's use of derivative financial instruments for hedging purposes.

14. Tax charge on profit on ordinary activities

(a) Analysis of charge in the year

	2023	2022
	£m	£m
Current tax		
UK Corporation Tax on profits of the period	**73.6**	50.6
Adjustment in respect of prior periods	**(1.1)**	0.3
Total current tax	**72.5**	50.9
Deferred tax (note 44)	**(26.5)**	53.4
Tax charge on profit on ordinary activities	**46.0**	104.3

The standard rate of corporation tax in the UK applicable to the Group in the year was 22.0% (2022 : 19.0%), based on legislation enacted at the year end. During the year ended 30 September 2021, the UK Government enacted legislation increasing the standard rate of corporation tax in the UK from 19.0% to 25.0% from April 2023. Consequently, the current year falls partly in the period during which the 19.0% rate applies and partly in that where the rate is 25.0%. These measures will increase the standard rate of corporation tax applicable to the Group to 25.0% in the year ending 30 September 2024 and thereafter. The effect of these changes on deferred tax balances was accounted for in the year ended 30 September 2021.

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 rate of tax to the extent these profits exceed a threshold. The effect of the surcharge shown in note (b) below.

In the financial year ended 30 September 2022 the UK Government enacted legislation reducing the rate of the Banking Surcharge from 8.0% to 3.0%, from April 2023, while increasing the profit threshold at which the surcharge applies to £100.0m from £25.0m. This has resulted in the surcharge applying to Paragon Bank in the current year reducing to 5.5%, with a threshold of £62.5m, while in future years a surcharge of 3.0% on earnings over £100.0m will apply. The impact of this change on deferred tax balances was accounted for in the year ended 30 September 2022. The combination of the standard rate of tax and the surcharge results in taxable profits in excess of the annual threshold arising in Paragon Bank being taxed at 27.5% in the current year (2022: 27.0%). This will rise to 28.0% in subsequent financial years.

(b) 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 22.0% (2022: 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.

	2023	2022
	£m	£m
Profit on ordinary activities before taxation	**199.9**	417.9
Profit on ordinary activities multiplied by the UK standard rate of corporation tax	**44.0**	79.4
Effects of:		
Permanent differences		
Recurring disallowable expenditure and similar items	**0.5**	(0.1)
Mismatch in timing differences	**(1.3)**	0.8
Change in rate of taxation on current and deferred tax (excluding Bank Surcharge)	**(2.1)**	10.9
Impact of Bank Surcharge on current and deferred tax	**5.1**	13.1
Prior year charge	**(0.2)**	0.2
Tax charge for the year	**46.0**	104.3

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.

Change in rate of taxation includes the effect of providing for deferred tax balances at rates other than the comparator rate. This includes deferred tax provision on fair value movements in the year, which form the largest part of this balance.

(c) Factors affecting future tax charges

The future direction of UK tax policy will significantly affect the tax payable by the Group, and this remains uncertain.

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 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.

Various asset leasing businesses are included within the Group's 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.

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').

15. Profit attributable to members of Paragon Banking Group PLC

The Company's profit after tax for the financial year amounted to £254.6m (2022: £136.5m). 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 2023 or 30 September 2022.

16. Earnings per share

Earnings per ordinary share is calculated as follows:

	2023	2022
Profit for the year (£m)	**153.9**	313.6
Basic weighted average number of ordinary shares ranking for dividend during the year (m)	**224.1**	242.7
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (m)	**8.0**	6.4
Diluted weighted average number of ordinary shares ranking for dividend during the year (m)	**232.1**	249.1
Earnings per ordinary share		
- basic	**68.7p**	129.2p
- diluted	**66.3p**	125.9p

17. 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.

	2023	2022	2021
	£m	£m	£m
Deposits with the Bank of England	**2,783.3**	1,612.5	1,142.0
Balances with central banks	**2,783.3**	1,612.5	1,142.0
Deposits with other banks	**211.0**	318.4	218.1
Balances with other banks	**211.0**	318.4	218.1
Cash and cash equivalents	**2,994.3**	1,930.9	1,360.1

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. This cash is shown as 'securitisation cash' below.

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. This is shown as 'ESOP cash' below.

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

	2023	2022	2021
	£m	£m	£m
Available cash	**2,907.7**	1,689.1	1,236.5
Securitisation cash	**86.1**	240.5	123.3
ESOP cash	**0.5**	1.3	0.3
	2,994.3	1,930.9	1,360.1

The 'Cash and Cash Equivalents' amount of £27.6m (2022: £19.7m, 2021: £19.6m) shown in the Company balance sheet is not subject to restrictions.

Cash and cash equivalents are classified as Stage 1 exposures (see note 22) for the purposes of impairment provisioning. The probabilities of default have been assessed to be so low as to require no significant impairment provision.

18. Loans to customers

The Group's loans to customers at 30 September 2023, analysed between the segments described in note 2 are as follows:

	Note	2023	2022	2021
		£m	£m	£m
First mortgages		**12,747.8**	12,122.4	11,460.6
Second charge mortgages		**154.5**	206.3	281.7
Unsecured consumer loans		**-**	-	87.3
Total Mortgage Lending		**12,902.3**	12,328.7	11,829.6
Finance lease receivables	*19*	**907.3**	825.2	720.3
Development finance		**747.8**	719.9	608.2
Other secured commercial lending		**227.6**	238.1	168.0
Other commercial loans		**89.3**	98.4	76.6
Total Commercial Lending		**1,972.0**	1,881.6	1,573.1
Loans to customers		**14,874.3**	14,210.3	13,402.7
Fair value adjustments from portfolio hedging	*26*	**(379.3)**	(559.9)	5.5
		14,495.0	13,650.4	13,408.2

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 Group's purchased loan portfolios are analysed below.

	2023	2022
	£m	£m
First mortgage loans	**9.6**	10.9
Consumer loans	**49.0**	64.4
Motor finance loans	**0.2**	0.5
	58.8	75.8

Information on the Estimated Remaining Collections ('ERCs'), the undiscounted forecast collectible amounts, for first mortgages and consumer loans is given in note 63. All other loans above are internally generated or arise from acquired operations.

The amounts of the Group's first mortgage assets pledged as collateral under the central bank facilities described in note 38 or under the securitisation and warehouse funding arrangements described in notes 34 and 35 are shown below. These include notes retained by the Group described in note 64. The table also shows assets prepositioned with the Bank of England for use in future drawings.

	2023	2022	2021
	£m	£m	£m
Pledged as collateral in respect of			
Asset backed loan notes	**1,529.5**	2,099.8	2,414.5
Warehouse facilities	**-**	850.8	1,041.1
Central bank facilities	**4,109.0**	3,790.9	2,901.0
Total pledged as collateral	**5,638.5**	6,741.5	6,356.6
Prepositioned with Bank of England	**2,568.7**	2,675.5	3,190.1
Other first mortgage assets	**4,540.6**	2,705.4	1,913.9
Total first mortgage assets	**12,747.8**	12,122.4	11,460.6

No assets of other classes were pledged as collateral at 30 September 2023, 30 September 2022 or 30 September 2021.

19. Finance lease receivables

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

	2023	2022	2021
	£m	£m	£m
Motor finance	**297.7**	261.3	229.2
Asset finance	**559.1**	498.8	440.5
RLS and CBILS	**50.5**	65.1	50.6
Carrying value	**907.3**	825.2	720.3

The minimum lease payments due under these loan agreements are:

	2023	2022	2021
	£m	£m	£m
Amounts receivable			
Within one year	**318.5**	284.7	255.5
Within one to two years	**269.9**	244.4	220.3
Within two to three years	**218.7**	189.5	164.8
Within three to four years	**143.5**	136.5	105.0
Within four to five years	**67.1**	60.5	50.5
After five years	**60.2**	46.2	41.6
	1,077.9	961.8	837.7
Less: future finance income	**(158.1)**	(119.8)	(96.3)
Present value	**919.8**	842.0	741.4

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

	2023	2022	2021
	£m	£m	£m
Amounts receivable			
Within one year	**272.9**	248.7	225.0
Within two to five years	**597.0**	554.0	480.2
After five years	**49.9**	39.3	36.2
Present value	**919.8**	842.0	741.4
Allowance for uncollectible amounts	**(12.5)**	(16.8)	(21.1)
Carrying value	**907.3**	825.2	720.3

20. Impairment provisions on loans to customers

The following notes set out information on the Group's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 18, 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 within the following notes:

- 21 Loan impairments – Basis of provision
- 22 Loan impairments by stage and division
- 23 Loan impairments – Provision movements in the year
- 24 Loan impairments – Economic inputs to calculations
- 25 Loan impairments – Sensitivity analysis

The impact on the Group's profit and loss account for the year is set out in note 12.

21. Loan impairment – basis of provisions

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 judgemental adjustments 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. In determining for which portfolios a statistically modelled approach is appropriate, the Group considers the volume of available data and the level of similarity of the credit characteristics of the underlying accounts.

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 case monitoring practices and professional credit judgement.

The largest portfolio where a fully modelled approach is not taken is the Group's development finance book, which has a relatively low number of cases (less than 250) and a low incidence of historical losses on which to base a model. For this portfolio the impairment provision is based on the output of internal case-by-case monitoring.

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, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of conditions at the balance sheet date. This may be the case where economic indicators at the reporting date and future expectations for those indicators lie outside the range of the observations used to construct the models. In such circumstances, management carefully review all outputs to ensure provision is adequate.

During the current financial year interest rates have risen to their highest levels in some time, and with unusual speed. Rates of inflation in the UK have been subject to significant fluctuations in the year, reaching 9.6% in October 2022, which the ONS suggested was a forty-year high point. This type of economic environment is not significantly represented in the historic data sets used by the Group to construct its IFRS 9 impairment models. It was also noted that the rate of change in the economic situation over the year might lead to a lagging impact on the credit bureau data which forms an input to models of customer behaviour, which may delay the recognition of an account potentially at risk.

These factors led management to conclude that current and forecast economic conditions were not ones under which the Group's models would necessarily perform well, and that judgemental adjustments might be required to compensate for these weaknesses.

The methodologies used to derive the Group's ECL provisions at 30 September 2023 are analysed below.

	Gross	Impairment	Net
	£m	£m	£m
30 September 2023			
Modelled portfolios	**13,825.4**	**(48.3)**	**13,777.1**
Judgemental adjustments thereon	**-**	**(6.5)**	**(6.5)**
	13,825.4	**(54.8)**	**13,770.6**
Non-modelled portfolios	**1,122.5**	**(18.8)**	**1,103.7**
Total	**14,947.9**	**(73.6)**	**14,874.3**

	Gross	Impairment	Net
	£m	£m	£m
30 September 2022			
Modelled portfolios	13,167.2	(39.9)	13,127.3
Judgemental adjustments thereon	-	(15.0)	(15.0)
	13,167.2	(54.9)	13,112.3
Non-modelled portfolios	1,106.6	(8.6)	1,098.0
Total	14,273.8	(63.5)	14,210.3

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 an SICR may differ between portfolios and will depend, to some extent, on the level of risk originally perceived and are monitored on an ongoing basis to ensure that this calibrates with actual experience.

It should be noted that the use of the current PD, which includes external factors such as credit bureau data, means that all relevant information in the 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.

As part of its determination of whether model outputs form a reliable basis for impairment provisioning, the Group considered whether it had any evidence of groups of accounts demonstrating factors indicating a higher level of credit risk than other accounts in the same portfolios, either from operational experience or its regular credit risk monitoring activities. No such evidence was noted at 30 September 2023 or 30 September 2022, and hence no additional accounts were identified as having an SICR.

iii) Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The analysis of these default cases provides the foundation for the Group's PD modelling. 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, combined with qualitative and quantitative factors specific to each portfolio.

The most influential quantitative factor in the majority of portfolios is the arrears level, while the principal qualitative factors relate to internal account management statuses. In particular the decision to commence a process of enforcement will be considered as a default in all portfolios. In the Group's buy-to-let mortgage portfolio the appointment of a receiver of rent to manage the property on the customer's behalf is considered a default, while for portfolios assessed on a case-by-case basis, such as the Group's development finance loans, the movement of an account to the highest risk category used for internal monitoring is considered as a default.

This ensures that Group's definitions of default for its various portfolios are materially aligned to the regulatory definitions of default used internally, and are broadly aligned to its internal operational procedures, allowing for the arbitrary nature of the 90-day cut-off, which is a regulatory rather than an operational requirement. 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.

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 an 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 in note 22, 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 the 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 2023 a major update to the SME Lending PD model took place, meaning that two of the Group's four principal PD models, covering over 96% of modelled balances, have been updated since IFRS9 was implemented.

The adoption of the new SME lending model has enabled the reporting process in the year to be more streamlined, and supported increased use of scenario analysis, and increased the ability of the model to respond to economic inputs and wider customer credit data. This included more extensive use of external credit bureau data, enabling at risk cases to be identified for provisioning on a more timely basis.

The Group's programme of model development continued during the year with a particular focus on analysing how default and loss data recorded over the period of the Covid pandemic should be reflected in the next generation of forward-looking models, given the unprecedented nature of the pandemic and the national and international response to it.

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

The impacts of the adoption of the new SME lending PD model in the year ended 30 September 2023 on a like-for-like basis were to increase provision by £0.9m and transfer £10.8m of gross balances from Stage 1 to Stage 2.

vii) Judgemental adjustments

In order to ensure that its loan portfolios are adequately provisioned, the Group considers whether there are factors not fully captured by the modelling process, including economic conditions more generally, which indicate a need for judgemental adjustments. Information considered includes credit data, customer and broker feedback received, the results of insight surveys, industry intelligence and expert knowledge within the business lines.

In the year ended 30 September 2023 the most significant factors in these considerations were the extent to which uncertainties in the UK economy arising from rapidly rising interest rates, increases in the cost of living and doing business in the UK and the impacts of the continuing conflict in Ukraine were reflected in current customer performance at the period end and were being fully addressed by the Group's provision modelling, particularly in view of the lack of recent observations relating to similar conditions.

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, judgemental adjustments 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.

The Group's approach to impairment modelling is based on the analysis of historical credit data. In normal circumstances the Group's objective is to develop its modelling to the point where the level of judgemental adjustments required is minimal, but in economic conditions where previous relevant experience is limited or non-existent, some form of judgemental adjustment is always likely to be necessary. While high interest rate and inflation scenarios have occurred in the UK in the past, market conditions, products and regulatory expectations have moved on considerably in the meantime, and most such observations would pre-date the existence of buy-to-let mortgages as a distinct asset class. This means that the value of past history as a guide to future credit performance is reduced.

The current model behaviour and the potential for unobserved credit issues have meant that the requirement for such adjustments over recent periods has been significant. Evidence considered by management included internal performance data, customer and broker feedback, insight surveys, industry intelligence, evidence on the wider economy and quantitative and qualitative data and statements from industry, government and regulatory bodies. These were combined with the expert knowledge within the business to form a broad estimate of the level of provision required across the Group.

As part of this exercise, the potential for climate related issues to impact on customer business models or security values over the timescales for ECL calculation required by IFRS 9 was considered. No specific requirement for additional impairment provisions over the amounts already determined was identified.

The requirement for judgemental adjustments is considered on a portfolio-by-portfolio basis, and the potential for the existence of significant groups of assets being particularly exposed to credit risk in the expected economic scenarios is also considered.

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

	2023	2022
	£m	£m
Mortgage Lending	**3.0**	5.0
Commercial Lending	**3.5**	10.0
	6.5	15.0

The movements in the year represent principally the extent to which the anticipated economic and customer behaviours which gave rise to judgemental adjustments at 30 September 2022 are now observable and thus are reflected by the Group's models. The movements also reflect the enhanced ability of the new SME lending PD model introduced in the year to identify potential impairment, reducing the need for additional overlays. There has also been a reduction in the levels of economic and political uncertainty in the UK, compared to the position at 30 September 2022, which also impacts on the level of adjustments required. The movements in the 2022 financial year represented a transition from Covid related overlays to ones which related more to the responsiveness of the Group's provision models to economic conditions at the end of that year.

The adjustment at 30 September 2022 in the Mortgage Lending book was principally a result of a disconnect between the credit metrics which drive the models and the economic expectations of management, brokers and customers at the year end date. While some of the anticipated impacts have begun to manifest themselves in arrears performance, neither the Group nor the mortgage industry more generally has seen a significant reaction to higher levels of interest rates and inflation in credit performance as yet. Combined with potential model limitations in responding to significant rapid changes in interest and inflation rates, management determined it was appropriate to reduce, but not remove the judgmental adjustment.

In the Commercial Lending segment the adjustment at 30 September 2022 related to general economic exposures for SMEs, with the outlook for the sector considered to be less positive than credit metrics indicated at that time. While business confidence is somewhat improved over the period, views on the outlook are generally mixed, with contradictory indicators on the likely future direction. Overall, however, the available information is indicative of a more negative position than indicated by the credit metrics in the portfolio alone.

During the period a new SME lending model was introduced, addressing some of the weakness in the Group's modelling approach, reducing the need for judgemental adjustments. However, issues relating to the availability of data representing similar economic conditions to those currently being observed remain, and it is likely that in the short term a judgemental adjustment will remain necessary to ensure appropriate provisioning levels. These factors together reduced the SME lending overlay to £2.5m (2022: £10.0m).

In addition a £1.0m overlay was made to the modelled motor finance provision (2022: £nil) to allow for difficulties noted in that model in responding to a period of falling inflation rapidly following a period of sharp price rises. This economic scenario depressed the calculated provision below a level management considered reasonable, given other portfolio data.

The Group's analysis found no evidence of particular concentrations of credit risk below portfolio level. Given this, and the high level nature of the exercise undertaken, the judgemental adjustments have been apportioned across the Group's buy-to-let mortgage, SME lending and motor finance portfolios, as appropriate, to individual Stage 1 cases. As such they are included in the credit risk disclosures required by IFRS 7.

The Group will continue to monitor the requirement for these adjustments as the economic situation develops and its impacts are more fully reflected in model outputs. It is anticipated that a more normal economic situation would require a lower value of adjustments, but the timescale in which such a scenario might be reached appears uncertain.

The Group has adopted the terminology for impairment adjustments proposed by the Taskforce on Disclosures about Expected Credit Loss ('DECL') which restricts the use of the term 'Post Model Adjustment' ('PMA') to those adjustments calculated on an account-by-account basis and therefore no longer uses that term for other judgemental adjustments.

22. Loan 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 an SICR (Stage 2); and loans which are impaired (Stage 3).

- On initial recognition, and for assets where there has not been an SICR, provisions will be made in respect of losses resulting from the level of credit default events expected in the twelve months following the balance sheet date
- Where a loan has experienced an SICR, whether or not the loan is considered to be credit impaired, provisions will be made based on the ECLs over the full life of the loan
- For credit impaired assets, provisions will also be made on the basis of 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 Mortgage Lending, the carrying valuation is based on expected cash flows discounted by the EIR determined at the point of acquisition.

The recommendations of the taskforce on Disclosures about Expected Credit Loss ('DECL') suggest standard categories for analysis of firm's loan books. In the context of the DECL categorisation the Group's Mortgage Lending balances are classified as 'UK retail mortgage' business while its Commercial Lending balances, being advanced primarily to SME entities correspond with the 'UK other retail' business classification.

The Group defines coverage as the value of the ECL provision divided by the gross carrying value of the related loans.

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 2023					
Gross loan book					
Mortgage Lending	**12,159.7**	**625.0**	**142.2**	**17.7**	**12,944.6**
Commercial Lending	**1,812.6**	**119.8**	**63.8**	**7.1**	**2,003.3**
Total	**13,972.3**	**744.8**	**206.0**	**24.8**	**14,947.9**
Impairment provision					
Mortgage Lending	**(4.8)**	**(6.1)**	**(31.4)**	**-**	**(42.3)**
Commercial Lending	**(14.8)**	**(3.3)**	**(8.4)**	**(4.8)**	**(31.3)**
Total	**(19.6)**	**(9.4)**	**(39.8)**	**(4.8)**	**(73.6)**
Net loan book					
Mortgage Lending	**12,154.9**	**618.9**	**110.8**	**17.7**	**12,902.3**
Commercial Lending	**1,797.8**	**116.5**	**55.4**	**2.3**	**1,972.0**
Total	**13,952.7**	**735.4**	**166.2**	**20.0**	**14,874.3**
Coverage ratio					
Mortgage Lending	**0.04%**	**0.98%**	**22.08%**	**-**	**0.33%**
Commercial Lending	**0.82%**	**2.75%**	**13.17%**	**67.61%**	**1.56%**
Total	**0.14%**	**1.26%**	**19.32%**	**19.35%**	**0.49%**

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

	Stage 1	Stage 2*	Stage 3*	POCI	Total
	£m	£m	£m	£m	£m
30 September 2022					
Gross loan book					
Mortgage Lending	10,339.6	1,886.4	119.3	21.4	12,366.7
Commercial Lending	1,817.4	77.2	5.1	7.4	1,907.1
Total	12,157.0	1,963.6	124.4	28.8	14,273.8
Impairment provision					
Mortgage Lending	(5.8)	(6.1)	(26.1)	-	(38.0)
Commercial Lending	(19.7)	(1.9)	(2.4)	(1.5)	(25.5)
Total	(25.5)	(8.0)	(28.5)	(1.5)	(63.5)
Net loan book					
Mortgage Lending	10,333.8	1,880.3	93.2	21.4	12,328.7
Commercial Lending	1,797.7	75.3	2.7	5.9	1,881.6
Total	12,131.5	1,955.6	95.9	27.3	14,210.3
Coverage ratio					
Mortgage Lending	0.06%	0.32%	21.88%	-	0.31%
Commercial Lending	1.08%	2.46%	47.06%	20.27%	1.34%
Total	0.21%	0.41%	22.91%	5.21%	0.44%

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

Finance leases included above, analysed by staging, were:

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
30 September 2023					
Gross loan book	**873.0**	**40.6**	**6.0**	**0.2**	**919.8**
Impairment provision	**(8.0)**	**(1.9)**	**(2.6)**	**-**	**(12.5)**
Net loan book	**865.0**	**38.7**	**3.4**	**0.2**	**907.3**
Coverage Ratio	**0.92%**	**4.68%**	**43.33%**	**-**	**1.36%**
30 September 2022					
Gross loan book	801.7	35.4	4.4	0.5	842.0
Impairment provision	(13.3)	(1.5)	(2.0)	-	(16.8)
Net loan book	788.4	33.9	2.4	0.5	825.2
Coverage Ratio	1.66%	4.24%	45.45%	-	2.00%

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.

The Group's acquired consumer loans are included in the Mortgage Lending segment, together with its closed second charge mortgage portfolios. Acquired loans which were performing on acquisition are included in the staging analysis above.

Acquired portfolios 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.

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

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

The value of accounts in Stage 2 has reduced significantly in the Mortgage Lending segment over the year. This is driven principally by a lower number of accounts identified through model based criteria which are driven by the economic scenarios input into the models. The economic forecasts at 30 September 2022 included significant short term shifts in interest rates and house prices. These have been reflected in actual economic performance, to some extent, and the initial parts of the September 2023 scenarios have lower rate movements.

The number of arrears cases being recorded has increased, as a result of increasing economic pressure on customers, to some extent representing a proportion of the SICR cases identified at the previous year end. However the scale of this increase is less than indicated by the Group's modelling at 30 September 2022, with accounts not, so far, as severely impacted by rate rises and cost-of-living issues as predicted. Together these factors have led to a reduction in the overall Stage 2 pool.

In the Commercial Lending segment the number of Stage 2 accounts has increased across all categories as the impact of economic pressures begins to be demonstrated, but arrears levels remain low. The number of Stage 2 cases has also been increased through the adoption of a new SME lending model, which is better able to identify cases where external data indicates a customer having credit problems before any impact is seen on the Group's loan book.

Overall Stage 2 provisions have increased with the Stage 2 balance, with coverage levels, on average, also increasing. Provision coverage levels in the Mortgage Lending segment have generally increased, partly as a result of downward pressure on property prices impacting on security values. Coverage levels in the Commercial Lending segment increased, although this was more related to the mix of Stage 2 assets, and the relatively small number of cases involved.

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2023				
Gross loan book				
Mortgage Lending	**518.1**	**15.8**	**91.1**	**625.0**
Commercial Lending	**116.3**	**0.4**	**3.1**	**119.8**
Total	**634.4**	**16.2**	**94.2**	**744.8**
Impairment provision				
Mortgage Lending	**(2.3)**	**(0.1)**	**(3.7)**	**(6.1)**
Commercial Lending	**(2.9)**	**-**	**(0.4)**	**(3.3)**
Total	**(5.2)**	**(0.1)**	**(4.1)**	**(9.4)**
Net loan book				
Mortgage Lending	**515.8**	**15.7**	**87.4**	**618.9**
Commercial Lending	**113.4**	**0.4**	**2.7**	**116.5**
Total	**629.2**	**16.1**	**90.1**	**735.4**
Coverage ratio				
Mortgage Lending	**0.44%**	**0.63%**	**4.06%**	**0.98%**
Commercial Lending	**2.49%**	**-**	**12.90%**	**2.75%**
Total	**0.82%**	**0.62%**	**4.35%**	**1.26%**

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2022				
Gross loan book				
Mortgage Lending	1,850.0	10.8	25.6	1,886.4
Commercial Lending	74.2	0.2	2.8	77.2
Total	1,924.2	11.0	28.4	1,963.6
Impairment provision				
Mortgage Lending	(5.4)	(0.1)	(0.6)	(6.1)
Commercial Lending	(1.6)	-	(0.3)	(1.9)
Total	(7.0)	(0.1)	(0.9)	(8.0)
Net loan book				
Mortgage Lending	1,844.6	10.7	25.0	1,880.3
Commercial Lending	72.6	0.2	2.5	75.3
Total	1,917.2	10.9	27.5	1,955.6
Coverage ratio				
Mortgage Lending	0.29%	0.93%	2.34%	0.32%
Commercial Lending	2.16%	-	10.71%	2.46%
Total	0.36%	0.91%	3.17%	0.41%

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.

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 number and value of Stage 3 accounts has increased in the year across all books. This has mostly been driven by increases in the number of accounts in serious arrears and by an increased number of poorly performing development finance cases in the Commercial Lending book. This sort of increase is not unexpected in a climate of economic tightening.

Realisations cases, particularly in Mortgage Lending have increased, as the increase in arrears cases reported at the half year works its way through the system. RoR cases in the Mortgage Lending division have remained broadly stable, however there has been a level of churn in the book with old cases settled and new appointments made.

Coverage levels in the Mortgage Lending segment on Stage 3 cases have remained broadly similar, despite the falls in house prices and thus security cover in the year.

The relatively low amount of Commercial Lending cases and the variety of credit profiles covered by the division's lending means that the coverage ratio at any particular time tends to be more a function of the particular accounts in the Stage 3 population at that point, rather than indicative of a general trend. The increased number of development finance cases, where security cover is relatively high, within the arrears population has reduced the overall percentage provision requirement in that division.

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
30 September 2023					
Gross loan book					
Mortgage Lending	**8.8**	**40.4**	**50.3**	**42.7**	**142.2**
Commercial Lending	**1.1**	**57.8**	**-**	**4.9**	**63.8**
Total	**9.9**	**98.2**	**50.3**	**47.6**	**206.0**
Impairment provision					
Mortgage Lending	**-**	**(1.2)**	**(16.6)**	**(13.6)**	**(31.4)**
Commercial Lending	**(0.3)**	**(5.5)**	**-**	**(2.6)**	**(8.4)**
Total	**(0.3)**	**(6.7)**	**(16.6)**	**(16.2)**	**(39.8)**
Net loan book					
Mortgage Lending	**8.8**	**39.2**	**33.7**	**29.1**	**110.8**
Commercial Lending	**0.8**	**52.3**	**-**	**2.3**	**55.4**
Total	**9.6**	**91.5**	**33.7**	**31.4**	**166.2**
Coverage ratio					
Mortgage Lending	**-**	**2.97%**	**33.00%**	**31.85%**	**22.08%**
Commercial Lending	**27.27%**	**9.52%**	**-**	**53.06%**	**13.17%**
Total	**3.03%**	**6.82%**	**33.00%**	**34.03%**	**19.32%**

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
30 September 2022					
Gross loan book					
Mortgage Lending	6.0	37.5	49.6	26.2	119.3
Commercial Lending	0.2	0.7	-	4.2	5.1
Total	6.2	38.2	49.6	30.4	124.4
Impairment provision					
Mortgage Lending	(0.4)	(1.0)	(17.2)	(7.5)	(26.1)
Commercial Lending	-	(0.2)	-	(2.2)	(2.4)
Total	(0.4)	(1.2)	(17.2)	(9.7)	(28.5)
Net loan book					
Mortgage Lending	5.6	36.5	32.4	18.7	93.2
Commercial Lending	0.2	0.5	-	2.0	2.7
Total	5.8	37.0	32.4	20.7	95.9
Coverage ratio					
Mortgage Lending	6.67%	2.67%	34.68%	28.63%	21.88%
Commercial Lending	-	28.57%	-	52.38%	47.06%
Total	6.45%	3.14%	34.68%	31.91%	22.91%

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.

	2023	2022
	£m	£m
First mortgages	**89.5**	66.2
Second mortgages	**10.2**	14.6
Asset finance	**1.6**	1.6
Motor finance	**1.2**	0.7
	102.5	83.1

The RoR managed accounts are being managed to ensure the optimal resolution for landlords, tenants and lenders and have largely reached a long-term, stable position, 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.

Mortgage Lending balances with over three months arrears include 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 2023		30 September 2022	
	No.	**£m**	No.	£m
Managed accounts				
Appointment date				
2010 and earlier	**135**	**20.1**	199	31.2
2011 to 2015	**31**	**4.5**	49	7.1
2016 to 2020	**15**	**2.0**	24	3.2
2021 and later	**154**	**23.7**	62	8.1
Total managed accounts	**335**	**50.3**	334	49.6
Accounts in the process of realisation	**225**	**41.0**	141	23.5
	560	**91.3**	475	73.1

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 there were four other receiver of rent cases in acquired mortgage books classified as POCI (2022: nil), meaning that the Group's total of receiver of rent cases at 30 September 2023 was 564 (2022: 475).

23. Loan impairments – provision movements 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	Total
	£m	£m	£m
At 30 September 2022	38.0	25.5	63.5
Provided in period (note 12)	10.8	8.3	19.1
Amounts written off	(6.5)	(2.5)	(9.0)
Assets derecognised	-	-	-
At 30 September 2023 (note 22)	**42.3**	**31.3**	**73.6**
At 30 September 2021	37.7	27.7	65.4
Provided in period (note 12)	5.1	10.7	15.8
Amounts written off	(3.6)	(12.9)	(16.5)
Assets derecognised	(1.2)	-	(1.2)
At 30 September 2022 (note 22)	38.0	25.5	63.5

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 2023, enforceable contractual balances of £7.6m (2022: £4.9m) 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 2023 and 30 September 2022 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.

The changes in models introduced during the year did not create significant movements in balances.

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	
Loss allowance at 30 September 2022	25.5	8.0	28.5	1.5	63.5
New assets originated or purchased	9.5	-	-	-	9.5
Changes in loss allowance					
Transfer to Stage 1	2.8	(2.7)	(0.1)	-	-
Transfer to Stage 2	(1.7)	2.0	(0.3)	-	-
Transfer to Stage 3	(0.2)	(1.9)	2.1	-	-
Changes on stage transfer	(2.5)	2.3	14.6	-	14.4
Changes due to credit risk	(13.8)	1.7	4.0	3.3	(4.8)
Loans sold	-	-	-	-	-
Write offs	-	-	(9.0)	-	(9.0)
Loss allowance at 30 September 2023	**19.6**	**9.4**	**39.8**	**4.8**	**73.6**
Loss allowance at 30 September 2021	15.0	11.3	38.9	0.2	65.4
New assets originated or purchased	7.2	-	-	-	7.2
Changes in loss allowance					
Transfer to Stage 1	2.6	(2.3)	(0.3)	-	-
Transfer to Stage 2	(1.6)	2.3	(0.7)	-	-
Transfer to Stage 3	(0.2)	(0.4)	0.6	-	-
Changes on stage transfer	(2.4)	1.8	4.3	-	3.7
Changes due to credit risk	4.9	(4.7)	3.4	1.3	4.9
Loans sold	-	-	(1.2)	-	(1.2)
Write offs	-	-	(16.5)	-	(16.5)
Loss allowance at 30 September 2022	25.5	8.0	28.5	1.5	63.5

During the year ended 30 September 2023 the impairment allowance increased, driven mostly by the increase in Stage 3 and POCI cases, a result of the level of actual defaults in the period, particularly in the development finance business, and by reduced levels of available security through declining house prices in the mortgage segment.

The net reduction in Stage 1 provisions includes the effect of changes in judgemental adjustments in the period, with items formerly addressed by these provisions beginning to move through Stage 2 and Stage 3. These movements were driven by both account performance, and by the impact of more severe actual and forecast economic conditions.

During the year ended 30 September 2022 the impairment allowance remained relatively stable, due to the opposing effects of the easing of Covid-related pressures on the UK economy and mounting concerns about the nation's economic health more generally, with inflation and interest rates increasing and the potential for impacts from the conflict in Ukraine.

The increase in Stage 1 provision in that year came mostly from new lending, coupled with the need to make judgemental increases in the provision balance. Stage 2 provisions reduced slightly as the impacts of additional Covid-related SICRs in 2021 fell away. Stage 3 provision declined as bought forward cases were resolved, in both the Commercial Lending and Mortgage Lending divisions.

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 2022	12,157.0	1,963.6	124.4	28.8	14,273.8
New assets originated or purchased	3,128.4	-	-	-	3,128.4
Changes in staging					
Transfer to Stage 1	1,258.9	(1,255.7)	(3.2)	-	-
Transfer to Stage 2	(365.6)	372.9	(7.3)	-	-
Transfer to Stage 3	(28.9)	(104.7)	133.6	-	-
Redemptions and repayments	(2,773.3)	(250.6)	(44.8)	(10.5)	(3,079.2)
Loans sold	-	-	-	-	-
Write offs	-	-	(9.0)	-	(9.0)
Other changes	595.8	19.3	12.3	6.5	633.9
Balance at 30 September 2023	**13,972.3**	**744.8**	**206.0**	**24.8**	**14,947.9**
Loss allowance	(19.6)	(9.4)	(39.8)	(4.8)	(73.6)
Carrying value	13,952.7	735.4	166.2	20.0	14,874.3
Balance at 30 September 2021	11,900.4	1,279.1	164.3	124.3	13,468.1
New assets originated or purchased	3,020.8	-	-	-	3,020.8
Changes in staging					
Transfer to Stage 1	519.4	(516.8)	(2.6)	-	-
Transfer to Stage 2	(1,365.2)	1,378.2	(13.0)	-	-
Transfer to Stage 3	(29.5)	(16.6)	46.1	-	-
Redemptions and repayments	(2,311.2)	(230.4)	(55.6)	(33.1)	(2,630.3)
Loans sold	-	-	(1.5)	(73.8)	(75.3)
Write offs	-	-	(16.5)	-	(16.5)
Other changes	422.3	70.1	3.2	11.4	507.0
Balance at 30 September 2022	12,157.0	1,963.6	124.4	28.8	14,273.8
Loss allowance	(25.5)	(8.0)	(28.5)	(1.5)	(63.5)
Carrying value	12,131.5	1,955.6	95.9	27.3	14,210.3

Other changes includes interest and similar charges.

24. Loan impairments – economic inputs to 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 consistent with the 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 2023 forecasting cycle (the 'October forecast'), the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2022, 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 forecasts follows that published by the Bank of England in August 2023, however the Group has taken a more pessimistic position than the Bank. Monetary policy is forecast to remain tight, with pressure on real incomes, leading to minimal growth, rising unemployment and a slow decline in inflation. As a result, interest rates are forecast to remain high, with a short-term decline in property values.

Compared to the central scenario adopted at 30 September 2022, the new central forecast is generally more pessimistic across most variables, with a much more severe decline in house prices than in the earlier scenario and a more prolonged period of elevated interest rates. The scenario also begins from the actual September 2023 economic position, so the interest rate rises, increased inflation and house price falls observed in the period are included in the starting position.

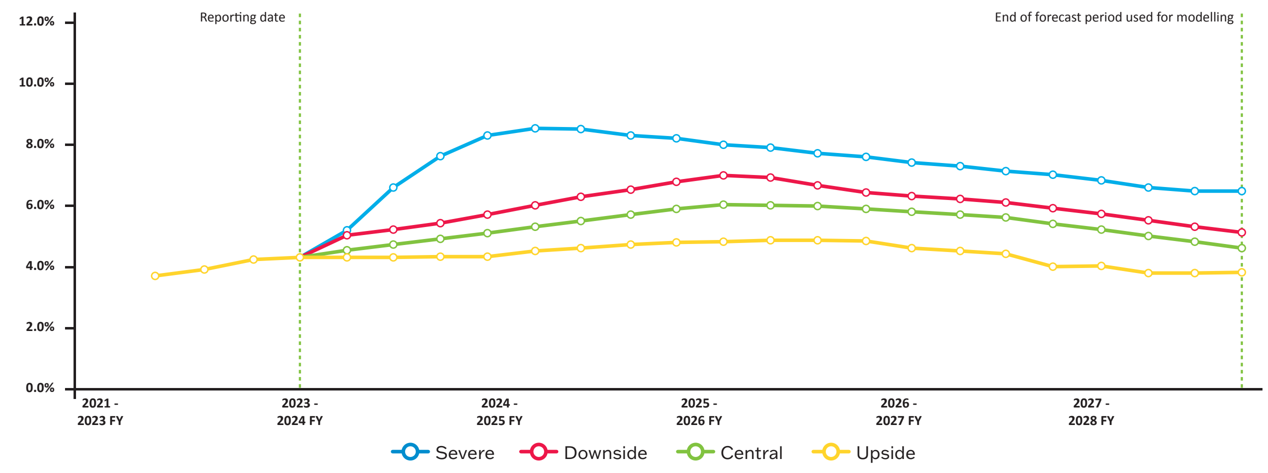
The upside and downside scenarios continue to be derived from the central scenario, as they have been in previous periods. The shapes of these three scenarios are broadly similar across the forecast period, with the upside scenario having a more rapid reduction in inflation, leading to a faster reduction in base rates and a stronger recovery. The downside includes traditional recessionary factors with additional pressure on house prices and rising unemployment, with interest rates being reduced more rapidly in response.

The severe scenario has been derived from stress testing scenarios published by the Bank of England, as in previous periods, with the 2022 Annual Cyclical Scenario ('ACS') being used at 30 September 2023. This scenario is based on a pronounced recession with interest rates remaining high, rising unemployment and a slump in house prices.

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.

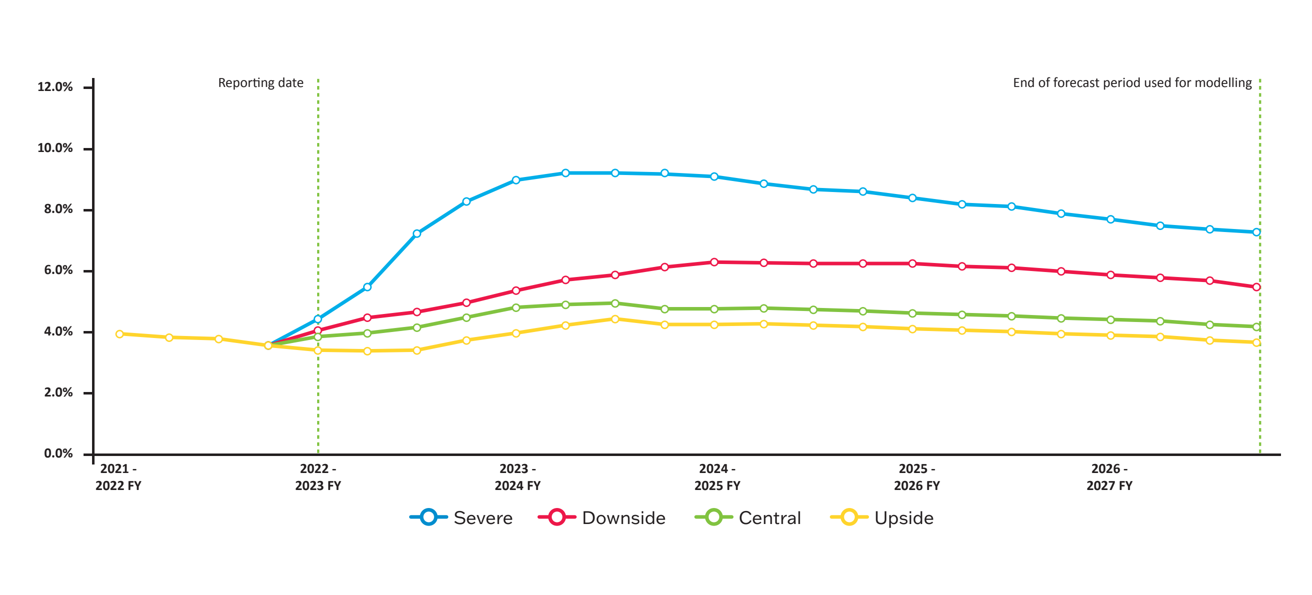
Historical and forecast Unemployment rates (End point measure)

As at September 2023



Historical and forecast Unemployment rates (End point measure)

As at September 2022



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 2022. While the economic outlook is more settled than it was twelve months earlier there remains a significant divergence in opinions on the likely outlook for the UK economy, with a potential for serious downside outcomes. This supports the maintenance of the September 2022 weightings.

Sensitivities comparing the effect of these weightings with those which might be seen in a more normal economic environment are set out in Note 25.

	2023	2022
Central Scenario	**40%**	40%
Upside Scenario	**10%**	10%
Downside Scenario	**30%**	30%
Severe Scenario	**20%**	20%
	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 for 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 2023

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

	2024	2025	2026	2027	2028
Central Scenario	0.4%	0.9%	1.0%	1.2%	1.2%
Upside Scenario	1.6%	1.4%	1.0%	1.2%	1.2%
Downside Scenario	(0.4)%	0.7%	1.0%	1.2%	1.2%
Severe Scenario	(3.6)%	(0.2)%	1.2%	1.2%	1.2%

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

	2024	2025	2026	2027	2028
Central Scenario	(6.4)%	(1.7)%	4.7%	4.4%	3.2%
Upside Scenario	(1.1)%	5.8%	6.8%	5.0%	4.5%
Downside Scenario	(10.7)%	(2.2)%	4.0%	4.0%	2.6%
Severe Scenario	(13.1)%	(15.1)%	-	7.0%	5.6%

Bank Base Rate ('BBR') (rate)

	2024	2025	2026	2027	2028
Central Scenario	5.5%	5.4%	4.8%	4.4%	4.1%
Upside Scenario	5.2%	4.4%	3.7%	3.5%	3.5%
Downside Scenario	5.6%	3.8%	2.6%	2.0%	2.0%
Severe Scenario	6.0%	5.8%	5.1%	4.3%	3.4%

Consumer Price Inflation ('CPI') (rate)

	2024	2025	2026	2027	2028
Central Scenario	4.4%	2.6%	1.6%	1.8%	2.0%
Upside Scenario	3.7%	2.1%	2.1%	2.0%	2.1%
Downside Scenario	4.5%	1.0%	0.7%	1.8%	2.0%
Severe Scenario	15.7%	12.8%	3.7%	2.4%	2.1%

Unemployment (rate)

	2024	2025	2026	2027	2028
Central Scenario	4.8%	5.6%	6.0%	5.6%	4.9%
Upside Scenario	4.3%	4.6%	4.8%	4.4%	3.9%
Downside Scenario	5.3%	6.4%	6.7%	6.1%	5.4%
Severe Scenario	6.9%	8.4%	7.8%	7.2%	6.6%

Secured lending (annual change)

	2024	2025	2026	2027	2028
Central Scenario	0.8%	0.3%	1.8%	3.0%	3.0%
Upside Scenario	1.5%	1.0%	2.5%	3.2%	3.0%
Downside Scenario	-	(0.5)%	1.0%	2.8%	3.0%
Severe Scenario	(1.3)%	(1.8)%	(0.3)%	2.5%	3.0%

Consumer credit (annual change)

	2024	2025	2026	2027	2028
Central Scenario	**3.5%**	**2.3%**	**3.9%**	**4.9%**	**5.0%**
Upside Scenario	**4.3%**	**3.0%**	**4.7%**	**5.1%**	**5.0%**
Downside Scenario	**2.8%**	**1.5%**	**3.2%**	**4.8%**	**5.0%**
Severe Scenario	**1.5%**	**0.3%**	**1.9%**	**4.4%**	**5.0%**

30 September 2022

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

	2023	2024	2025	2026	2027
Central Scenario	0.4%	1.3%	1.3%	1.9%	1.2%
Upside Scenario	1.9%	3.0%	2.2%	2.7%	1.7%
Downside Scenario	(2.2)%	0.6%	1.4%	1.9%	1.2%
Severe Scenario	(3.6)%	(0.2)%	1.2%	1.2%	1.2%

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

	2023	2024	2025	2026	2027
Central Scenario	(0.6)%	0.8%	3.9%	4.2%	4.4%
Upside Scenario	4.7%	4.7%	6.8%	6.8%	5.0%
Downside Scenario	(6.5)%	(3.3)%	4.4%	4.0%	4.0%
Severe Scenario	(7.2)%	(15.4)%	(14.4)%	2.7%	5.5%

Bank Base Rate ('BBR') (rate)

	2023	2024	2025	2026	2027
Central Scenario	4.6%	4.3%	3.8%	3.3%	3.0%
Upside Scenario	4.1%	4.3%	3.8%	3.4%	3.1%
Downside Scenario	5.0%	4.4%	3.8%	3.3%	3.0%
Severe Scenario	5.8%	5.8%	5.1%	4.3%	3.5%

Consumer Price Inflation ('CPI') (rate)

	2023	2024	2025	2026	2027
Central Scenario	10.4%	3.9%	2.2%	1.6%	1.9%
Upside Scenario	9.7%	2.9%	1.9%	2.0%	1.9%
Downside Scenario	13.0%	8.8%	2.9%	2.0%	1.9%
Severe Scenario	16.7%	10.0%	3.0%	2.3%	2.0%

Unemployment (rate)

	2023	2024	2025	2026	2027
Central Scenario	4.2%	4.9%	4.8%	4.6%	4.3%
Upside Scenario	3.5%	4.3%	4.3%	4.1%	3.8%
Downside Scenario	4.6%	5.8%	6.3%	6.2%	5.7%
Severe Scenario	6.4%	9.2%	8.8%	8.2%	7.5%

Secured lending (annual change)

	2023	2024	2025	2026	2027
Central Scenario	3.3%	2.6%	2.5%	3.5%	3.5%
Upside Scenario	4.1%	3.3%	3.2%	4.2%	4.3%
Downside Scenario	2.6%	1.8%	1.7%	2.7%	2.8%
Severe Scenario	0.2%	(0.7)%	1.3%	3.0%	3.7%

Consumer credit (annual change)

	2023	2024	2025	2026	2027
Central Scenario	3.6%	3.1%	3.6%	3.5%	3.5%
Upside Scenario	4.4%	3.9%	4.4%	4.3%	4.3%
Downside Scenario	2.9%	2.4%	2.9%	2.8%	2.8%
Severe Scenario	(3.7)%	(4.4)%	0.1%	2.8%	4.7%

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 2023

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max	Min	Max	Min	Max	Min	Max	Min
	%	%	%	%	%	%	%	%
Economic driver								
GDP	**1.2**	**0.3**	**2.3**	**0.9**	**1.2**	**(0.8)**	**1.2**	**(5.0)**
HPI	**4.4**	**(8.2)**	**7.4**	**(3.1)**	**4.1**	**(13.4)**	**7.2**	**(16.4)**
BBR	**5.5**	**4.0**	**5.3**	**3.5**	**5.8**	**2.0**	**6.0**	**3.3**
CPI	**5.0**	**1.5**	**4.3**	**1.8**	**6.0**	**0.4**	**17.0**	**2.0**
Unemployment	**6.0**	**4.5**	**4.8**	**3.8**	**7.0**	**5.0**	**8.5**	**5.2**
Secured lending	**3.0**	**-**	**3.8**	**0.8**	**3.0**	**(0.8)**	**3.0**	**(2.0)**
Consumer credit	**5.0**	**2.0**	**5.8**	**2.8**	**5.0**	**1.3**	**5.0**	**-**

30 September 2022

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max	Min	Max	Min	Max	Min	Max	Min
	%	%	%	%	%	%	%	%
Economic driver								
GDP	2.2	(0.3)	3.5	1.2	2.2	(2.7)	1.2	(5.0)
HPI	4.8	(4.5)	7.5	3.3	4.9	(13.1)	5.7	(17.8)
BBR	5.0	3.0	4.5	3.0	5.5	3.0	6.0	3.3
CPI	10.8	1.4	10.3	1.7	14.0	1.8	17.0	1.8
Unemployment	5.0	3.9	4.5	3.4	6.3	4.1	9.2	4.5
Secured lending	4.0	2.3	4.8	3.1	3.3	1.6	3.7	(1.2)
Consumer credit	5.0	2.5	5.8	3.3	4.3	1.8	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.

	2023	2022
	£m	£m
Provision using central scenario 100% weighted		
Mortgage Lending	**38.4**	29.1
Commercial Lending	**29.0**	24.2
	67.4	53.3
Calculated impairment provision	**73.6**	63.5
Effect of multiple economic scenarios	**6.2**	10.2

25. Loan impairments – sensitivity analysis

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 provisions which would be calculated if each of the economic scenarios were 100% weighted are shown below.

Scenario	**2023**		2022	
	Provision	**Difference**	Provision	Difference
	£m	**£m**	£m	£m
Central	**67.4**	**(6.2)**	53.3	(10.2)
Upside	**59.0**	**(14.6)**	46.8	(16.7)
Downside	**73.4**	**(0.2)**	62.5	(1.0)
Severe	**95.7**	**22.1**	100.3	36.8

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.

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 three most recent year ends.

The weightings used, and the results of applying these sensitivities to the 30 September 2023 scenarios are set out below.

	Weighting				**Impairment**	**Difference**
	Central	**Upside**	**Downside**	**Severe**	**£m**	**£m**
As reported	40%	10%	30%	20%	73.6	-
Sensitivity	40%	30%	25%	5%	67.6	(6.0)

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 £68.4m would transfer from Stage 1 to Stage 2 (2022: £136.8m), and the total provision would increase by £0.8m 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 (2022: £0.9m).

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 £0.7m (2022: £2.7m).

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 £0.1m (2022: £0.4m).

26. 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 62 to 65) 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
- Fair value hedges of interest rate risk relating to individual financial liabilities.

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 pre-hedging 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 and those which, despite representing an economic hedge, are not accounted for as hedges.

	2023	**2023**	2022	2022
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Derivatives in hedge accounting relationships				
Fair value portfolio hedges				
Interest rate swaps				
Fixed to floating	**519.0**	**(5.1)**	652.7	-
Floating to fixed	**76.2**	**(27.0)**	0.3	(98.5)
Total derivatives in portfolio fair value hedging relationships	**595.2**	**(32.1)**	653.0	(98.5)
Individual fair value hedges				
Interest rate swaps				
Floating to fixed	**-**	**(3.7)**	-	-
Total derivatives in hedge accounting relationships	**595.2**	**(35.8)**	653.0	(98.5)
Other derivatives				
Interest rate swaps	**20.2**	**(4.1)**	125.5	(3.6)
Currency futures	**-**	**-**	0.5	-
Total recognised derivative assets / (liabilities)	**615.4**	**(39.9)**	779.0	(102.1)

The credit risk inherent in the derivative financial assets shown above is discussed in note 63.

The balances held on the Group's balance sheet relating to the hedging of interest rate risk on its fixed rate customer loan and deposit balances are summarised below.

	Note	**2023**	2022
		£m	£m
Derivative financial instruments			
Assets		**615.4**	779.0
Liabilities		**(39.9)**	(102.1)
		575.5	676.9
Fair value hedging adjustments			
On loans to customers	*18*	**(379.3)**	(559.9)
On retail deposits	*33*	**30.9**	99.7
On borrowings		**3.7**	
		(344.7)	(460.2)
Net balance sheet position		**230.8**	216.7
Collateral balances			
Posted (in sundry assets)	*27*	**-**	-
Received (in sundry liabilities)	*40*	**(383.4)**	(388.6)
		(383.4)	(388.6)

(a) Fair value macro 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 63. 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 pre-hedging of assets in the pipeline. Interest rate swaps used to pre-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

During the year ended 30 September 2022 the Group completed the process of changing the principal sterling reference rate used in its interest rate risk management framework from LIBOR to SONIA, with all hedges which referenced LIBOR transitioned to a SONIA basis. However, for administrative purposes, the macro hedges continued to be divided into two sections, one including the transitioned swaps and the other those swaps which referenced SONIA at inception.

Through the year, as assets and deposits matured and were replaced by new business, the formally LIBOR-linked element of the hedges reduced, and the originally SONIA-linked element increased and the two sections of each hedge were combined in the second half of the financial year.

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.

The designation of the macro hedges is updated, on a month-by-month basis, using software which compares the overall tenor, value and rate positions in order that the expected fair value movement of the designated swaps matches the expected interest rate risk related movement in the fair value of the relevant assets or liabilities as closely as possible over the designation period. 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. These will generally be swaps taken out to pre-hedge the pipeline of fixed rate mortgage offers, which will match with the related loans when they complete.

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.

Potential sources of 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 63)
- 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, particularly those relating to the pre-hedging of the lending pipeline.

Hedging Instruments

The hedging portfolios at 30 September 2023 and 30 September 2022 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 the SONIA reference rate

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.

	2023		2022	
	Deposit Hedge	**Loan Hedge**	Deposit Hedge	Loan Hedge
Average fixed notional interest rate	**4.22%**	**1.77%**	1.45%	0.99%
Average notional margin over SONIA	**-**	**-**	-	-
	£m	**£m**	£m	£m
Notional principal value				
SONIA BGS	**-**	**31.6**	-	47.0
Other SONIA swaps	**6,257.0**	**7,781.8**	4,286.0	6,853.1
	6,257.0	**7,813.4**	4,286.0	6,900.1
Maturing				
Within one year	**5,253.5**	**1,616.3**	3,097.0	1,369.9
Between one and two years	**857.5**	**1,238.0**	987.5	1,641.7
Between two and five years	**146.0**	**4,959.1**	201.5	3,886.0
More than five years	**-**	**-**	-	2.5
	6,257.0	**7,813.4**	4,286.0	6,900.1
Fair value	**49.2**	**513.9**	(98.2)	652.7

The values 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.

	2023		2022	
	Deposit hedge	**Loan hedge**	Deposit hedge	Loan hedge
	£m	**£m**	£m	£m
Hedging instruments				
Interest rate swaps				
Included in derivative financial assets	**76.2**	**519.0**	0.3	652.7
Included in derivative financial liabilities	**(27.0)**	**(5.1)**	(98.5)	-
	49.2	**513.9**	(98.2)	652.7
Notional principal value	**6,257.0**	**7,813.4**	4,286.0	6,900.1
Change in fair value used in calculating hedge ineffectiveness	**77.7**	**(262.2)**	(94.8)	598.1

	2023		2022	
	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	**5,758.1**	**-**	3,986.4	-
Fixed rate loans				
Monetary amount of risk relating to Loans to Customers	**-**	**8,043.5**	-	7,168.6
Accumulated amount of fair value hedge adjustments included on balance sheet (notes 33 and 18)*	**30.9**	**(379.3)**	99.7	(559.9)
Of which: amounts related to discontinued hedging relationships being amortised	**(4.3)**	**108.2**	(7.9)	73.4
Change in fair value used in recognising hedge ineffectiveness	**(69.9)**	**238.5**	106.4	(583.0)
Hedge ineffectiveness recognised				
Included in fair value gains / (losses) in the profit and loss account (note 13)	**7.8**	**(23.7)**	11.6	15.1

*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) Fair value micro hedges

Background and hedging objectives

The Group's individual fair value hedges of interest rate risk ('micro hedges') relate to its long-term fixed interest rate liabilities. The structure of these borrowings exposes the Group to interest rate risk, in the event of an adverse movement in market interest rates and during the year the decision was taken to hedge against any future interest rate movements.

The hedge takes the form of a single interest rate swap which is intended to be in place for the expected fixed rate period of the related borrowing. The terms of the fixed rate leg of the derivative match the terms of the borrowing as far as possible and the hedging relationship was designated at the point at which the swap contract was entered into.

The hedging relationship is tested for effectiveness on a monthly basis by comparing the movements in the calculated fair value of the hedged item to the fair value movement in the derivative hedge.

Potential sources of ineffectiveness

In its interest rate hedging for individual items the Group seeks to minimise hedge ineffectiveness by aligning the terms of the hedging instrument as closely as possible with those of the hedged item. The notional amount of the derivative matches that of the hedged item and settlements are due on the same days and at the same intervals.

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

- 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 63)
- The small difference between the fixed rate of interest charged on the hedged item and the fixed rate leg of the derivative, where the impact of discounting will mean that movements in present values of the two flows are not exactly parallel
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments

Hedging instrument

The financial derivative used in the Group's individual fair value hedge is a single sterling denominated interest rate swap with a notional value of £150.0m.

Settlement on the swap is twice-yearly, on the same days as those when interest payments on the hedged item fall due. On settlement:

- The payment received by the Group is calculated based on a fixed rate of interest of 3.989% and the notional value of the swap
- The opposite payment made by the Group is calculated based on the same notional value but using a floating interest rate set at the compound SONIA reference rate

The swap matures on 25 September 2026 (between two and five years after the balance sheet date).

Accounting impacts

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

	2023	2022
	£m	£m
Hedging instruments		
Interest rate swaps		
Included in derivative financial assets	**-**	-
Included in derivative financial liabilities	**(3.7)**	-
	(3.7)	-
Notional principal value	**150.0**	-
Change in fair value used in calculating hedge ineffectiveness	**(3.7)**	-

	2023	2022
	£m	£m
Hedged items		
Fixed rate borrowings		
Corporate bond	**(150.0)**	-
Accumulated amount of fair value hedge adjustments included in carrying value	**3.7**	-
Of which: amounts related to discontinued hedging relationships being amortised	**-**	-
Change in fair value used in recognising hedge ineffectiveness	**3.7**	-
Hedge ineffectiveness recognised		
Included in fair value gains / (losses) in the profit and loss account (note 13)	**-**	-

(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, particularly including swaps pre-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

	2023		2022	
	Pay fixed	**Pay floating**	Pay fixed	Pay floating
Average fixed notional interest rate	**3.88%**	**5.52%**	2.11%	4.31%
Average notional margin over SONIA	**-**	**-**	-	-
	£m	**£m**	£m	£m
Notional principal value				
SONIA swaps	**708.0**	**722.6**	1,578.1	377.1
	708.0	**722.6**	1,578.1	377.1
Maturing				
Within one year	**7.5**	**583.5**	351.6	288.0
Between one and two years	**23.5**	**126.0**	23.5	86.0
Between two and five years	**457.0**	**13.1**	542.5	3.1
More than five years	**220.0**	**-**	660.5	-
	708.0	**722.6**	1,578.1	377.1
Fair value	**15.2**	**0.9**	124.8	(2.9)

Currency futures

	2023	2022
US dollar futures		
Average future exchange rate	**1.22**	1.07
	£m	**£m**
Notional principal value	**7.6**	13.4
Maturing		
Within one year	**7.6**	13.4
Between one and two years	**-**	-
Between two and five years	**-**	-
	7.6	13.4
Fair value	**-**	0.5

27. Sundry assets

(a) The Group

	Note	2023	2022	2021
		£m	£m	£m
Current assets				
Accrued interest income		**4.6**	1.0	-
Trade receivables		**1.5**	1.9	1.3
CSA assets		**-**	-	36.6
CRDs		**38.0**	30.2	23.7
Sovereign receivables		**0.1**	0.3	0.9
Other receivables		**1.8**	2.0	3.2
Sundry financial assets	*71*	**46.0**	35.4	65.7
Prepayments		**5.0**	3.8	3.5
		51.0	39.2	69.2

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

	2023	2022	2021
	£m	£m	£m
Current assets			
Intra-group term deposit	**193.6**	-	-
Amounts owed by Group companies	**35.1**	39.1	73.0
Accrued interest income	**0.1**	0.1	0.1
	228.8	39.2	73.1

The intra-group cash deposits comprise a 100 day notice balance and a demand balance, both placed with the Company's subsidiary, Paragon Bank PLC, for onward placement with the Bank of England.

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.

28. Current tax assets / liabilities

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

29. Property, plant and equipment

(a) The Group

	Leased assets £m	Land and buildings £m	Plant and machinery £m	Total £m
Cost				
At 1 October 2021	62.9	35.8	13.4	112.1
Additions	14.5	1.6	1.1	17.2
Disposals	(5.2)	(1.7)	(0.5)	(7.4)
At 30 September 2022	72.2	35.7	14.0	121.9
Additions	15.9	1.4	2.6	19.9
Disposals	(6.6)	(0.1)	(1.9)	(8.6)
At 30 September 2023	**81.5**	**37.0**	**14.7**	**133.2**
Accumulated depreciation				
At 1 October 2021	23.6	7.8	10.3	41.7
Charge for the year	10.1	2.2	1.3	13.6
On disposals	(3.1)	(1.2)	(0.5)	(4.8)
At 30 September 2022	30.6	8.8	11.1	50.5
Charge for the year	10.7	2.2	1.7	14.6
On disposals	(4.6)	(0.1)	(1.9)	(6.6)
At 30 September 2023	**36.7**	**10.9**	**10.9**	**58.5**
Net book value				
At 30 September 2023	**44.8**	**26.1**	**3.8**	**74.7**
At 30 September 2022	41.6	26.9	2.9	71.4
At 30 September 2021	39.3	28.0	3.1	70.4

Land and buildings and plant and machinery shown above are used within the Group's business. Leased assets includes £31.3m in respect of assets leased to customers under operating leases (2022: £31.4m), £0.5m of vehicles leased to employees under the Group's green car salary sacrifice scheme (2022: £nil) and £13.0m of assets available for hire (2022: £10.2m).

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.

	Leased assets	Land and buildings	Plant and machinery	Total
	£m	£m	£m	£m
Cost				
At 1 October 2021	-	11.5	1.5	13.0
Additions	-	1.0	0.4	1.4
Disposals	-	(0.9)	(0.1)	(1.0)
At 30 September 2022	-	11.6	1.8	13.4
Additions	0.6	1.0	1.4	3.0
Disposals	-	(0.1)	(0.4)	(0.5)
At 30 September 2023	**0.6**	**12.5**	**2.8**	**15.9**
Accumulated depreciation				
At 1 October 2021	-	3.0	0.7	3.7
Charge for the year	-	1.6	0.5	2.1
On disposals	-	(0.9)	(0.1)	(1.0)
At 30 September 2022	-	3.7	1.1	4.8
Charge for the year	0.1	1.7	0.7	2.5
On disposals	-	(0.1)	(0.4)	(0.5)
At 30 September 2023	**0.1**	**5.3**	**1.4**	**6.8**
Net book value				
At 30 September 2023	**0.5**	**7.2**	**1.4**	**9.1**
At 30 September 2022	-	7.9	0.7	8.6
At 30 September 2021	-	8.5	0.8	9.3

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 £16.8m (2022: £17.1m).

(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 1 October 2021, 30 September 2022 and 30 September 2023	18.8
Accumulated depreciation	
At 1 October 2021	2.8
Charge for the year	1.4
On disposals	-
At 30 September 2022	4.2
Charge for the year	1.4
On disposals	-
At 30 September 2023	**5.6**
Net book value	
At 30 September 2023	**13.2**
At 30 September 2022	14.6
At 30 September 2021	16.0

30. Intangible assets

	Goodwill (note 31)	Computer software	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 October 2021	170.4	14.8	10.6	195.8
Additions	-	1.7	-	1.7
Derecognition	-	-	-	-
At 30 September 2022	170.4	16.5	10.6	197.5
Additions	-	1.6		1.6
Derecognition	(7.6)	-	(8.1)	(15.7)
At 30 September 2023	**162.8**	**18.1**	**2.5**	**183.4**
Accumulated amortisation and impairment				
At 1 October 2021	6.0	11.4	7.9	25.3
Amortisation charge for the year	-	1.2	0.8	2.0
Derecognition	-	-	-	-
At 30 September 2022	6.0	12.6	8.7	27.3
Amortisation charge for the year	-	1.1	0.7	1.8
Derecognition	(6.0)	-	(7.9)	(13.9)
At 30 September 2023	**-**	**13.7**	**1.5**	**15.2**
Net book value				
At 30 September 2023	**162.8**	**4.4**	**1.0**	**168.2**
At 30 September 2022	164.4	3.9	1.9	170.2
At 30 September 2021	164.4	3.4	2.7	170.5

Other intangible assets comprise brands and the benefit of business networks recognised on the acquisition of businesses. Derecognitions above relate to the cessation of the TBMC business (note 11).

31. Goodwill

The goodwill carried in the accounts is attributable to three cash generating units ('CGU's), which have not changed in the year. These balances are reviewed for impairment annually, in accordance with the requirements of IAS 36 – 'Impairment of Assets'. The balance is as analysed below:

	2023	2022
	£m	£m
CGU		
SME lending	**113.0**	113.0
Development finance	**49.8**	49.8
TBMC	**-**	1.6
	162.8	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 2023 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 2023 covering a five-year period.

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 lending over the five-year period of 14.12%, compared with 10.56% used in the calculation at 30 September 2022. The new lending forecasts are the key driver for the profit and cashflow forecasts. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.20% (2022: 1.54%) 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 16.2% (2022: 14.8%)

As an illustration of the sensitivity of this impairment test to movements in key assumptions, the Group has calculated that a 0.0% growth rate combined with an 11.5% reduction in profit levels would eliminate the projected headroom of £59.1m. While such movements are not expected by management, they are considered 'reasonably possible' for the purposes of IAS 36. A 0.0% growth rate combined with an 14.4% reduction in profit levels would generate a write down of £10.0m.

In the testing carried out at 30 September 2022, a 0.0% growth rate combined with a 7.5% reduction in profit levels, would have eliminated the projected headroom at that date of £45.3m. A 0.0% growth rate combined with an 11.2% reduction in profit levels would have generated a write down of £10.0m.

(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 2023 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 2023 covering a five-year period.

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 11.12%, compared with 8.77% used in the calculation at 30 September 2022. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.2% (2022: 1.54%) 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 15.9% (2022: 14.4%)

As an illustration of the sensitivity of this impairment test to movements in key assumptions, the Group has calculated that a 1.07% growth rate combined with a 3.1% reduction in profit levels would eliminate the projected headroom of £13.9m. While such movements are not expected by management, they are considered 'reasonably possible' for the purposes of IAS 36. A 0.17% growth rate combined with a 2.9% reduction in profit levels would generate a write down of £10.0m.

On the basis of the testing carried out at 30 September 2022, management concluded that no reasonably possible change in the key assumptions above would cause the recoverable amount of the development finance CGU to fall below the balance sheet carrying value.

(c) TBMC

During the year the Group announced the closure of its TBMC mortgage brokerage business (note 11), which corresponded to the TBMC CGU. The goodwill relating to this CGU, which was recognised on an acquisition in December 2008 and impaired by £6.0m in 2009, was therefore derecognised in the year, with the remaining net goodwill of £1.6m expensed.

An impairment review carried out in the previous year, on the basis that the business would continue to operate, indicated no requirement for additional impairment provision at 30 September 2022.

32. Investment in subsidiary undertakings

	Shares in group companies	Loans to group companies	Loans to ESOP Trusts	Total
	£m	£m	£m	£m
At 1 October 2021	638.7	339.5	0.3	978.5
Loans advanced	-	164.0	13.0	177.0
Loans repaid	-	(246.5)	-	(246.5)
Provision movements	-	-	(11.9)	(11.9)
At 30 September 2022	638.7	257.0	1.4	897.1
Loans advanced	-	-	8.0	8.0
Loans repaid	-	(107.0)	-	(107.0)
Provision movements	(1.3)	-	(8.9)	(10.2)
At 30 September 2023	**637.4**	**150.0**	**0.5**	**787.9**

Loans to group companies includes principally investments in the tier 2 equity instruments issued by the Company's banking subsidiary, Paragon Bank PLC.

During the year ended 30 September 2023 the Company received £262.5m in dividend income from its subsidiaries (2022: £152.7m) and £18.6m of interest on loans to group companies (2022: £12.0m).

The Company's subsidiaries, and the nature of its interest in them, are shown in note 72.

33. 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:

	2023	2022	2021
	£m	£m	£m
Fixed rate	**8,690.2**	6,201.3	5,466.0
Variable rates	**4,575.1**	4,467.9	3,834.4
	13,265.3	10,669.2	9,300.4

The weighted average interest rate on retail deposits at 30 September 2023, analysed by charging method, was:

	2023	2022	2021
	%	%	%
Fixed rate	**4.07**	1.74	1.25
Variable rates	**3.74**	1.55	0.42
All deposits	**3.95**	1.66	0.91

The contractual maturity of these deposits is analysed below.

	2023	2022	2021
	£m	£m	£m
Amounts repayable			
In less than three months	**1,589.4**	929.0	789.0
In more than three months, but not more than one year	**5,193.7**	3,732.1	3,105.4
In more than one year, but not more than two years	**1,643.0**	1,627.3	1,580.1
In more than two years, but not more than five years	**631.8**	421.4	507.4
Total term deposits	**9,057.9**	6,709.8	5,981.9
Repayable on demand	**4,207.4**	3,959.4	3,318.5
	13,265.3	10,669.2	9,300.4
Fair value adjustments for portfolio hedging (note 26)	**(30.9)**	(99.7)	(3.0)
	13,234.4	10,569.5	9,297.4

34. Asset backed loan notes

The Group's asset backed loan 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 2023 interest was payable on the notes at a fixed margin above the compounded Sterling Overnight Interbank Average Rate ('SONIA').

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 64.

Notes in issue at 30 September 2023 and 30 September 2022, net of any held by the Group, were:

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
			2023	2022	**2023**	2022
			£m	£m	**%**	%
Paragon Mortgages (No. 25) PLC	15/05/50	15/05/23	**-**	302.5	**-**	0.86
Paragon Mortgages (No. 26) PLC	15/05/45	15/08/24	**28.4**	107.9	**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	**-**	-	**-**	-

†All notes issued by Paragon Mortgages (No. 27) and Paragon Mortgages (No. 28) were retained by the Group (see note 64).

The details of the assets backing these securities are given in note 18.

During the year, on 15 May 2023, the Group redeemed all of the outstanding notes of the Paragon Mortgages (No. 25) PLC securitisation at par. The underlying assets were subsequently funded by other group companies.

On 1 November 2023, after the year end, a group company, Paragon Mortgages (No. 29) PLC, issued £855.0m 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	1.20%	**747.0**
B	AA	Aa1	1.90%	**33.7**
C	A-	Aa2	2.75%	**29.3**
D	B+	A2	3.80%	**45.0**
				855.0

All the above notes were retained by the Group.

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 53.

35. 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 64 and details of assets held within the warehouse facilities are given in note 18. Details of the Group's bank borrowings are set out below.

		2023			2022		
		Principal value	**Maximum available facility**	**Carrying value**	Principal value	Maximum available facility	Carrying value
		£m	**£m**	**£m**	£m	£m	£m
i)	Paragon Second Funding	-	-	-	416.0	416.0	416.0
ii)	Paragon Seventh Funding	-	-	-	170.0	450.0	170.0
		-	-	-	586.0	866.0	586.0

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. The loan was repaid in full on 29 September 2023. This loan was a sterling facility provided to Paragon Second Funding Limited by a consortium of banks and was secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance (1) Limited and Paragon Personal Finance (1) Limited. Interest on this loan was payable monthly at 0.704% above SONIA.

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 was 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 0.60% over three month LIBOR thereafter up to 8 November 2021.

On 8 November 2021, revisions to the facility were agreed extending the commitment period for an initial 13-month period with the ability to extend monthly. The maximum drawing was increased to £450.0m and the interest rate payable was transitioned to 0.5% above SONIA. The facility expired on 24 July 2023.

36. Retail bonds

The Group has one outstanding issue of retail bonds, issued under its Euro Medium Term Note Programme. These bonds are listed on the London Stock Exchange and mature on 28 August 2024, but are callable by the Company in certain circumstances. The principal amount of notes in issue at 30 September 2023 is £112.5m (2022: £112.5m) and they bear interest at a fixed rate of 6.0% per annum.

The outstanding notes are rated BBB by Fitch Ratings.

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 £112.4m (2022: £112.3m), all of which falls due within one year (2022: £nil).

37. 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 were originally rated BB+ by Fitch and are currently rated BBB-, following an upgrade on 7 March 2022. The proceeds of the notes are utilised in accordance with the Group's Green Bond Framework, which is available on its investor website.

The carrying value of corporate bonds in the accounts of the Group at 30 September 2023 was £145.8m (2022: £149.2m), while the carrying value of the bonds in the accounts of the Company at 30 September 2023 was £149.4m (2022: £149.2m), with the difference arising as a result of the hedging treatment described in note 26.

38. Central bank facilities

During the year, the Group has utilised facilities provided by the Bank of England 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 eligible collateral, currently in the form of designated pools of the Bank's first mortgage assets and/or the retained Notes described in note 64, 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 25 months (2022: 37 months). As these drawings were provided at rates below those available commercially, by a government agency, they are accounted for under IAS 20.

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. The Group has not accessed the ILTR during the year, but retains access to this programme for liquidity purposes.

The amounts drawn under these facilities are set out below.

	2023	2022
	£m	£m
TFSME	**2,750.0**	2,750.0
ILTR	**-**	-
Total central bank facilities	**2,750.0**	2,750.0

All TFSME borrowings fall due after more than one year.

During the year ended 30 September 2022 all TFSME borrowings were repaid and redrawn, extending the maturity date to 21 October 2025 for the majority of drawings, with £5.2m falling due on 31 March 2027.

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 64). The mortgage assets pledged in support of these drawings are set out in note 17.

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

	2023	2022
	£m	£m
TFSME at IAS 20 carrying value	**2,716.3**	2,700.2
Deferred government assistance	**33.7**	49.8
	2,750.0	2,750.0

39. Sale and repurchase agreements

From time to time the Group enters into short-term sale and repurchase agreements with highly-rated UK banks as part of its liquidity management operations.

At 30 September 2023 £50.0m was outstanding under such arrangements (2022: £nil). The average term of the agreements was 3 months and the average remaining term 2.8 months. The average interest rate payable was 0.80% above compounded SONIA.

The securities subject to the sale and repurchase agreement were certain of the Group's retained asset backed loan notes, described in note 64.

40. Sundry liabilities

(a) The Group

	2023 £m	2022 £m	2021 £m
Current liabilities			
Accrued interest	**156.7**	42.2	22.2
Trade creditors	**1.6**	0.7	1.4
CSA liabilities	**383.4**	388.6	0.2
Purchase of own shares (note 47)	**-**	10.8	-
Other accruals	**35.6**	35.9	32.9
Sundry financial liabilities at amortised cost	**577.3**	478.2	56.7
Contingent consideration (note 41)	**-**	2.2	4.6
Sundry financial liabilities	**577.3**	480.4	61.3
Lease payables (note 42)	**2.6**	2.2	1.5
Deferred income	**5.9**	3.7	3.3
Conduct (note 43)	**-**	-	-
Other taxation and social security	**4.1**	3.7	2.5
	589.9	490.0	68.6
Non-current liabilities			
Accrued interest	**31.5**	13.0	9.5
Sundry financial liabilities at amortised cost	**31.5**	13.0	9.5
Contingent consideration (note 41)	**-**	-	2.9
Sundry financial liabilities	**31.5**	13.0	12.4
Lease payables (note 42)	**6.3**	6.8	8.0
Deferred income	**3.5**	3.3	1.7
	41.3	23.1	22.1
Total sundry financial liabilities at amortised cost	**608.8**	491.2	66.2
Total sundry financial liabilities at fair value	**-**	2.2	7.5
Total other sundry liabilities	**22.4**	19.7	17.0
Total sundry liabilities	**631.2**	513.1	90.7

CSA liabilities represent collateral received in respect of interest rate swap agreements and are described further in notes 26 and 63.

(b) The Company

	2023 £m	2022 £m	2021 £m
Current liabilities			
Amounts owed to Group companies	**24.0**	23.2	22.6
Accrued interest	**0.7**	0.7	2.0
Purchase of own shares (note 47)	**-**	10.8	-
Other financial liabilities	**-**	1.4	1.0
Sundry financial liabilities at amortised cost	**24.7**	36.1	25.6
Lease payables (note 42)	**1.3**	1.3	1.3
	26.0	37.4	26.9
Non-current liabilities			
Lease payables (note 42)	**12.4**	13.7	15.0
Total sundry liabilities	**38.4**	51.1	41.9

41. 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.

	2023	2022
	£m	£m
At 1 October 2022	**2.2**	7.5
Payments	**(1.5)**	(4.6)
Revaluation	**(0.7)**	(0.8)
Unwind of discounting (note 5)	**-**	0.1
At 30 September 2023 (note 40)	**-**	2.2

The write downs above were the result of the finalisation of the contingent consideration liability based on actual business volumes.

42. Lease payables

The Group's lease liabilities arise under the leasing arrangements described in note 54. Related right of use assets are shown in note 29.

	The Group		The Company	
	2023	2022	2023	2022
	£m	£m	£m	£m
Leasing liabilities falling due:				
In more than five years	**0.5**	1.1	**6.7**	8.2
In more than two but less than five years	**3.4**	3.8	**4.3**	4.2
In more than one year but less than two years	**2.4**	1.9	**1.4**	1.3
In more than one year (note 40)	**6.3**	6.8	**12.4**	13.7
In less than one year (note 40)	**2.6**	2.2	**1.3**	1.3
	8.9	9.0	**13.7**	15.0

43. 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 framework, 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 material 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.

44. Deferred tax

(a) The Group

The net deferred tax liability / (asset) for which provision has been made and the movements in that balance are analysed as follows:

	Opening balance	Profit and loss charge / (credit)		Charge / (credit) to equity	Closing balance
		Current	Prior		
	£m	£m	£m	£m	£m
Year ended 30 September 2023					
Accelerated tax depreciation	**(6.9)**	**(5.0)**	**3.6**	**-**	**(8.3)**
Retirement benefit obligations	**0.5**	**1.8**	**-**	**0.8**	**3.1**
Interest rate hedging	**53.2**	**(20.4)**	**-**	**-**	**32.8**
Loans and other derivatives	**2.2**	**(0.8)**	**-**	**-**	**1.4**
Share based payments	**(3.7)**	**(2.8)**	**-**	**(1.0)**	**(7.5)**
Tax losses	**(0.1)**	**0.1**	**(3.0)**	**-**	**(3.0)**
Other timing differences	**(0.8)**	**(0.2)**	**0.2**	**-**	**(0.8)**
Total	**44.4**	**(27.3)**	**0.8**	**(0.2)**	**17.7**
Year ended 30 September 2022					
Accelerated tax depreciation	(5.9)	(2.9)	1.9	-	(6.9)
Retirement benefit obligations	(4.4)	1.3	-	3.6	0.5
Interest rate hedging	(2.2)	55.4	-	-	53.2
Loans and other derivatives	2.9	(0.6)	(0.1)	-	2.2
Share based payments	(5.2)	0.2	(0.5)	1.8	(3.7)
Tax losses	(0.4)	0.4	(0.1)	-	(0.1)
Other timing differences	0.8	(0.3)	(1.3)	-	(0.8)
	(14.4)	53.5	(0.1)	5.4	44.4

Balances in respect of interest rate hedging in the table above relate to derivatives hedging interest rate risk in the Group's loan and deposit books and related pipelines, and fair value accounting adjustments.

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 (e.g. the timing and nature of the refinancing of certain portfolios) and matters outside the Group's control (e.g. the timing of the Group's contributions to the defined benefit pension scheme).

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.

In addition to the temporary differences, the Group has tax losses of £3.7m (2022: £3.0m) in entities whose current taxable profits are insufficient to support the recognition of a deferred tax asset.

(b) The Company

The net deferred tax (asset) / liability for which provision has been made, and the movements in that balance are analysed as follows:

	Opening balance	Profit and loss charge / (credit)		Charge / (credit) to equity	Closing balance
		Current	Prior		
	£m	£m	£m	£m	£m
Year ended 30 September 2023					
Accelerated tax depreciation	**0.1**	**-**	**-**	**-**	**0.1**
Tax losses carried forward	**-**	**-**	**(1.7)**	**-**	**(1.7)**
Other timing differences	**-**	**-**	**-**	**-**	**-**
Total	**0.1**	**-**	**(1.7)**	**-**	**(1.6)**
Year ended 30 September 2022					
Accelerated tax depreciation	-	0.1	-	-	0.1
Tax losses carried forward	-	-	-	-	-
Other timing differences	1.8	-	(1.8)	-	-
	1.8	0.1	(1.8)	-	0.1

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45. 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:

	2023 Number	2022 Number
Ordinary shares		
At 1 October 2022	**241,409,624**	262,495,185
Shares issued	**160,833**	386,039
Shares cancelled	**(12,870,044)**	(21,471,600)
At 30 September 2023	**228,700,413**	241,409,624

During the year, the Company issued 160,833 shares (2022: 386,039) to satisfy options granted under Sharesave schemes for a consideration of £534,954 (2022: £1,309,525).

On 24 November 2021, 12,100,834 shares, held in treasury at 30 September 2021, were cancelled. On 8 September 2022 a further 9,370,766 shares, purchased into treasury during the year ended 30 September 2022 were also cancelled.

On 1 June 2023, 12,870,044 of the shares held in treasury at that date were cancelled (note 47).

46. Reserves

(a) The Group

	2023 £m	2022 £m	2021 £m
Share premium account	**71.4**	71.1	70.1
Capital redemption reserve	**12.9**	71.8	50.3
Merger reserve	**(70.2)**	(70.2)	(70.2)
Profit and loss account	**1,243.4**	1,151.2	1,005.9
	1,257.5	1,223.9	1,056.1

(b) The Company

	2023 £m	2022 £m	2021 £m
Share premium account	**71.4**	71.1	70.1
Capital redemption reserve	**12.9**	71.8	50.3
Merger reserve	**(23.7)**	(23.7)	(23.7)
Profit and loss account	**521.8**	326.3	358.9
	582.4	445.5	455.6

The share premium account and capital redemption reserve are non-distributable reserves which are required by, and operate under the provisions of, UK company law.

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.

On 28 March 2023 the High Court confirmed the cancellation of the Company's capital redemption reserve, following shareholder approval at the AGM on 1 March 2023. This reserve had arisen on the cancellation of ordinary shares which had been purchased in the market and held in treasury. The balance outstanding on the capital redemption reserve at that time was transferred to the profit and loss account.

47. Own shares

	The Group		The Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Treasury shares				
Opening balance	**18.2**	60.7	**18.2**	60.7
Shares purchased	**111.5**	66.9	**111.5**	66.9
Options exercised	**(8.4)**	-	**(8.4)**	-
Shares cancelled	**(67.3)**	(109.4)	**(67.3)**	(109.4)
Closing balance	**54.0**	18.2	**54.0**	18.2
ESOP shares				
Opening balance	**19.0**	16.0	**-**	-
Shares purchased	**9.0**	12.6	**-**	-
Options exercised	**(6.4)**	(9.6)	**-**	-
Closing balance	**21.6**	19.0	**-**	-
Irrevocable authority to purchase				
Opening balance	**10.8**	-	**10.8**	-
Given in year	**-**	10.8	**-**	10.8
Expiring / utilised in year	**(10.8)**	-	**(10.8)**	-
Closing balance	**-**	10.8	**-**	10.8
Total closing balance	**75.6**	48.0	**54.0**	29.0
Total opening balance	**48.0**	76.7	**29.0**	60.7

At 30 September 2023 the number of the Company's own shares held in treasury was 10,074,002 (2022: 3,640,519). These shares had a nominal value of £10,074,002 (2022: £3,640,519). These shares do not qualify for dividends.

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 2023, the trust held 4,009,490 ordinary shares (2022: 3,879,160) with a nominal value of £4,009,490 (2022: £3,879,160) and a market value of £19,727,084 (2022: £15,314,924). Options, or other share-based awards, were outstanding against all of these shares at 30 September 2023 (2022: all). The dividends on all of these shares have been waived (2022: all).

48. Equity dividend

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

	2023	2022	**2023**	2022
	Per share	Per share	**£m**	£m
Equity dividends on ordinary shares				
Final dividend for the previous year	**19.2p**	18.9p	**43.7**	46.6
Interim dividend for the current year	**11.0p**	9.4p	**24.2**	22.3
	30.2p	28.3p	**67.9**	68.9

Amounts paid and proposed in respect of the year:

	2023	2022	**2023**	2022
	Per share	Per share	**£m**	£m
Interim dividend for the current year	**11.0p**	9.4p	**24.2**	22.3
Proposed final dividend for the current year	**26.4p**	19.2p	**56.7**	44.9
	37.4p	28.6p	**80.9**	67.2

The proposed final dividend for the year ended 30 September 2023 will be paid on 8 March 2024, subject to approval at the AGM, with a record date of 2 February 2024. The dividend will be recognised in the accounts when it is paid.

49. Net cash flow from operating activities

(a) The Group

	2023 £m	2022 £m
Profit before tax	**199.9**	417.9
Non-cash items included in profit and other adjustments:		
Depreciation of operating property, plant and equipment	**4.0**	3.5
(Profit) on disposal of operating property, plant and equipment	**(0.1)**	(0.1)
Amortisation and derecognition of intangible assets	**3.6**	2.0
Non-cash movements on borrowings	**(2.5)**	1.9
Impairment losses on loans to customers	**18.0**	14.0
Charge for share based remuneration	**9.6**	9.2
Net (increase) / decrease in operating assets:		
Assets held for leasing	**(2.7)**	(2.3)
Loans to customers	**(682.0)**	(821.6)
Derivative financial instruments	**163.6**	(734.8)
Fair value of portfolio hedges	**(180.6)**	565.4
Other receivables	**(15.0)**	22.9
Net increase / (decrease) in operating liabilities:		
Retail deposits	**2,596.1**	1,368.8
Derivative financial instruments	**(62.2)**	58.2
Fair value of portfolio hedges	**68.8**	(96.7)
Other liabilities	**128.3**	416.9
Cash generated by operations	**2,246.8**	1,225.2
Income taxes (paid)	**(75.1)**	(56.5)
	2,171.7	1,168.7

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

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(b) The Company

	2023 £m	2022 £m
Profit before tax	**255.5**	133.6
Non-cash items included in profit and other adjustments:		
Depreciation on property, plant and equipment	**1.4**	1.4
Non-cash movements on borrowings	**0.3**	0.4
Impairment provision on investments in subsidiaries	**10.2**	11.9
Charge for share based remuneration	**9.6**	9.2
Net (increase) / decrease in operating assets:		
Other receivables	**(189.6)**	33.9
Net (decrease) in operating liabilities:		
Other liabilities	**(0.6)**	(0.3)
Cash generated by operations	**86.8**	190.1
Income taxes (paid) / received	**(0.8)**	1.2
	86.0	191.3

50. Net cash flow from investing activities

	The Group		The Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Proceeds from sales of operating property, plant and equipment	**0.1**	0.6	**-**	-
Purchases of operating property, plant and equipment	**(1.6)**	(1.3)	**-**	-
Purchases of intangible assets	**(1.6)**	(1.7)	**-**	-
Advances of loans to subsidiary undertakings	**-**	-	**-**	(177.0)
Repayment of loans by subsidiary entities	**-**	-	**99.0**	246.5
Net cash (utilised) / generated by investing activities	**(3.1)**	(2.4)	**99.0**	69.5

51. Net cash flow from financing activities

	The Group		The Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Shares issued (note 45)	**0.5**	1.4	**0.5**	1.4
Dividends paid (note 48)	**(67.9)**	(68.9)	**(67.9)**	(68.9)
Repayment of asset backed floating rate notes	**(382.1)**	(107.6)	**-**	-
Repayment of retail bond	**-**	(125.0)	**-**	(125.0)
Movement on central bank facilities	**-**	(69.0)	**-**	-
Movement on other bank facilities	**(586.0)**	(144.6)	**-**	-
Movement on sale and repurchase agreements	**50.0**	-	**-**	-
Capital element of lease payments	**(2.4)**	(1.7)	**(1.3)**	(1.3)
Purchase of own shares (note 47)	**(120.5)**	(79.5)	**(111.5)**	(66.9)
Exercise of share awards	**3.4**	(0.7)	**3.1**	-
Net cash (utilised) by financing activities	**(1,105.0)**	(595.6)	**(177.1)**	(260.7)

52. Reconciliation of net debt

(a) The Group

	Opening debt	Cash flows: Debt issued	Cash flows: Other	Non-cash movements	Closing debt
	£m	£m	£m	£m	£m
30 September 2023					
Asset backed loan notes	**409.3**	**-**	**(382.1)**	**0.8**	**28.0**
Bank borrowings	**586.0**	**-**	**(586.0)**	**-**	**-**
Corporate bonds	**149.2**	**-**	**-**	**(3.4)**	**145.8**
Retail bonds	**112.3**	**-**	**-**	**0.1**	**112.4**
Central bank borrowings	**2,750.0**	**-**	**-**	**-**	**2,750.0**
Sale and repurchase agreements	**-**	**-**	**50.0**	**-**	**50.0**
Lease liabilities	**9.0**	**-**	**(2.4)**	**2.3**	**8.9**
Bank overdrafts	**0.4**	**-**	**(0.2)**	**-**	**0.2**
Gross debt	**4,016.2**	**-**	**(920.7)**	**(0.2)**	**3,095.3**
Cash	**(1,930.9)**	**-**	**(1,063.4)**	**-**	**(2,994.3)**
Net debt	**2,085.3**	**-**	**(1,984.1)**	**(0.2)**	**101.0**
30 September 2022					
Asset backed loan notes	516.0	-	(107.6)	0.9	409.3
Bank borrowings	730.0	-	(144.6)	0.6	586.0
Corporate bonds	149.0	-	-	0.2	149.2
Retail bonds	237.1	-	(125.0)	0.2	112.3
Central bank borrowings	2,819.0	-	(69.0)	-	2,750.0
Sale and repurchase agreements	-	-	-	-	-
Lease liabilities	9.5	-	(1.7)	1.2	9.0
Bank overdrafts	0.3	-	0.1	-	0.4
Gross debt	4,460.9	-	(447.8)	3.1	4,016.2
Cash	(1,360.1)	-	(570.8)	-	(1,930.9)
Net debt	3,100.8	-	(1,018.6)	3.1	2,085.3

Other non-cash changes shown above represent:

- EIR adjustments relating to the spreading of initial costs of the facilities concerned
- Inception of new lease assets under IFRS 16
- Hedging fair value adjustments on the corporate bond (note 26)

(b) The Company

	Opening debt	Cash flows: Debt issued	Cash flows: Other	Non-cash movements	Closing debt
	£m	£m	£m	£m	£m
30 September 2023					
Corporate bonds	**149.2**	**-**	**-**	**0.2**	**149.4**
Retail bonds	**112.3**	**-**	**-**	**0.1**	**112.4**
Lease liabilities	**15.0**	**-**	**(1.3)**	**-**	**13.7**
Gross debt	**276.5**	**-**	**(1.3)**	**0.3**	**275.5**
Cash	**(19.7)**	**-**	**(7.9)**	**-**	**(27.6)**
Net debt	**256.8**	**-**	**(9.2)**	**0.3**	**247.9**
30 September 2022					
Corporate bonds	149.0	-	-	0.2	149.2
Retail bonds	237.1	-	(125.0)	0.2	112.3
Lease liabilities	16.3	-	(1.3)	-	15.0
Gross debt	402.4	-	(126.3)	0.4	276.5
Cash	(19.6)	-	(0.1)	-	(19.7)
Net debt	382.8	-	(126.4)	0.4	256.8

Non-cash changes shown above represent EIR adjustments relating to the spreading of initial costs of the bonds.

53. 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 £1.3m is included in third party servicing fees (note 8) (2022: £1.4m) and £0.5m is included in other debtors in respect of unpaid fees at the year end (2022: £0.2m). Outstanding collection monies due to the structured entity of £0.1m are included in other creditors at 30 September 2023 (2022: £0.1m).

54. 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.

It also leases green motor vehicles to its employees under a salary sacrifice scheme.

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

Disclosure	**Note**
Investment in finance leases	19
Finance income on net investment in finance leases	4
Assets leased under operating leases	29
Operating lease income	6

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

	2023	2022
	£m	£m
Amounts falling due:		
Within one year	**14.5**	14.0
Within one to two years	**9.3**	8.1
Within two to three years	**5.8**	5.8
Within three to four years	**3.5**	3.6
Within four to five years	**1.6**	1.7
After more than five years	**0.3**	0.8
	35.0	34.0

(b) As Lessee

The Group's use of leases as a lessee relates to the rental of office buildings and company cars, together with the procurement of vehicles for leasing to employees under its green car scheme. 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 8 years (2022: 8 years) with rents subject to review every five years, while the average term of the vehicle leases is 3 years (2022: 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	29
Interest expense on lease liabilities	5
Expense relating to short-term leases	9
Additions to right of use assets	29
Carrying amount of right of use assets	29
Maturity analysis of lease liabilities	64

Salary sacrifice amounts of £0.1m in respect of the green car scheme are included within operating lease income (note 6). There was no other subleasing of right of use assets and the total cash flows relating to leasing as a lessee were £2.3m (2022: £1.9m).

55. Related party transactions

(a) The Group

During the year, certain 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 £720,000 were outstanding at the year end (2022: £779,000), and the maximum amounts outstanding during the year totalled £771,000 (2022: £793,000).

The Paragon Pension Plan (the 'Plan') is a related party of the Group. Transactions with the Plan are described in note 60.

The Group had no other transactions with related parties other than the key management compensation disclosed in note 58.

(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 59.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 32 and 72.

Outstanding current account balances with subsidiaries are shown in notes 27 and 40.

During the year the Company incurred interest costs of £1.5m in respect of borrowings from its subsidiaries (2022: £1.0m).

The Company leased an office building from a subsidiary entity (note 54(b)). Finance charges recognised in respect of this lease were £0.4m (2022: £0.4m).

56. 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 72 and the activities of the Group are described in section A2.

The activities of the Group, described as required by the Regulations for the year ended 30 September 2023 were:

	United Kingdom
	£m
Year ended 30 September 2023	
Total operating income	**466.0**
Profit before tax	**199.9**
Corporation tax paid	**75.1**
Public subsidies received	**-**
Average number of full time equivalent employees	**1,435**

	United Kingdom
	£m
Year ended 30 September 2022	
Total operating income	393.0
Profit before tax	417.9
Corporation tax paid	56.5
Public subsidies received	-
Average number of full time equivalent employees	1,397

The Group's participation in Bank of England funding schemes is set out in note 38.

D2.2 Notes to the Accounts – Employment costs

For the year ended 30 September 2023

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.

57. Employees

The average number of persons (including directors) employed by the Group during the year was 1,527 (2022: 1,498). The number of employees at the end of the year was 1,522 (2022: 1,503).

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

	2023	**2023**	2022	2022
	£m	**£m**	£m	£m
Share based remuneration	**9.6**		9.2	
Other wages and salaries	**84.6**		81.9	
Total wages and salaries		**94.2**		91.1
National Insurance on share based remuneration	**1.9**		0.5	
Other social security costs	**10.2**		9.7	
Total social security costs		**12.1**		10.2
Defined benefit pension cost	**0.5**		0.9	
Other pension costs	**4.7**		4.1	
Total pension costs		**5.2**		5.0
Total employment costs		**111.5**		106.3
Of which				
Included in operating expenses (note 9)		**108.3**		103.6
Included in maintenance costs (note 6)		**3.2**		2.7
		111.5		106.3

Details of the pension schemes operated by the Group are given in note 60.

The Company has no employees. Details of the directors' remuneration are given in note 58.

58. Key management remuneration

Key management

The key management personnel of the Group and the Company, as defined by IAS 24 – Related Party Transactions', are considered by the Group to be the members of its Executive Committees and the members of the Board of Directors of the Company. The details of key management remuneration required by IAS 24 are set out below. For persons joining or leaving the executive committees in the year, all remuneration for the twelve months is shown.

	2023	**2023**	2022	2022
	£m	**£m**	£m	£m
Salaries and fees	**5.3**		4.4	
Cash amount of bonus	**3.3**		3.1	
Social security costs	**1.2**		1.1	
Short-term employee benefits		**9.8**		8.6
Post-employment benefits		**0.5**		0.6
IFRS 2 cost in respect of key management	**4.3**		4.0	
National Insurance thereon	**1.0**		1.0	
Share based payment		**5.3**		5.0
		15.6		14.2

Post-employment benefits shown above include pension allowances, contributions to defined contribution pension schemes or costs of accrual under the Group's defined benefit pension plan.

Social security costs paid in respect of key management 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.

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

The information in respect of the remuneration of the directors of the Company required to be disclosed in the notes to the Company's accounts by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as applicable to quoted companies, is set out below.

	2023	2022
	£m	£m
Aggregate amount of remuneration	**3.7**	3.5
Pension allowances	**0.1**	0.2
Gains on exercise of share options	**0.7**	5.6

In the table above, remuneration includes the cash amount of bonuses and the value of benefits in kind. It excludes any amounts receivable under share-based payment arrangements. Where a monetary amount of salary is paid in shares based on the market price at the payment date, this is included.

No director accrued benefits under either a defined benefit or defined contribution pension scheme in the year, nor did any director receive benefits under long-term incentive schemes, other than in the form of share awards.

Further information about the remuneration of individual directors is provided in the Annual Report on Remuneration in section B7.2.2.

59. 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 57.

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 2023 and at 30 September 2022 is set out below.

	Number 2023	Number 2022
(a) Sharesave Plan	**3,077,077**	3,613,777
(b) Performance Share Plan	**5,365,646**	4,834,871
(c) Company Share Option Plan	**56,591**	87,716
(d) Deferred Bonus Plan	**1,123,936**	1,155,638
(e) Restricted Stock Units	**412,676**	616,709
	10,035,926	10,308,711

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

(a) Sharesave plan

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

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

	2023 Number	**2023 Weighted average exercise price p**	2022 Number	2022 Weighted average exercise price p
Options outstanding				
At 1 October 2022	**3,613,777**	**318.46**	3,561,675	306.89
Granted in the year	**1,235,757**	**400.40**	737,978	391.20
Exercised or surrendered in the year	**(1,579,263)**	**285.67**	(386,039)	339.22
Lapsed during the year	**(193,194)**	**357.44**	(299,837)	333.10
At 30 September 2023	**3,077,077**	**365.76**	3,613,777	318.46
Options exercisable	**439,546**	**279.43**	109,654	359.92

The weighted average remaining contractual life of options outstanding at 30 September 2023 was 32.8 months (2022: 27.0 months). The weighted average market price at exercise for share options exercised in the year was 515.86p (2022: 507.07p).

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

Grant date	Period exercisable	Exercise price	Number 2023	Number 2022
28/07/2017	01/09/2022 to 01/03/2023	341.76p	**-**	1,403
31/07/2018	01/09/2023 to 01/03/2024	408.80p	**2,933**	20,391
30/07/2019	01/09/2022 to 01/03/2023	360.16p	**-**	108,251
30/07/2019	01/09/2024 to 01/03/2025	360.16p	**4,577**	4,577
29/07/2020	01/09/2023 to 01/03/2024	278.56p	**436,613**	1,925,599
29/07/2020	01/09/2025 to 01/03/2026	278.56p	**449,263**	478,876
28/07/2021	01/09/2024 to 01/03/2025	424.00p	**257,591**	278,279
28/07/2021	01/09/2026 to 01/03/2027	424.00p	**54,118**	63,315
27/07/2022	01/09/2025 to 01/03/2026	391.20p	**528,429**	622,064
27/07/2022	01/09/2027 to 01/03/2028	391.20p	**108,722**	111,022
15/09/2023	01/10/2026 to 01/04/2027	400.40p	**1,022,746**	-
15/09/2023	01/10/2028 to 01/04/2029	400.40p	**212,085**	-
			3,077,077	3,613,777

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

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

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

Grant date	15/09/23	15/09/23	27/07/22	27/07/22
Number of awards granted	**1,203,672**	**212,085**	623,122	114,856
Market price at date of grant	**506.5p**	**506.5p**	527.0p	527.0p
Contractual life (years)	**3.5**	**5.5**	3.5	5.5
Fair value per share at date of grant (£)	**1.10**	**1.09**	1.34	1.06
Inputs to valuation model				
Expected volatility	**31.02%**	**35.67%**	39.36%	33.75%
Expected life at grant date (years)	**3.43**	**5.42**	3.42	5.43
Risk-free interest rate	**4.64%**	**4.39%**	1.69%	1.74%
Expected annual dividend yield	**5.96%**	**5.96%**	5.37%	5.37%
Expected annual departures	**5.00%**	**5.00%**	5.00%	5.00%

The expected volatility of the share price used in determining the fair value 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.

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

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

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

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

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

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

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

Grant date	Period exercisable	Number 2023	Number 2022
28/02/2013	28/02/2016 to 27/02/2023†	**-**	4,578
10/12/2013	10/12/2016 to 09/12/2023†	**2,132**	2,132
18/12/2014	18/12/2017 to 17/12/2024†	**5,005**	5,005
22/12/2015	22/12/2018 to 21/12/2025†	**10,473**	10,473
01/12/2016	01/12/2019 to 30/11/2026†	**33,493**	34,894
08/12/2017	03/12/2020 to 07/12/2027†	**29,675**	50,268
14/12/2018	14/12/2021 to 13/12/2028†	**61,952**	155,092
06/07/2020	06/12/2022 to 05/07/2030ψ	**114,169**	1,144,820
06/07/2020	07/12/2024* to 05/07/2030ψ	**509,192**	509,192
11/12/2020	07/12/2023* to 10/12/2030ϕ	**1,074,596**	1,122,904
11/12/2020	07/12/2025* to 10/12/2030ϕ	**385,707**	385,707
15/12/2021	07/12/2024* to 14/12/2031δ	**1,034,343**	1,069,870
15/12/2021	07/12/2026* to 14/12/2031δ	**339,936**	339,936
16/12/2022	07/12/2025* to 15/12/2032λ	**932,315**	-
16/12/2022	07/12/2026* to 15/12/2032λ	**259,233**	-
16/12/2022	07/12/2027* to 15/12/2032λ	**268,683**	-
16/12/2022	07/12/2028* to 15/12/2032λ	**148,229**	-
16/12/2022	07/12/2029* to 15/12/2032λ	**156,513**	-
		5,365,646	4,834,871

* Estimated date.

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

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

- 25% to a Total Shareholder Return ('TSR') test based on a ranking of the Company's TSR against those of a comparator group of UK listed financial services companies, determined at the date of grant. This tranche vests in full for upper quartile performance, 25% vests for median performance and vesting between those points is determined on a straight line basis
- 25% to an EPS test. This tranche vests in full if basic EPS for the third year of the test period is at least 67.0p, 25% vesting if EPS in this year is 60.0p and vesting between those points on a straight line basis
- 25% to a risk test. The risk condition comprises two components. 50% of the risk element is based on an assessment by the CRO of the six key measures of the Group's risk appetite: regulatory breaches; customer service performance; conduct; operational risk incidents; capital and liquidity; and credit losses. The remaining 50% is based on a strategic risk assessment reflecting the management of risk as it impacts on the delivery of the Group's medium term strategy. Following the Remuneration Committee's assessment, the tranche will vest between 0% and 100%
- 12.5% of the grant is determined based on a customer service condition. This condition is based on the performance of the Group against its most significant customer service metrics including insight feedback on key product lines and complaint levels. The Remuneration Committee will determine the extent to which the condition has been met between 0% and 100%. 50% of this tranche will vest for on-target performance, below a 25% threshold no vesting will occur
- 12.5% of the grant is determined based on a people test. The people test is based on the performance of the Group against its most significant employment metrics including employee engagement, voluntary attrition and gender diversity levels. The Remuneration Committee will determine the extent to which the condition has been met between 0% and 100%. 50% of this tranche will vest for on-target performance below a 25% threshold no vesting will occur
- Due to the volatility of the share price at the time of grant, the Remuneration Committee could have adjusted the vesting levels at the vesting date if it believed that the use of this share price had created a potential windfall gain

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

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

- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 66.0p, 25% vesting if EPS in this year is 58.0p and vesting between those points on a straight line basis
- The ability of the Remuneration Committee to adjust specifically for windfall gains was not a condition of this grant

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 72.0p, 25% vesting if EPS in this year is 63.0p and vesting between those points on a straight line basis
- Under the risk condition, the key measures component covers: regulatory breaches; conduct; operational incidents; capital and liquidity; and credit losses

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

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

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

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

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

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

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

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

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

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

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

	2023	**2023**	2022	2022
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		p		p
Options outstanding				
At 1 October 2022	**87,716**	**406.31**	241,574	403.66
Exercised or surrendered in the year	**(28,715)**	**408.25**	(148,680)	402.14
Lapsed during the year	**(2,410)**	**477.76**	(5,178)	402.37
At 30 September 2023	**56,591**	**402.29**	87,716	406.31
Options exercisable	**56,591**	**402.29**	87,716	406.31

The weighted average remaining contractual life of options outstanding at 30 September 2023 was 49.9 months (2022: 66.2 months). The weighted average market price at exercise for share options exercised in the year was 563.98p.

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

Grant date	Period exercisable	Exercise price	Number 2023	Number 2022
01/12/2016	01/12/2019 to 30/11/2026	361.88p	**21,732**	22,802
08/12/2017	08/12/2020 to 07/12/2027	477.76p	**13,409**	20,557
14/12/2018	14/12/2021 to 13/12/2028	396.04p	**21,450**	44,357
			56,591	87,716

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.

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

(d) Deferred Bonus awards

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

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

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

Grant date	Period exercisable	Number 2023	Number 2022
10/12/2013	10/12/2016 to 09/12/2023	**-**	55,302
18/12/2014	18/12/2017 to 17/12/2024	**52,888**	52,888
22/12/2015	22/12/2018 to 21/12/2025	**60,042**	60,042
14/12/2018	14/12/2021 to 13/12/2028	**-**	26,437
12/12/2019	12/12/2022 to 11/12/2029	**-**	108,701
11/12/2020	11/12/2023 to 10/12/2030	**382,334**	382,334
11/12/2020 †	11/12/2023 to 01/06/2024	**206,135**	224,981
15/12/2021	15/12/2024 to 10/12/2031	**244,953**	244,953
16/12/2022	07/12/2023 * to 15/12/2032	**5,011**	-
16/12/2022	07/12/2024 * to 15/12/2032	**104,089**	-
16/12/2022	07/12/2025 * to 15/12/2032	**14,742**	-
16/12/2022	07/12/2026 * to 15/12/2032	**15,565**	-
16/12/2022	07/12/2027 * to 15/12/2032	**16,018**	-
16/12/2022	07/12/2028 * to 15/12/2032	**10,775**	-
16/12/2022	07/12/2029 * to 15/12/2032	**11,384**	-
		1,123,936	1,155,638

* Estimated date

† All-employee award

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

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

All of these awards will lapse if the grantee ceases employment with the Group before the grant becomes exercisable, other than in 'good leaver' circumstances.

The Deferred Bonus shares granted in 2021 and earlier years under the executive awards can be exercised from the third anniversary of the award date (or other vesting date determined by the Remuneration Committee) 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 between December 2016 and December 2021 accrue dividends over the vesting period, unlike earlier grants which accrued dividends until the point of exercise. Awards granted in December 2022 do not include the right to payment in lieu of dividend. The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model and allows for these dividend arrangements.

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

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

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

The number of awards granted and their fair values for IFRS2 purposes are set out below.

Grant date	16/12/22		15/12/21	
Time to exercise (Years)	Number of awards	IFRS 2 fair value	Number of awards	IFRS 2 fair value
1	**5,011**	**513.6p**	-	-
2	**104,089**	**487.2p**	-	-
3	**14,742**	**462.2p**	244,953	549.0p
4	**15,565**	**438.4p**	-	-
5	**16,018**	**415.9p**	-	-
6	**10,775**	**394.5p**	-	-
7	**11,384**	**374.2p**	-	-
	177,584		244,953	

(e) Restricted Stock Units ('RSUs')

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

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

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

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

* Estimated date

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

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

For all of these grants no departures are expected.

60. Retirement benefit obligations

(a) Defined benefit plan – description

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

Employee contributions and benefits

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

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

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

Actuarial risks

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

- **Investment risk** – The present value of the defined benefit liabilities is calculated using a discount rate set by reference to high quality corporate bond yields. If plan assets underperform corporate bonds, this will reduce the surplus. The strategic allocation of assets under the Plan is currently weighted towards equity assets and diversified growth funds as its liability profile is relatively immature, and it is expected that these asset classes will, over the long term, outperform gilts and corporate bonds. In consultation with the Company, the Trustee keeps the allocation of the Plan's investments under review to manage this risk on a long-term basis
- **Interest risk** – A fall in corporate bond yields would reduce the discount rate used in valuing the Plan liabilities and increase the value of the Plan liabilities. The Plan assets would also be expected to increase, to the extent that bond assets are held, but this would not be expected to fully match the increase in liabilities, given the weighting towards equity assets and diversified growth funds noted above
- **Inflation risk** – Pensions in payment are increased annually in line with the 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 surplus is calculated by reference to the best estimate of the mortality rate among Plan members both during and after employment. An increase in the life expectancy of the members would reduce the surplus in the Plan
- **Salary risk** – The valuation of the Plan assumes a level of future salary increases based on the expected rate of inflation. Should the salaries of Plan members increase at a higher rate, then the surplus will be lower. For service from 1 July 2021, a 2.5% cap on individual pensionable salary applies, mitigating this risk

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

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

Actuarial valuation and recovery plan

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

Following the agreement of the 2022 actuarial valuation, the Trustee put in place a revised recovery plan. On current forecasts the Trustee's recovery plan would meet the statutory funding objective by 31 July 2025. The revised recovery plan continues to include a Pension Funding Partnership ('PFP') arrangement effectively granting the Plan a first charge over the Group's head office building as security for payments under the plan (note 29). 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 29) 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 2022 was updated to 30 September 2023 in accordance with the requirements of IAS 19 (revised) by Mercer, the Group's independent consulting actuary.

The major categories of assets in the Plan at 30 September 2023, 30 September 2022 and 30 September 2021 and their fair values were:

	2023	2022	2021
	£m	£m	£m
Cash and cash equivalents	**0.6**	0.7	17.1
Equity instruments	**44.8**	56.6	73.4
Debt instruments	**56.6**	47.4	54.8
Total fair value of Plan assets	**102.0**	104.7	145.3
Present value of Plan liabilities	**(89.3)**	(97.6)	(155.6)
Surplus / (deficit) in the Plan	**12.7**	7.1	(10.3)

The Group has recognised the surplus as an asset at the balance sheet date as it anticipates being able to access economic benefits at least as great as the carrying value. However such assets are eliminated from capital for regulatory purposes (note 61).

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

The Plan also has a benchmark allocation of 28% of total assets to Liability Driven Investments ('LDI'). These investments are used to meet a hedging target of 60% of the interest and inflation risks faced by the Plan. During the market turmoil encountered during September / October 2022 the assets of the Plan proved themselves to be robust in protecting the members' interests, with no requirement to either divest from LDI nor to reduce the hedge ratio in place.

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

During October 2018, 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'. This estimate is based on one permissible method, method C2. Following the year end, the Trustee, with the consent of the Company, chose to adopt an alternative approach, method B. However, the accounting impact of this is likely to be minimal. Once detailed calculations are performed it is possible that the final impact may vary due to idiosyncratic impacts on individual members, or due to the development of a wider legal and accounting consensus on the proper interpretation of the courts' requirements as further cases are determined.

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

	2023	2022
	£m	£m
At 1 October 2022	**104.7**	145.3
Interest on Plan assets	**5.2**	2.9
Cash flows		
Contributions by the Group	**3.9**	4.0
Contributions by Plan members	**0.2**	0.2
Benefits paid	**(3.6)**	(3.8)
Administration expenses paid	**(0.6)**	(0.8)
Remeasurement (loss) / gain		
Return on Plan assets (excluding amounts included in interest)	**(7.8)**	(43.1)
At 30 September 2023	**102.0**	104.7

The actual return on Plan assets in the year ended 30 September 2023 was a loss of £2.6m (2022: loss of £40.2m).

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

	2023	2022
	£m	£m
At 1 October 2022	**97.6**	155.6
Current service cost	**0.5**	0.9
Past service cost	**-**	-
Funding cost	**4.8**	3.1
Cash flows		
Contributions by Plan members	**0.2**	0.2
Benefits paid	**(3.6)**	(3.8)
Remeasurement loss / (gain)		
Arising from demographic assumptions	**(0.9)**	2.2
Arising from financial assumptions	**(11.1)**	(61.9)
Arising from experience adjustments	**1.8**	1.3
At 30 September 2023	**89.3**	97.6

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.

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):

	2023	2022	2021
In determining net pension cost for the year			
Discount rate	**5.00%**	2.00%	1.75%
Rate of compensation increase:			
Pre 1 July 2021 accrual	**3.55%**	3.40%	2.95%
Post 1 July 2021 accrual	**2.50%**	2.50%	2.50%
Rate of price inflation	**3.55%**	3.40%	2.95%
Rate of increase of pensions	**3.25%**	3.15%	2.85%
In determining benefit obligations			
Discount rate	**5.55%**	5.00%	2.00%
Rate of compensation increase:			
Pre 1 July 2021 accrual	**3.25%**	3.55%	3.40%
Post 1 July 2021 accrual	**2.50%**	2.50%	2.50%
Rate of price inflation	**3.25%**	3.55%	3.40%
Rate of increase of pensions	**3.00%**	3.25%	3.15%
Further life expectancy at age 60			
Male member aged 60	**27**	27	28
Female member aged 60	**29**	29	29
Male member aged 40	**29**	29	29
Female member aged 40	**31**	31	31

In the 2023 valuation the base mortality table used was the standard S3PMA/S3PFA_M (All) Year of Birth table, with future improvements projected by the CMI 2022 projection model with a 1.5% per annum long-term improvement rate.

In the 2022 valuation the base mortality table used was the standard S3PMA/S3PFA_M (All) Year of Birth table, with future improvements projected by the CMI 2021 projection model with a 1.5% per annum long-term improvement rate.

In the 2021 valuation the base mortality table used was the standard S3 PA (All) Year of Birth table, with future improvements projected using the CMI 2020 projection model with a 1.5% per annum long-term improvement rate.

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

	Note	**2023**	2022
		£m	£m
Current service cost		**0.5**	0.9
Past service cost		**-**	-
Total service cost	*57*	**0.5**	0.9
Administration expenses		**0.6**	0.8
Included within operating expenses		**1.1**	1.7
Funding cost of Plan liabilities		**4.8**	3.1
Interest on Plan assets		**(5.2)**	(2.9)
Net interest (income) / expense	*4 / 5*	**(0.4)**	0.2
Components of defined benefit costs recognised in profit or loss		**0.7**	1.9

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

	2023	2022
	£m	£m
Return on Plan assets (excluding amounts included in interest)	**(7.8)**	(43.1)
Actuarial gains / (losses)		
Arising from demographic assumptions	**0.9**	(2.2)
Arising from financial assumptions	**11.1**	61.9
Arising from experience adjustments	**(1.8)**	(1.3)
Total actuarial gain	**2.4**	15.3
Tax thereon	**(0.8)**	(3.7)
Net actuarial gain	**1.6**	11.6

Of the remeasurement movements reflected above:

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

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

  The movement in the year ended 30 September 2022 reflected principally the sharp increase in corporate bond yields, which are used to determine the discount applied in the calculation of the pension liability. The difference between Fixed Interest and Indexed-Linked Gilt yields, which is used to forecast market-implied inflation, increased far less and so only partially mitigated this movement.
- The experience adjustments in the year ended 30 September 2023 represent the impact of actual UK inflation in the year on expected benefits, which is more significant than in previous years due to the inflation levels recorded in the period.

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

(c) Defined benefit plan – future cash flows

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

Assumption	**Increase in assumption**	**Impact on scheme liabilities**	
		2023	2022
Discount rate	0.1% per annum	**(1.6)%**	(1.7)%
Rate of inflation*	0.1% per annum	**1.6%**	1.7%
Rate of salary growth	0.1% per annum	**0.4%**	0.4%
Rates of mortality	1 year of life expectancy	**2.5%**	2.9%

* 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 2024 are 50% growth assets (primarily equities), and 50% matching assets (primarily bonds) which includes LDI balances, with the hedge ratio rising to 75%.

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

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

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

	2023	2022
	Years	Years
Category of member		
Active members	**18**	21
Deferred pensioners	**18**	21
Current pensioners	**11**	12
All members	**16**	18

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

(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 completed the auto-enrolment process mandated by the UK Government in November 2013, using this scheme. Since the year ended 30 September 2020 the Group's contribution to the scheme for those employees making the maximum 6% contribution has been 10% of salary.

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

The assets of these schemes are not Group assets and are held separately from those of the Group, under the control of independent trustees. Contributions made by the Group to these schemes in the year ended 30 September 2023, which represent the total cost charged against income, were £4.7m (2022: £4.1m) (note 57).

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

For the year ended 30 September 2023

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 and market 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.

61. 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 protection of the Group's capital base and its long-term viability are key strategic priorities.

The Group sets its target amount of capital in proportion to risk, availability 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. For regulatory purposes the Company is designated as a CRR consolidation entity, as defined by the PRA rulebook. As part of this supervision the regulator will issue a Total Capital Requirement ('TCR') setting the amount of regulatory capital relative to its Total Risk Exposure ('TRE') which the Group is required to hold at all times, in order to safeguard depositors from loss in the event of severe losses being incurred by the Group. This requirement is set in accordance with the international Basel 3 rules, issued by the Basel Committee on Banking Supervision ('BCBS'), which, following the implementation of the Financial Services Act 2021 on 1 January 2022, are implemented through the PRA Rulebook.

The Group's regulatory capital is monitored by the Board, its Risk and Compliance Committee and by the Executive Risk Committee ('ERC') 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 those years. In order to increase institutions' lending capacity in the short term, the EU 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.

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 2023 the Group's total regulatory capital of £1,338.9m (2022: £1,371.8m) exceeded the amounts required by the regulator, including £673.4m (2022: £660.6m) in respect of its TCR, which is comprised of fixed and variable elements (amounts not subject to audit).

The total regulatory capital at 30 September 2023 on the fully loaded basis of £1,325.4m (2022: £1,346.0m) was in excess of the TCR of £672.2m (2022: £658.4m) on the same basis (amounts not subject to audit).

At 30 September 2023, the Group's TCR represented 8.8% of TRE (2022: 8.8%).

The CRR also requires firms to hold additional capital buffers, including a Capital Conservation Buffer ('CCoB') of 2.5% of TRE (at 30 September 2023) (2022: 2.5%) and a Counter-cyclical Capital Buffer ('CCyB'), currently 2.0% of TRE (2022: 0.0%). The UK CCyB increased to 1.0% of TRE from December 2022 and to 2.0% of TRE from July 2023. This is expected to be its long term rate in a standard risk environment. Firm specific buffers may also be required.

The Group's regulatory capital differs from its equity as certain adjustments are required by the PRA Rulebook or the regulator. A reconciliation of the Group's equity to its regulatory capital determined in accordance with the PRA Rulebook at 30 September 2023 is set out below.

		Regulatory basis		**Fully loaded basis**	
	Note	**2023**	2022	**2023**	2022
		£m	£m	**£m**	£m
Total equity		**1,410.6**	1,417.3	**1,410.6**	1,417.3
Deductions					
Proposed final dividend	*48*	**(56.7)**	(44.9)	**(56.7)**	(44.9)
IFRS 9 transitional relief	*	**13.5**	25.8	**-**	-
Intangible assets	*30*	**(168.2)**	(170.2)	**(168.2)**	(170.2)
Pension surplus net of deferred tax	*60*	**(9.6)**	(5.3)	**(9.6)**	(5.3)
Prudent valuation adjustments	§	**(0.6)**	(0.9)	**(0.6)**	(0.9)
Insufficient coverage	ψ	**(0.1)**	(0.0)	**(0.1)**	(0.0)
Common Equity Tier 1 ('CET1') capital		**1,188.9**	1,221.8	**1,175.4**	1,196.0
Other Tier 1 capital		**-**	-	**-**	-
Total Tier 1 capital		**1,188.9**	1,221.8	**1,175.4**	1,196.0
Corporate bond	*37*	**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')		**1,338.9**	1,371.8	**1,325.4**	1,346.0

* Firms are permitted to phase in the impact of IFRS 9 transition as described above.

§ 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 PRA Rulebook.

ψ Regulatory deduction where there is insufficient coverage for non-performing exposures required under Article 47(c) of the CRR. This requirement remained in force in the UK, at the year end, under the Brexit arrangements but was removed by the PRA with effect from 14 November 2023. The amount required at 30 September 2022 was less than £0.1m.

Φ The PRA Rulebook restricts the amount of tier 2 capital which is eligible for regulatory purposes to 25% of TCR.

The TRE amount calculated under the PRA Rulebook framework against which this capital is held, which includes Risk Weighted Asset ('RWA') amounts for credit risk, and the proportion of these assets which that capital represents, are calculated as shown below.

	Regulatory basis		Fully loaded basis	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Credit risk				
Balance sheet assets	**6,784.2**	6,652.1	**6,784.3**	6,652.1
Off balance sheet	**87.2**	85.4	**87.2**	85.4
IFRS 9 transitional relief	**13.5**	25.8	**-**	-
Total credit risk	**6,884.9**	6,763.3	**6,871.5**	6,737.5
Operational risk	**740.2**	633.1	**740.2**	633.1
Market risk	**-**	-	**-**	-
Other	**43.6**	118.6	**43.6**	118.6
Total risk exposure amount ('TRE')	**7,668.7**	7,515.0	**7,655.3**	7,489.2
Solvency ratios	%	%	%	%
CET1	**15.5**	16.3	**15.4**	16.0
TRC	**17.5**	18.3	**17.3**	18.0

This table is not subject to audit

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

Leverage ratio

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	**2023**	2022
		£m	£m
Total balance sheet assets		**18,420.2**	16,653.6
Add: Credit fair value adjustments on loans to customers	*18*	**379.3**	559.9
Debit fair value adjustments on retail deposits	*33*	**30.9**	99.7
Adjusted balance sheet assets		**18,830.4**	17,313.2
Less: Derivative assets	*26*	**(615.4)**	(779.0)
Central bank deposits	*17*	**(2,783.3)**	(1,612.5)
CRDs	*27*	**(38.0)**	(30.2)
Accrued interest on sovereign exposures		**(4.2)**	(1.0)
On balance sheet items		**15,389.5**	14,890.5
Less: Intangible assets	*30*	**(168.2)**	(170.2)
Pension surplus	*60*	**(12.7)**	(7.1)
Total on balance sheet exposures		**15,208.6**	14,713.2
Regulatory exposure for derivatives		**179.6**	434.7
Total derivative exposures		**179.9**	434.7
Post offer pipeline at gross notional amount		**993.3**	1,307.9
Adjustment to convert to credit equivalent amounts		**(815.7)**	(1,094.1)
Off balance sheet items		**177.6**	213.8
Tier 1 capital		**1,188.9**	1,221.8
Total leverage exposure before IFRS 9 relief		**15,565.8**	15,361.7
IFRS 9 relief		**13.5**	25.8
Total leverage exposure		**15,579.3**	15,387.5
UK leverage ratio		**7.6%**	7.9%

This table is not subject to audit

The fully loaded leverage ratio is calculated as follows

	2023	2022
	£m	£m
Fully loaded Tier 1 capital	**1,175.4**	1,196.0
Total leverage exposure before IFRS 9 relief	**15,565.8**	15,361.7
Fully loaded UK leverage exposure	**7.6%**	7.8%

This table is not subject to audit.

Following regulatory changes introduced from 1 January 2022, the Group calculates regulatory exposure on derivatives using the Standardised Approach for Counterparty Credit Risk ('SA-CCR'), which includes elements based on the market value of derivative assets adjusted for collateral, amongst other things, and based on potential future exposure in respect of all derivatives held.

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

Capital requirements in subsidiary entities

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 2023 is derived as follows:

	Note	**2023**	2022
		£m	£m
Profit for the year after tax		**153.9**	313.6
Amortisation and derecognition of intangible assets	*30*	**3.6**	2.0
Adjusted profit		**157.5**	315.6
Divided by			
Opening equity		**1,417.3**	1,241.9
Opening intangible assets	*30*	**(170.2)**	(170.5)
Opening tangible equity		**1,247.1**	1,071.4
Closing equity		**1,410.6**	1,417.3
Closing intangible assets	*30*	**(168.2)**	(170.2)
Closing tangible equity		**1,242.4**	1,247.1
Average tangible equity		**1,244.7**	1,159.3
Return on Tangible Equity		**12.7%**	27.2%

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. In addition to the payment of dividends, the Board may also consider whether it is appropriate to apply excess capital in the market purchase of the Group's shares.

The distributable reserves of the Company comprise its profit and loss account balance (note 46) 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. For the current year, based on its review of the Group's capital position and forecasts, and taking account of Covid-related impacts on the relative size of interim and final dividends in recent years and the desire to normalise the ongoing relationship between the half-year and final payments, the Board concluded that a one-off enhancement to the interim dividend could be made. It therefore declared an interim dividend for the year of 11.0p per share (2022: 9.4p per share). The Board also confirmed that the Group's normal approach of paying an interim dividend of 50% of the preceding year's final dividend would continue to apply in future years.

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. In particular the levels of provision in the Group's loan portfolios and the potential for further provision under stress in the event of a worsening UK economic position were considered by the Board. These were compared to the regulatory capital position at the year end along with the capital impacts of stress testing carried out as part of the ICAAP and forecasting processes, and the potential impacts of ongoing developments in the regulatory regime for capital including the introduction in the UK of Basel 3.1.

The Board particularly considered the appropriateness of including net losses relating to fair value adjustments from hedging in the calculation of any dividend or distribution, as these primarily result from the reversal of gains recorded in earlier years which were disregarded, at the time, for the purpose of determining dividends. Given the size of such adjustments in the period, the Board concluded that their inclusion was not consistent with its overarching aim of delivering a sustainable dividend which grows with the earnings of the business.

On the basis of this analysis the Board concluded that a total dividend of around 40% of earnings excluding fair value items could be paid.

The Board will therefore propose a final dividend for the year of 26.4p per share (2022: 19.2p per share) for approval at the 2024 AGM, making a total dividend for the year of 37.4p per share (2022: 28.6p per share).

During the year the share buy-back programme announced during the 2022 financial year was completed under an irrevocable authority put in place in September 2022. A share buy-back programme for the current financial year, for up to £50.0m of ordinary shares was authorised at the time of the Group's 2022 results announcement. This was extended to £100.0m in June 2022. The amount expended in these programmes in the year was £111.5m (note 47) and the share buy-back was completed before the year end.

As part of its consideration of capital described above the Board of Directors authorised a new buy-back of up to £50.0m to commence shortly after the announcement of the 2023 results. All shares acquired in buy-back programmes are initially held in treasury.

The directors have considered the distributable resources of the Company and concluded that these distributions are appropriate.

The most recent policy review, in November 2023, 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. Share buy-backs will be considered where excess capital has arisen, either operationally or as a result of changed regulatory requirements.

62. 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 a limited amount of currency risk). The nature and extent of these risks are discussed in notes 63 to 65 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 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 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 63 to 65 is materially similar to that existing throughout the year.

63. Credit risk

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

		The Group		The Company	
	Note	**2023**	2022	**2023**	2022
		£m	£m	**£m**	£m
Financial assets at amortised cost					
Loans to customers	*18*	**14,874.3**	14,210.3	**-**	-
Trade receivables	*27*	**1.5**	1.9	**-**	-
Intra-group cash deposits	*27*	**-**		**193.6**	
Amounts owed by Group companies	*27*	**-**	-	**35.1**	39.1
Cash	*17*	**2,994.3**	1,930.9	**27.6**	19.7
CRDs	*27*	**38.0**	30.2	**-**	-
Accrued interest income	*27*	**4.6**	1.0	**0.1**	0.1
		17,912.7	16,174.3	**256.4**	58.9
Financial assets at fair value					
Derivative financial assets	*26*	**615.4**	779.0	**-**	-
Maximum exposure to credit risk		**18,528.1**	16,953.3	**256.4**	58.9

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 64, 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 prudent credit management, both at the time of acquiring or underwriting a new loan, where robust 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, which reports to the ERC, 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 sophisticated individual credit assessment supported by the automated efficiencies of statistically-based evaluation 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 2023 are analysed as follows:

	2023		2022	
	£m	%	£m	%
Buy-to-let mortgages	**12,720.1**	**85.6%**	12,086.0	85.1%
Owner-occupied mortgages	**27.7**	**0.1%**	36.4	0.2%
Total first charge residential mortgages	**12,747.8**	**85.7%**	12,122.4	85.3%
Second charge mortgage loans	**154.5**	**1.0%**	206.3	1.4%
Loans secured on residential property	**12,902.3**	**86.7%**	12,328.7	86.7%
Development finance	**747.8**	**5.0%**	719.9	5.1%
Loans secured on property	**13,650.1**	**91.7%**	13,048.6	91.8%
Asset finance loans	**559.1**	**3.8%**	498.8	3.5%
Motor finance loans	**297.7**	**2.0%**	261.3	1.8%
Aircraft mortgages	**26.9**	**0.2%**	33.7	0.3%
Secured RLS and CBILS	**50.5**	**0.4%**	65.1	0.4%
Structured lending	**169.0**	**1.1%**	178.7	1.3%
Invoice finance	**31.7**	**0.2%**	25.7	0.2%
Total secured loans	**14,785.0**	**99.4%**	14,111.9	99.3%
Professions finance	**52.2**	**0.4%**	60.9	0.4%
Unsecured RLS, CBILS and BBLS	**16.7**	**0.1%**	22.9	0.2%
Other unsecured commercial loans	**20.4**	**0.1%**	14.6	0.1%
Total loans to customers	**14,874.3**	**100.0%**	14,210.3	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.

	2023	2022
	£m	£m
Buy-to-let mortgages	**149.6**	151.9
Development finance	**390.6**	306.9
Structured lending	**160.3**	179.4
Asset finance	**24.6**	-
	725.1	638.2

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 2023 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 2023					
Very low risk	**11,393.7**	**23.0**	**1.9**	**6.6**	**11,425.2**
Low risk	**2,236.4**	**395.5**	**73.8**	**2.5**	**2,708.2**
Moderate risk	**157.1**	**147.3**	**9.7**	**1.8**	**315.9**
High risk	**34.0**	**113.3**	**13.6**	**3.2**	**164.1**
Very high risk	**37.7**	**63.3**	**104.1**	**9.3**	**214.4**
Not graded	**113.4**	**2.4**	**2.9**	**1.4**	**120.1**
Total gross carrying amount	**13,972.3**	**744.8**	**206.0**	**24.8**	**14,947.9**
Impairment	**(19.6)**	**(9.4)**	**(39.8)**	**(4.8)**	**(73.6)**
Total loans to customers	**13,952.7**	**735.4**	**166.2**	**20.0**	**14,874.3**
30 September 2022					
Very low risk	10,270.3	846.7	1.1	9.2	11,127.3
Low risk	1,563.9	932.0	63.6	1.9	2,561.4
Moderate risk	118.6	114.1	4.3	2.5	239.5
High risk	35.0	34.6	9.7	4.1	83.4
Very high risk	44.4	35.1	42.2	9.3	131.0
Not graded	124.8	1.1	3.5	1.8	131.2
Total gross carrying amount	12,157.0	1,963.6	124.4	28.8	14,273.8
Impairment	(25.5)	(8.0)	(28.5)	(1.5)	(63.5)
Total loans to customers	12,131.5	1,955.6	95.9	27.3	14,210.3

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 22, 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 an 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 (2023: 0.8%, 2022: 0.9%) is classed as 'not graded' above. This rating generally 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 2023 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	
	2023	2022	**2023**	2022
	%	%	**%**	%
Loan to value ratio				
Less than 70%	**72.7**	89.2	**94.6**	95.6
70% to 80%	**23.8**	9.4	**3.2**	2.4
80% to 90%	**2.5**	0.4	**0.9**	0.8
90% to 100%	**0.2**	0.3	**0.3**	0.2
Over 100%	**0.8**	0.7	**1.0**	1.0
	100.0	100.0	**100.0**	100.0
Average LTV ratio	**62.7**	57.8	**52.3**	50.6
Of which:				
Buy-to-let	**62.8**	57.9		
Owner-occupied	**39.0**	37.6		

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 decrease of 5.3% in the year ended 30 September 2023 (2022: increase of 9.5%).

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

	First charge		Second charge	
	2023	2022	**2023**	2022
	%	%	**%**	%
East Anglia	**3.3**	3.3	**3.4**	3.3
East Midlands	**5.9**	5.7	**6.2**	6.2
Greater London	**18.2**	18.2	**7.4**	7.8
North	**3.5**	3.3	**4.2**	4.1
North West	**10.3**	10.3	**7.5**	7.7
South East	**30.6**	31.2	**37.8**	38.2
South West	**9.0**	8.8	**8.4**	8.4
West Midlands	**6.2**	5.9	**7.3**	7.4
Yorkshire and Humberside	**7.4**	7.8	**6.2**	6.1
Total England	**94.4**	94.5	**88.4**	89.2
Northern Ireland	**-**	0.1	**2.3**	2.0
Scotland	**2.5**	2.3	**5.5**	5.4
Wales	**3.1**	3.1	**3.8**	3.4
	100.0	100.0	**100.0**	100.0

Development finance

Development finance loans have an average term of 26 months (2022: 24 months). Settlement of principal and accrued interest takes place either on the sale of the development, or units within it, where appropriate, or on the refinancing of the property following its completion. 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.

	2023	**2023**	2022	2022
	By value	**By number**	By value	By number
	%	**%**	%	%
LTGDV				
50% or less	**8.2**	**6.1**	7.9	5.1
50% to 60%	**17.3**	**21.7**	17.0	21.7
60% to 65%	**37.7**	**33.0**	45.0	39.1
65% to 70%	**25.5**	**27.4**	22.2	27.2
70% to 75%	**5.8**	**7.4**	5.8	6.2
Over 75%	**5.5**	**4.4**	2.1	0.7
	100.0	**100.0**	100.0	100.0

The average LTGDV cover at the year end was 63.1% (2022: 62.1%).

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 2023, the development finance portfolio comprised 230 accounts (2022: 276) with a total carrying value of £747.8m (2022: £719.9m). Of these accounts only 15 were included in Stage 2 at 30 September 2023 (2022: nine), with twelve accounts classified as Stage 3 (2022: nil). In addition, one acquired account had been classified as POCI (2022: 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.

	2023	2022
	%	%
East Anglia	**4.4**	2.8
East Midlands	**11.8**	11.7
Greater London	**11.8**	10.5
North	**0.8**	1.2
North West	**0.4**	0.1
South East	**34.0**	46.3
South West	**21.3**	13.0
West Midlands	**6.2**	7.1
Yorkshire and Humberside	**6.6**	6.0
Total England	**97.3**	98.7
Northern Ireland	**-**	-
Scotland	**2.7**	1.3
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 49 months (2022: 52 months) while that of the motor finance loans was 68 months (2022: 67 months), but historical behaviour suggests 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.

	2023	2022
	%	%
Commercial vehicles	**41.9**	37.4
Construction plant	**30.9**	33.2
Manufacturing	**6.3**	6.1
Technology	**4.8**	4.9
Other vehicles	**4.7**	4.7
Refuse disposal vehicles	**3.4**	3.7
Agriculture	**2.1**	2.4
Print and paper	**1.6**	1.3
Other	**4.3**	6.3
	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.

	2023	2022
Number of active facilities	**9**	8
Total facilities (£m)	**235.7**	220.5
Carrying value (£m)	**169.0**	178.7

The maximum advance under these facilities was generally 80% of the underlying assets, except where loans secured by residential property form the security for the facility, where 90% is admissible.

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 2023 one of these facilities was identified as Stage 2 with the remainder in Stage 1. At 30 September 2022, all of these facilities were identified as 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 has subsequently been extended twice. It is currently expected to be available for new lending until June 2024.

The Group offered term loans and asset finance loans under the CBIL scheme. Interest and fees were 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 paid 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), on applications received before 1 January 2022 and up to 70% for applications received thereafter.

The Group's outstanding RLS, CBILS and BBLS loans at 30 September 2023 were:

	2023	2022
	£m	£m
RLS		
Term loans	**1.0**	0.6
Asset finance	**36.0**	41.5
Total RLS	**37.0**	42.1
CBILS		
Term loans	**12.6**	18.3
Asset finance	**14.5**	23.6
Total CBILS	**27.1**	41.9
BBLS	**3.1**	4.0
	67.2	88.0
Total term loans	**16.7**	22.9
Total asset finance (note 18)	**50.5**	65.1
	67.2	88.0

At 30 September 2023, £0.7m of this balance was considered to be non-performing (2022: £0.6m).

Unsecured consumer loans

The Group disposed of almost all its unsecured consumer loan portfolio during the year ended 30 September 2022 (note 7). It retains an interest only in a limited number of unsecured accounts excluded from the sale.

Almost all the Group's unsecured consumer loan assets were 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. Collections on purchased accounts remained in excess of those implicit in the purchase prices until the point of sale in June 2022.

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 2023 and 30 September 2022, compared to the industry averages at those dates published by UK Finance ('UKF') and the FLA, was:

	2023	2022
	%	%
First mortgages		
Accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.34**	0.15
Buy-to-let accounts excluding receiver of rent cases	**0.15**	0.11
Owner-occupied accounts	**2.93**	2.79
UKF data for mortgage accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.69**	0.41
Buy-to-let accounts excluding receiver of rent cases	**0.64**	0.39
Owner-occupied accounts	**0.89**	0.80
All mortgages	**0.84**	0.72
Second charge mortgage loans		
Accounts more than 2 months in arrears		
All accounts	**23.48**	21.33
Post-2010 originations	**2.42**	1.88
Legacy cases (pre-2010 originations)	**26.58**	24.45
Purchased assets	**30.10**	27.71
FLA data for second mortgage loans	**6.30**	7.50
Motor finance loans		
Accounts more than 2 months in arrears		
All accounts	**1.08**	2.07
Originated cases	**1.07**	1.58
Purchased assets	**1.32**	8.94
FLA data for consumer point of sale hire purchase	**3.60**	3.40
Asset finance loans		
Accounts more than 2 months in arrears	**0.23**	0.08
FLA data for business lease / hire purchase loans	**0.60**	0.80

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2022 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.

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 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 second charge mortgage 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

A significant proportion of the Group' second charge mortgage balances and, historically, almost all its unsecured consumer loan assets are, or were, 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 2022 or the year ended 30 September 2023.

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 ERC values 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.

	2023	2022	2021
	£m	£m	£m
All purchased consumer assets			
Carrying value	**58.6**	75.3	185.2
84 month ERCs	**68.9**	88.6	221.2
120 month ERCs	**73.4**	94.2	245.2
POCI assets only			
Carrying value	**17.7**	21.4	113.2
84 month ERCs	**24.5**	29.9	143.9
120 month ERCs	**27.8**	33.0	163.4

Amounts shown above are disclosed as loans to customers (note 18). They include first mortgages, second charge mortgage loans and, in the amounts shown for 2021 unsecured consumer loans.

The reduction in the year ended 30 September 2022 primarily reflects the disposal of the Group's unsecured consumer lending assets (note 7).

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 appetites, policies and limits, 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.

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.

	2023	2022
	£m	£m
The Group		
Cash with central banks rated:		
AA-	**2,783.3**	1,612.5
	2,783.3	1,612.5
Cash with retail banks rated:		
AA-	**78.9**	46.9
A+	**132.1**	271.5
	211.0	318.4
Total exposure	**2,994.3**	1,930.9
The Company		
Cash with retail banks rated:		
A+	**27.6**	19.7

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 26).

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

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 uses the ISDA Master Agreement and Credit Support Annex ('CSA') for documenting uncleared derivative activity. 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 27, while collateral pledged to the Group is shown in note 40.

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.

	2023	2022
	£m	£m
Carrying value of derivative financial assets		
Counterparties rated		
AA	**-**	7.0
AA-	**3.3**	0.5
A+	**588.9**	757.0
A	**5.5**	14.5
A-	**17.7**	-
Gross exposure (note 26)	**615.4**	779.0
Collateral amounts posted		
CSA collateral amounts (note 40)	**(383.4)**	(388.3)
Total collateral	**(383.4)**	(388.3)
Net exposure	**232.0**	390.7

64. Liquidity risk

Liquidity risk is the risk that the Group might be unable meet its liabilities and financial commitments 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.

Other sources of liquidity risk in the normal course of business include that arising:

- 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 wholesale funding, including 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 2023					
Retail deposits	**11,278.3**	**1,782.5**	**734.5**	**44.4**	**13,839.7**
Borrowings	**327.1**	**160.3**	**2,811.3**	**170.1**	**3,468.8**
Contingent consideration	**-**	**-**	**-**	**-**	**-**
Total non-derivative liabilities	**11,605.4**	**1,942.8**	**3,545.8**	**214.5**	**17,308.5**
Derivative liabilities	**52.8**	**(5.9)**	**8.7**	**0.3**	**55.9**
	11,658.2	**1,936.9**	**3,554.5**	**214.8**	**17,364.4**
30 September 2022					
Retail deposits	8,703.4	1,697.8	452.0	32.0	10,885.2
Borrowings	116.8	251.3	2,928.2	178.1	3,474.4
Contingent consideration	2.2	-	-	-	2.2
Total non-derivative liabilities	8,822.4	1,949.1	3,380.2	210.1	14,361.8
Derivative liabilities	88.8	24.0	3.6	0.1	116.5
	8,911.2	1,973.1	3,383.8	210.2	14,478.3

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, around 95%, 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:

	2023	2022
	£m	£m
Payable on demand	**4,181.5**	3,934.6
Payable in less than three months	**1,649.5**	955.1
Payable in less than one year but more than three months	**5,447.3**	3,813.7
Payable in less than one year or on demand	**11,278.3**	8,703.4
Payable in one to two years	**1,782.5**	1,697.8
Payable in two to five years	**734.5**	452.0
Payable after more than five years	**44.4**	32.0
	13,839.7	10,885.2

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 the Overall Liquidity Adequacy Rule ('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 2023 the liquidity buffer comprised the following on and off balance sheet assets. All these assets are held within the Bank and are readily realisable.

	2023	2022
	£m	£m
Balances with central banks	**2,589.7**	1,505.5
Total on balance sheet liquidity	**2,589.7**	1,505.5
Long / short repo transaction	**150.0**	150.0
	2,739.7	1,655.5

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 is set through regulation for all regulated financial institutions. As at 30 September 2023, 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 2023 and 30 September 2022 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 2023					
Secured bank borrowings	**-**	**-**	**-**	**-**	**-**
Asset backed loan notes	**-**	**-**	**-**	**28.0**	**28.0**
Total non-recourse funding	**-**	**-**	**-**	**28.0**	**28.0**
Bank overdrafts	**0.2**	**-**	**-**	**-**	**0.2**
Retail bonds	**112.4**	**-**	**-**	**-**	**112.4**
Corporate bond	**-**	**-**	**-**	**145.8**	**145.8**
Central bank facilities	**-**	**-**	**2,750.0**	**-**	**2,750.0**
Sale and repurchase agreements	**50.0**	**-**	**-**	**-**	**50.0**
Lease liabilities	**2.6**	**2.4**	**3.4**	**0.5**	**8.9**
	165.2	**2.4**	**2,753.4**	**174.3**	**3,095.3**
30 September 2022					
Secured bank borrowings	-	170.0	-	416.0	586.0
Asset backed loan notes	-	-	-	409.3	409.3
Total non-recourse funding	-	170.0	-	825.3	995.3
Bank overdrafts	0.4	-	-	-	0.4
Retail bonds	-	112.3	-	-	112.3
Corporate bond	-	-	-	149.2	149.2
Central bank facilities	-	-	2,750.0	-	2,750.0
Sale and repurchase agreements	-	-	-	-	-
Lease liabilities	2.2	1.9	3.8	1.1	9.0
	2.6	284.2	2,753.8	975.6	4,016.2

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 2023					
Retail bonds	**112.4**	**-**	**-**	**-**	**112.4**
Corporate bond	**-**	**-**	**-**	**149.4**	**149.4**
Lease liabilities	**1.3**	**1.4**	**4.3**	**6.7**	**13.7**
	113.7	**1.4**	**4.3**	**156.1**	**275.5**
30 September 2022					
Retail bonds	-	112.3	-	-	112.3
Corporate bond	-	-	-	149.2	149.2
Lease liabilities	1.3	1.3	4.2	8.2	15.0
	1.3	113.6	4.2	157.4	276.5

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 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 34 and the assets backing the notes are shown in note 18.

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. The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 17 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 was no longer available for new drawings in the period and was repaid in September 2023.

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 2022 was £23.2m and there were no active warehouses at 30 September 2023. There were no undrawn facilities available at the year end (2022: £280.0m).

Further details of the warehouse facilities are given in note 35 and details of the loan assets within the warehouses are given in note 18.

The final repayment date for the securitisation borrowings is more than five years from the balance sheet date, falling due in 2045.

The sterling principal amount outstanding at 30 September 2023 under the SPV and warehouse arrangements was £28.4m (2022: £996.5m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date, would be £43.3m (2022: £1,912.3m). 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. Following redemptions in previous years, only the most recent bond remains outstanding. This is repayable within twelve months of the balance sheet date.

The Group issued £150.0m of green Tier-2 debt 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 affirmed at BBB+ in February 2023.

Central bank facilities

The Group has accessed term credit facilities under the central bank schemes described in note 38. 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 2023 the amount of drawings available in respect of prepositioned assets was £1,715.4m (2022: £1,776.0m).

Additional liquidity

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

	2023			2022		
	Utilised	**Available**	**Total**	Utilised	Available	Total
	£m	**£m**	**£m**	£m	£m	£m
Rating						
AAA	**222.1**	**986.9**	**1,209.0**	1,212.7	213.0	1,425.7
AA+ / AA / AA-	**5.3**	**100.9**	**106.2**	5.3	100.9	106.2
A+ / A / A-	**3.1**	**59.9**	**63.0**	4.6	59.9	64.5
BBB+ / BBB / BBB-	**3.1**	**57.9**	**61.0**	4.3	81.4	85.7
	233.6	**1,205.6**	**1,439.2**	1,226.9	455.2	1,682.1

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 18.

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

The available AAA notes would give access to £769.8m (2022: £171.6m) if used to secure drawings on Bank of England facilities.

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 (2022: £150.0m), utilising £26.5m 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, most recently during the current year, and maintains the capability to access the repo market for liquidity purposes. Transactions in place at 30 September 2023 utilised £58.5m of the loan notes shown above (2022: £nil).

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.

	Corporate bonds	Retail bonds	Central bank facilities	Sale and repurchase transactions	Lease liabilities	Total
	£m	£m	£m	£m	£m	£m
a) The Group						
30 September 2023						
Payable in:						
Less than one year	**6.6**	**119.3**	**147.8**	**50.8**	**2.6**	**327.1**
One to two years	**6.6**	**-**	**151.3**	**-**	**2.4**	**160.3**
Two to five years	**19.7**	**-**	**2,788.2**	**-**	**3.4**	**2,811.3**
Over five years	**169.6**	**-**	**-**	**-**	**0.5**	**170.1**
	202.5	**119.3**	**3,087.3**	**50.8**	**8.9**	**3,468.8**
30 September 2022						
Payable in:						
Less than one year	6.6	6.8	101.4	-	2.0	116.8
One to two years	6.6	119.2	123.8	-	1.7	251.3
Two to five years	19.7	-	2,905.0	-	3.5	2,928.2
Over five years	176.2	-	-	-	1.9	178.1
	209.1	126.0	3,130.2	-	9.1	3,474.4

	Corporate bonds	Retail bonds	Lease liabilities	Total
	£m	£m	£m	£m
b) The Company				
30 September 2023				
Payable in:				
Less than one year	**6.6**	**119.3**	**1.7**	**127.6**
One to two years	**6.6**	**-**	**1.7**	**8.3**
Two to five years	**19.7**	**-**	**5.0**	**24.7**
Over five years	**169.6**	**-**	**7.0**	**176.6**
	202.5	**119.3**	**15.4**	**337.2**
30 September 2022				
Payable in:				
Less than one year	6.6	6.8	1.7	15.1
One to two years	6.6	119.2	1.7	127.5
Two to five years	19.7	-	5.0	24.7
Over five years	176.2	-	8.7	184.9
	209.1	126.0	17.1	352.2

Amounts payable in respect of the ‘other accruals’ and ‘trade creditors’ shown in note 40 fall due within one year. The cash flows described above will include those for interest on borrowings accrued at 30 September 2023 disclosed in note 40.

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:

	2023	2022
	Total cash outflow / (inflow)	Total cash outflow / (inflow)
	£m	£m
On derivative liabilities		
Payable in less than one year	**52.8**	88.8
Payable in one to two years	**(5.9)**	24.0
Payable in two to five years	**8.7**	3.6
Payable in over five years	**0.3**	0.1
	55.9	116.5
On derivative assets		
Payable in less than one year	**(218.2)**	(253.1)
Payable in one to two years	**(175.4)**	(246.2)
Payable in two to five years	**(162.3)**	(342.0)
Payable in over five years	**-**	(2.7)
	(555.9)	(844.0)
	(500.0)	(727.5)

65. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's exposure to market risk is mainly through interest rate risk, though there is some minor exposure to currency risk. These exposures arise solely through the Group's lending and deposit taking business - no speculative trading in financial instruments is undertaken.

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 completed its transition to the use of alternative reference rates, principally SONIA, during the year ended 30 September 2022. All new wholesale debt and interest rate swaps recognised since that point have referenced SONIA, while existing LIBOR linked instruments were transitioned before the start of the current financial year.

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.

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

Risk exposure in the Group's operations might occur through:

- Duration or repricing 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 reprice with reference to different reference interest rates, for example rates set by the Group and market rates, such as Bank of England base rate and SONIA. 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 repricing 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 relating to its fixed rate lending, deposit taking and borrowing activities is discussed further in note 26.

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 2023, 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 increase profit before tax by £16.1m (2022: increase by £21.7m).

The principal direct point in time impact on the Group's equity would result from the revaluation of derivative assets and liabilities which are not part of fair value hedges at the balance sheet date. A 1.0% increase in rate expectations would increase equity by £16.0m (2022: increase by £34.6m). For this illustration no ineffectiveness in hedging relationships is assumed.

These calculations allow 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.

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 (note 27) also includes £193.6m which is placed on deposit with the Bank of England (2022: £257.0m). 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 bear interest at rates based on SONIA. All other balances in the Company balance sheet are non-interest bearing.

Currency risk

Currency risk, also referred to as foreign exchange or forex risk, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has little appetite for material amounts of exposure to currency risk 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 2023 and 30 September 2022 are denominated in sterling.

The SME lending business has a limited amount of lending denominated in US dollars, principally £7.6m of aircraft mortgage balances. It may also 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 26.

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 2023

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.

66. Basis of preparation

The Group is required, by the Companies Act 2006 and the Listing Rules of the FCA, to prepare its financial statements for the year ended 30 September 2023 in accordance with UK-adopted international accounting standards. In the financial years reported on this also means, in the Group's circumstances, that the financial statements also accord with IFRS as approved by the International Accounting Standards Board.

The particular accounting policies adopted have been set out in note 67 and the critical accounting judgements and estimates which have been required in preparing these financial statements are described in notes 68 and 69 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, no accounting standards are being applied for the first time.

Standards not yet adopted

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

67. Accounting policies

The particular policies applied by the Group in preparing these financial statements in accordance with the IFRS regime as adopted in the UK are described below.

(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 2023. 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 72, 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 70.

(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 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 Effective Interest Rate ('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. Impairment is determined based on the net asset values of subsidiary entities after provision for inter company balances and investments at the subsidiary level.

(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.

Any shortfall on disposal of such shares is offset against retained earnings. Any excess of disposal proceeds over cost is added to the share premium account. Where an irrevocable instruction for the purchase of such shares has been given, it is treated as a reduction in capital from the point at which the instruction becomes irrevocable.

(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) Sale and repurchase agreements

Securities, including the Group's own retained asset-backed notes, can be sold subject to a commitment to repurchase them at a subsequent date at a price calculated on a pre-determined basis (a repo). Where this price comprises a fixed amount plus a lenders return, the funds received are treated as borrowings of the Group.

Where the securities concerned are retained notes no liability is recognised in asset-backed loan notes and where the securities are recognised on the Group's balance sheet prior to the transaction, these are not derecognised.

The difference between the sale and purchase price is accrued over the life of the agreement using the effective interest rate method.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) 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

(z) 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.

(aa) 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.

(bb) 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.

(cc) 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.

68. Critical accounting judgements

The most significant judgements which the directors have made in the application of the accounting policies set out in note 67 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.

As part of its consideration of the adequacy of its impairment provisioning, management have considered whether there are any factors not reflected in its normal approach which indicate that a group, or groups of accounts should be considered as having an SICR. No such accounts were identified.

If additional accounts were determined to have an SICR, these balances would attract additional impairment provision, as such cases are provided on the basis of lifetime expected loss, rather than 12-month expected loss, and the overall provision charge would be higher. Conversely, if cases are incorrectly identified as SICR, impairment provisions will be overstated. Furthermore, adjustments to current PD estimates in the Group's models may also have the effect of identifying more or less accounts as having an SICR.

More information on the definition of SICR adopted is given in note 21.

(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 21.

(c) Classification of financial assets

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

- The company's 'business model' – how it intends to generate cash and profit from the assets
- 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. There were no significant changes in the nature of the Group's products, nor in the business models in which they are held, during the year.

69. Critical accounting estimates

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

(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 (which might include 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.

In evaluating the potential impact of the economic situation at 30 September 2023 there is little recent history against which to benchmark likely customer behaviour. Interest rates have risen to higher levels, at a more rapid rate than at any time in recent history. UK base rates had reached 5.25% at the balance sheet date, a level they had not touched since April 2008, since when significant regulatory intervention in the UK's lending markets has taken place. There have also been significant changes in product structures in that period, including the growth of longer term fixed-rate mortgage lending in recent years. All of these make the historical record of behaviours in higher interest rate environments an uncertain guide to the likely impact of current rate levels.

There is also little agreement between economic forecasters as to the future direction of the UK economy, exacerbated by the potential impact of the general election which must be held within the next eighteen months. At the same time, the level to which economic pressures on customers have yet to manifest themselves in credit metrics is still unclear, with credit performance across the markets in which the Group is active being better than some expected over the past year, but considerable uncertainty as to whether this represents a more benign outcome, or merely a delay in credit issues emerging beyond what was anticipated. Together, these factors make forecasting credit behaviour in current conditions particularly challenging.

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 2023 have been derived in light of the current economic situation, at that date, modelling a variety of possible outcomes as described in note 24.

As noted above, there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK, although these have converged, to some extent, over the twelve months since 30 September 2022, when the impact of the September 2022 mini-budget had significantly broadened the range of plausible outcomes.

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

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

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

In addition to uncertainty represented by the economic scenarios, the Group recognises that economic situations can arise which lie outside the range of potential positions considered as a basis for its IFRS 9 approach to impairment when the current models were built. The current forecast scenarios, which include higher rates of interest and inflation than in the historically observed data, represent situations where its models may not be able to fully allow for potential economic impacts on its loan portfolios. It therefore assessed, 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 judgemental adjustments are set out in note 21.

The position after considering all these matters is set out in notes 21 to 23, together with further information on the Group's approach. The economic scenarios described above and their impact on the overall provision are set out in note 24, while sensitivity analyses on impairment provisioning are set out in note 25.

(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 the cash flows relating thereto, including those relating to early redemption charges together with any initial fees receivable from the customer or procurement fees payable to a mortgage broker or other introducer.

Where an account may have differing interest charging arrangements in different phases of its contractual life, such as the Group's buy-to-let mortgage accounts which have a fixed interest rate for a set period and then revert to a variable rate set by the Group (the 'reversionary rate'), the behavioural life and the expected level of the reversionary rate will have a significant impact on the overall EIR. For each portfolio a model is in place to ensure that income is appropriately spread.

For loan accounts such as those in the Group's mortgage portfolios where borrowers typically repay their balances before the contractual repayment date, the estimated life of the account will be dependent on customer behaviour. The customer may choose to sell their property and redeem the mortgage at any point, but may also choose to refinance their account, if a more attractive alternative is available, based on the interest rate they are being charged at that point in time, or expect to be charged in the future. The behavioural life of the loan may therefore be influenced by levels of activity in the residential property market, or by the nature and pricing of alternative funding sources, at each point in the loan's life and these are likely to vary over time.

For loans which have a fixed-rate period, the length of that period will have a significant behavioural impact, with many customers choosing to consider their positions at the point at which the fixed rate expires, influenced by the market conditions then prevailing. The future forecast future choices of customers currently on fixed-rate products at this point therefore has a significant impact on the EIR modelling for these assets.

Where loans are more likely to run to contractual term, and interest rates are less likely to vary over that term, as is the case for the majority of the Group's motor finance and asset-backed SME lending, the determination of an EIR model is less judgemental, and reflects principally the spreading of known fees and commissions.

The Group models lives for each of its asset classes, based on its current expectation of future borrower behaviour, and uses these profiles, together with its expectations of future reversionary interest rates, to determine the correct EIR to be applied to each account. The underlying estimates are based on historical data, adjusted for expected changes, and reviewed regularly. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and charging rates and those predicted, which in turn would depend directly on customer behaviour and market conditions.

The Group therefore keeps its models under review and refines its modelling in the light of any emerging deviations from expected behaviour. These are particularly likely where the current or expected economic environment differs from historic scenarios for which relevant data observations are available. This is currently the case, with market mortgage rates at far higher levels than have been seen in many years. In such cases management consider carefully the impacts which any new conditions may have on customer behaviour and reversionary rates and reflect them in the model as appropriate, revisiting these assumptions regularly as observable data becomes available, with a detailed exercise to analyse any emerging themes taking place every six months as part of the half year and year end results processes.

For purchased loans the EIR calculation will involve estimating the likely future credit performance of the accounts at the time of acquisition as well as the customers' payment behaviour. In the initial modelling historical data obtained from the vendor will be examined, with assumptions revisited through the asset lives based on actual and expected customer behaviour.

The application of these estimates results in an overall increase in the carrying value of the Group's loans to customers, including POCI accounts, at 30 September 2023 of £20.5m.

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.

- Currently the average behavioural life used in the buy-to-let modelling for non-legacy assets, which have an average fixed period of 49 months, was 83 months.

  A reduction of the assumed average lives of all loans secured on residential property by three months would reduce balance sheet assets by £9.3m (2022: £13.3m), while an increase of the assumed asset lives of such assets by three months would increase balance sheet assets by £9.2m (2022: £13.3m). £8.8m of both the increase and decrease related to non-legacy buy-to-let assets.

  A reduction of the assumed average lives of all loans secured on residential property by six months would reduce balance sheet assets by £18.5m (2022: £25.8m), while an increase of the assumed asset lives of such assets by six months would increase balance sheet assets by £18.4m (2022: £25.8m). £17.5m of both the increase and decrease related to non-legacy buy-to-let assets.

- The EIR calculation is based on management estimates of the reversionary rates which would be charged to customers after the end of their fixed rate periods.

If it was assumed that the maximum reversionary rate which could be charged in future was 6.00%, then the value of the non-legacy buy-to-let loan book would be decreased by £3.0m (2022: £nil).

If it was assumed that the maximum reversionary rate which could be charged in future was 8.00%, then the value of the non-legacy buy-to-let loan book would be increased by £3.9m (2022: £nil).

- Where fixed rate buy-to-let assets redeem before the end of their fixed rate period, an early redemption charge is made, and an estimate for the impact of these charges must be included in the EIR calculation.

  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 would increase balance sheet assets by £9.6m (2022: £8.8m).

- A reduction (or increase) in estimated cash flows from purchased loan assets (principally buy-to-let first mortgage loans and second charge consumer loan assets) of 5% would reduce (or increase) balance sheet assets by £1.6m (2022: £2.0m). Such assets now represent only £58.8m of the Group's loan portfolio (2022: £75.8m).

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 31, 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 31.

(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 60. 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 60.

70. 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.

Financial and capital forecasting

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, funding requirement and cash flows. Detailed plans are produced for two year periods with longer-term forecasts covering a five year period which include detailed income forecasts. These plans provide information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short-term and strategic basis.

The forecast is updated every six months, and the directors have based their going concern assessment on the forecast for the period beginning on 1 October 2023.

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:

- An increase in buy-to-let volumes. This examined the impact of higher volumes at a reduced yield 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. Higher cost on all new savings deposits, both front book and back book throughout the forecast horizon. This scenario illustrates the impact of a significant, prolonged margin squeeze on profitability, and whether this would cause significant impacts on any capital, liquidity or encumbrance ratios
- Higher buy-to-let redemption rates for buy-to-let mortgages reaching the end of their fixed-rate period. This illustrates the potential risk inherent in the five-year fixed rate business
- Increased economic stress on customers. As well as modelling the impact of each of the economic scenarios set out in note 24 across the forecast horizon, the severe economic scenario was also modelled over the five-year horizon. To ensure this represented a worst-case scenario all other assumptions were held steady, although in reality adjustments to new business appetite and other factors would be made
- Combined downside stress. The IFRS 9 downside economic scenario described in note 24 was modelled out for the plan horizon along with a plausible set of other adverse factors to the business model, creating a prolonged tail-risk

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 status. 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.

Availability of funding and liquidity

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 £13,265.3m (note 33), raised through Paragon Bank, are repayable within five years, with 82.9% of this balance (£10,990.5m) payable within twelve months of the balance sheet date. The liquidity exposure represented by these deposits is closely monitored; a process supervised by the ALCO. The Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 30 September 2023 Paragon Bank held £2,589.7m of balance sheet assets for liquidity purposes, in the form of central bank deposits (note 64). A further £150.0m of liquidity was provided by the off balance sheet long / short transaction described in note 64, bringing the total to £2,739.7m.

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 £1,715.4m. 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 2023 the Group had £1,205.6m of such notes available for use, of which £986.9m were rated AAA. The available AAA notes would give access to £769.8m if used to support drawings on Bank of England facilities.

The Group's securitisation funding structures, described in note 64, 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 during 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 £112.5m retail bond, due August 2024. No central bank debt is payable until 2025.

The Group's access to debt is enhanced by its corporate BBB+ rating, confirmed by Fitch Ratings in February 2023, and its status as an issuer is evidenced by the BBB- investment grade rating of its £150.0m Tier-2 bond. 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.

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 61 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, during the year ended 30 September 2021, resulted in a reduction of the minimum capital level. Its capital at 30 September 2023 was in excess of regulatory requirements and its forecasts indicate this will continue to be the case.

Going concern assessment

In order to assess the appropriateness of the going concern basis, the directors considered the Group's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and potential risks affecting them.

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.

71. 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 2023 or the year ended 30 September 2022 carried at fair value and valued using level 3 measurements, other than contingent consideration amounts (note 41).

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	**2023**	2022
		£m	£m
Financial assets			
Derivative financial assets	*26*	**615.4**	779.0
		615.4	779.0
Financial liabilities			
Derivative financial liabilities	*26*	**39.9**	102.1
Contingent consideration	*41*	**-**	2.2
		39.9	104.3

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 SONIA sterling benchmark interest rates.

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 26.

Contingent consideration

The value of the contingent consideration balances shown in note 41 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	**2023**	**2023**	2022	2022
		Carrying amount	**Fair value**	Carrying amount	Fair value
		£m	**£m**	£m	£m
The Group					
Financial assets					
Cash	*17*	**2,994.3**	**2,994.3**	1,930.9	1,930.9
Loans to customers	*18*	**14,874.3**	**14,524.0**	14,210.3	13,898.4
Sundry financial assets	*27*	**46.0**	**46.0**	35.4	35.4
		17,914.6	**17,564.3**	16,176.6	15,864.7
Financial liabilities					
Short-term bank borrowings		**0.2**	**0.2**	0.4	0.4
Asset backed loan notes		**28.0**	**28.0**	409.3	409.3
Secured bank borrowings		**-**	**-**	586.0	586.0
Retail deposits	*33*	**13,265.3**	**13,177.3**	10,669.2	10,592.9
Corporate and retail bonds		**258.2**	**234.8**	261.5	254.4
Sale and repurchase agreements	*39*	**50.0**	**50.0**	-	-
Other financial liabilities	*40*	**608.8**	**608.8**	491.2	491.2
		14,210.5	**14,099.1**	12,417.6	12,334.2

	Note	**2023**	**2023**	2022	2022
		Carrying amount	**Fair value**	Carrying amount	Fair value
		£m	**£m**	£m	£m
The Company					
Financial assets					
Cash	*17*	**27.6**	**27.6**	19.7	19.7
Intra-group cash deposits	*27*	**193.6**	**193.6**	-	-
Amounts owed to group companies	*27*	**35.1**	**35.1**	39.1	39.1
Sundry financial assets	*27*	**0.1**	**0.1**	0.1	0.1
		256.4	**256.4**	58.9	58.9
Financial liabilities					
Corporate and retail bonds		**261.8**	**234.8**	261.5	254.4
Amounts owed by group companies	*40*	**24.0**	**24.0**	23.2	23.2
Other financial liabilities	*40*	**0.7**	**0.7**	12.9	12.9
		286.5	**259.5**	297.6	290.5

The fair values of retail deposits and corporate and retail bonds shown above will include amounts for the related accrued interest.

Cash, sale and repurchase agreements, bank loans and securitisation borrowings

The fair values of cash and cash equivalents, sale and repurchase agreements, 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 and the sale and repurchase agreements 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.

72. Details of subsidiary undertakings

Subsidiary undertakings of the Group at 30 September 2023, 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.

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
The Business Mortgage Company Limited	100%	Mortgage broker
Paragon Mortgages (No. 12) 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
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
Premier Asset Finance Limited	100%	Asset finance broker
Specialist Fleet Services Limited	100%	Asset finance and contract hire
Collett Transport Services Limited	100%	Non-trading
Homer Management Limited	100%	Non-trading
Lease Portfolio Management Limited	100%	Non-trading
Paragon Options PLC	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 have been sold to special purpose entity companies, referred to as orphan SPEs, 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 2023 comprise:

Company	Principal activity
Paragon Seventh Funding Limited	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
Paragon Mortgages (No. 29) Holdings Limited	Holding company
Paragon Mortgages (No. 29) PLC	Residential mortgages
Arianty Holdings Limited	Non-trading
Arianty No. 1 PLC	Non-trading
Paragon Fifth Funding Limited	Non-trading
Paragon Sixth Funding Limited	Non-trading
Paragon Mortgages (No. 25) Holdings Limited	Non-trading
Paragon Mortgages (No. 25) 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 Scottish entities is Citypoint, 65 Haymarket Terrace, Edinburgh, EH12 5HD. All the entities listed above are included in the consolidated accounts of the Group.

Companies in liquidation

The following legal subsidiaries of the Group were in liquidation at 30 September 2023. 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		
Moorgate Servicing Limited	100%	Non-trading
Paragon Mortgages (No. 11) PLC	100% *	Non-trading
Paragon Mortgages (No. 13) PLC	100% *	Non-trading
Paragon Mortgages (No. 14) PLC	100% *	Non-trading
Paragon Mortgages (No. 15) PLC	100% *	Non-trading
Plymouth Funding Limited	100%	Non-trading
Direct and Indirect subsidiaries of Paragon Bank PLC		
City Business Finance Limited	100%	Non-trading
Fineline Holdings Limited	100%	Non-trading
Fineline Media Finance Limited	100%	Non-trading
PBAF (No.1) Limited	100%	Non-trading
State Securities Holdings Limited	100%	Non-trading
State Security Limited	100%	Non-trading

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.