Company Registration No: 02843547

SPECIALIST FLEET SERVICES LIMITED

Report and Financial Statements

Year ended 30 September 2022

CAUTIONARY STATEMENT

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

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

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

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

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Specialist Fleet Services Limited ('the Company') is a subsidiary of Paragon Banking Group PLC ('the Group'). As a result, the Company benefits from the focus and investment that its parent Paragon Bank PLC ('Paragon Bank') brings to the development of its asset finance business.

The principal activity of the Company is the provision of commercial and specialist vehicles to the public and private sector together with related services.

The Company made a profit before tax of £2,401,000 (2021: £2,113,000). Margins remained acceptable, despite the increase in competition. The Company enjoys a strong balance sheet and remains well funded which has resulted in a consistent approach to lending in a period of uncertainty.

On a pro-rated basis pre-tax return on equity and assets was 115.8% (2021: 34.5%) and 12.2% (2021: 9.7%) respectively.

Total loans and advances to customers decreased by 6% from £21.7m to £19.6m.

An interim dividend of £3,000,000.00 per share was paid during the year (2021: £3,000,000.00 per share). No final dividend is proposed (2021: £nil).

The directors of the Company consider the results for the year to be satisfactory and are regularly monitoring the current market environment to assess likely changes in the level of performance in the coming year.

The Group manages its operations on a centralised basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group's commercial lending operation, which includes the Company, is discussed in the Annual Report of Paragon Banking Group PLC, which does not form part of this Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The assets of the Company are located entirely in the United Kingdom and its results are therefore impacted by the economic environment within the UK. A material downturn in economic performance could increase the numbers of customers who default on loans and / or cause the values of the assets over which the Company enjoys security to fall. It might also reduce the volume of completions and / or the yields achieved on new business.

The UK economy in the current year has been impacted by a number of significant pressures, initially the ongoing impacts of the Covid pandemic and latterly inflationary pressures, rising interest rates and geopolitical impacts resulting from Russian actions in Ukraine. These factors have caused major economic disruption within the UK and global economy with their ultimate impacts remaining uncertain, over both the short and longer terms.

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

The Company does not utilise derivative financial instruments.

An analysis of the Company's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out in note 21, a discussion of critical accounting judgements is set out in note 25 and a discussion of critical accounting estimates is set out in note 26.

STRATEGIC REPORT (CONTINUED)

GOING CONCERN

The performance of the Company is subject to analysis against plan, with key variances being analysed in detail on a monthly basis. This monitoring, particularly of credit and liquidity measures has been enhanced at Group level in response to the Covid situation.

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

In compiling the most recent forecast, for the period commencing 1 October 2022, particular attention was paid to the potential consequences of the uncertain economic outlook for the UK on the Group's operations, customers, funding and prospects, both in the short and long term. These considerations include the increased cost of living, rising interest rates and the impacts of Russia's intervention in Ukraine, as well as the long-term after effects of the Covid pandemic. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October 2022 based on updated external projections.

After considering the Company's position, the economic environment and the forecasts described above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

BOARD AND STAKEHOLDERS

The Board is mindful of its duty to promote the success of the Company for the benefit of its shareholders and with regard to the interests of all its stakeholders. The Board confirms that, for the year ended 30 September 2022, it has acted to promote the success of the Company for the benefit of its members as a whole and continues to have due regard to the following matters insofar as they are applicable (as per section 172 of the Companies Act 2006):

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

The principal activity of the Company is to support the asset finance loan origination and servicing activities of the Group and therefore, there is substantial common identity between the external non-shareholder stakeholders of the Company and those of the Group.

As a consequence, engagement with external shareholders takes place at a Group level. The Company looks to Group initiatives for guidance and takes them into account in its decision making. The Company follows Group policies and procedures, including those relating to the fair treatment of customers, standards of business conduct, employees, the environment, the community and other stakeholders. More detail may be found in the 2022 Annual Report and Accounts of Paragon Banking Group PLC.

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

STRATEGIC REPORT (CONTINUED)

BOARD AND STAKEHOLDERS (CONTINUED)

Board meetings may be held periodically where appropriate for the directors to consider company business. The Board considers and discusses information from across the organisation to help it understand the impact of the Group's operations on, and the interests and views of, key stakeholders. In September 2022, a supplier satisfaction survey was undertaken to seek the views of third party suppliers on their experience with the Group and any recommendations for improvement. The Board also reviews strategy, financial and operational performance, as well as information covering areas such as key risks and legal and regulatory compliance.

SHAREHOLDERS

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

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any impacts that might arise from the Group's activities. The Company operates in accordance with group policies, which are described in the 2022 Annual Report of Paragon Banking Group PLC, which does not form part of this Report. Further information can also be found in the Group's 2022 Responsible Business Report (published on the Paragon Banking Group PLC website), which does not form part of this report (s172(1)(d)).

EMPLOYEES, DIVERSITY AND CULTURE

All of the Company's employees were transferred to Paragon Finance PLC, the Group's central services provider during the year.

The directors recognise the benefit of keeping employees informed of the progress of the business, and are committed to building a more diverse and inclusive workforce as part of the Group's people strategy. Employees have been provided with regular information on the performance and plans of the Group and the financial and economic factors affecting it, through both information circulars and management presentations (s172 (1)(b)).

The directors encourage employee involvement at all levels through the staff appraisal process, the Group's People Forum, the Group's Equality, Diversity and Inclusion network, employee engagement surveys, and regular communication amongst directors, managers, teams, and individual employees. During the year, the Group's People Forum provided input as a hybrid working model was embedded. This offers employees a better balance of office and home working.

In March 2022, employees were invited to complete an anonymous survey as part of the Investors in People ("IIP") triennial assessment, which included specific questions on the Group's culture. Following this, the Group was accredited with a Platinum IIP status in May 2022 and the survey findings provided further recommendations to help the Group improve as an employer.

Through the Group's volunteering scheme, every employee is provided with one paid day a year to volunteer for specific initiatives, supporting the Group's strategy and culture. The Group is also an accredited employer with the Living Wage Foundation, ensuring that all employees are paid the real Living Wage.

The Company participates in a Sharesave share option scheme and a profit-sharing scheme, both of which enable eligible employees to benefit from the performance of the business.

STRATEGIC REPORT (CONTINUED)

EMPLOYEES, DIVERSITY AND CULTURE (CONTINUED)

The Company operates in accordance with group employment policies which, together with additional information on the operations of the Group's People Forum, employee consultation arrangements and key metrics on the workforce, are described in the Paragon Banking Group PLC Annual Report, with supplementary information included in the Group's 2022 Responsible Business Report, neither of which forms part of this Report. Both documents are available on the Group's website.

EMPLOYMENT OF DISABLED PERSONS

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The Company has continued its policy of providing appropriate training and career development to such persons.

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

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

27 January 2023

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The directors present the audited Financial Statements of Specialist Fleet Services Limited, a company registered in England and Wales with registration no: 02843547, for the year ended 30 September 2022.

DIRECTORS

The directors throughout the year and subsequently were:

N Finch
R Sweetland
K G Allen
D Newcombe
J Phillipou
R Woodman

AUDITOR

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

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

No notice from members under section 488 of the Companies Act 2006 having been received, the directors intend that the auditor, KPMG LLP, shall be deemed to be reappointed in accordance with section 487(2) of the Act.

INFORMATION PRESENTED IN OTHER SECTIONS

Certain information required to be included in a directors' report by the Companies Act 2006 and regulations made there under can be found in the other sections of the Annual Report, as described below. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

- Commentary on the likely future developments in the business of the Company, including events taking place after the balance sheet date, is included in the Strategic Report
- A description of the Company's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 21 to the accounts
- Disclosure of any dividends paid during the year is included in the Strategic Report

Approved by the Board of Directors

and signed on behalf of the Board

K G Allen

Director

27 January 2023

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

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole

- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

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

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

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

K G Allen

Director

27 January 2023

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SPECIALIST FLEET SERVICES LIMITED

Opinion

We have audited the Financial Statements of Specialist Fleet Services Limited ("the company") for the year ended 30 September 2022 which comprise the profit and loss account, the statement of movements in equity, the balance sheet and the related notes 1 to 27, including the accounting policies in note 24.

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2022 and of the company's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

Our risk assessment procedures included:

- Enquiring of directors, Internal Audit and inspection of policy documentation as to the high-level policies and procedures of the Paragon Group (of which this company is a part) to prevent and detect fraud, including the Internal Audit function, and the Company's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee and Risk Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that the Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

On this audit we do not believe there is a fraud risk related to revenue recognition, with the exception of the EIR adjustment. The revenue streams are considered non-complex and require limited judgement. However, we have recognised a fraud risk in respect of the EIR adjustment to interest income given the subjectivity inherent in the estimate.

We also identified a fraud risk related to estimation of impairment provisions on loans to customers, specifically relating to the significant estimation uncertainty inherent in the subjective judgements or uncertainties that are difficult to corroborate.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user and those including specific descriptors;
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

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

The potential effect of these laws and regulations on the financial statements varies considerably.

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

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

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

M Davidson

Michael Davidson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

27 January 2023

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £000	2022 £000	2021 £000	2021 £000
Gross income	2	23,613		21,500	
Capital element of finance lease rentals	2	(5,070)		(5,409)	
Revenue			18,543		16,091
Cost of sales	3		(13,004)		(11,035)
Financing costs			(780)		(717)
Gross profit			4,759		4,339
Other operating income	4		272		536
Total operating income			5,031		4,875
Administrative expenses	5		(2,630)		(2,762)
Operating profit, being profit on ordinary activities before taxation			2,401		2,113
Tax on profit on ordinary activities	6		(447)		(493)
Profit on ordinary activities after taxation			1,954		1,620

All activities derive from continuing operations.

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

BALANCE SHEET

30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
ASSETS			
Cash at bank		308	384
Financial assets	7	19,642	21,742
Debtors	10	1,725	1,329
Property, plant and equipment	11	21,094	23,662
Intangible assets	12	450	450
Deferred tax assets	13	319	268
Total assets		43,538	47,835
LIABILITIES			
Current tax liabilities		469	1,104
Creditors	14	33,506	35,167
Accruals		7,489	5,444
Total liabilities		41,464	41,715
SHAREHOLDER'S EQUITY			
Called up share capital	16	-	-
Profit and loss account		2,074	6,120
Total shareholder's equity		2,074	6,120
Total equity and liabilities		43,538	47,835

The financial statements were approved by the Board of Directors on 27 January 2023.

Signed on behalf of the Board of Directors:

K G Allen

Director

STATEMENT OF MOVEMENTS IN EQUITY

YEAR ENDED 30 SEPTEMBER 2022

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	1,954	1,954
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,954	1,954
Transactions with owners			
Dividends	-	(6,000)	(6,000)
Net movement in equity in the year	-	(4,046)	(4,046)
Opening equity	-	6,120	6,120
Closing equity	-	2,074	2,074

YEAR ENDED 30 SEPTEMBER 2021

	Share capital £000	Profit and loss account £000	Total equity £000
Total comprehensive income for the year			
Profit for the year	-	1,620	1,620
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,620	1,620
Transactions with owners			
Dividends	-	(6,000)	(6,000)
Net movement in equity in the year	-	(4,380)	(4,380)
Opening equity	-	10,500	10,500
Closing equity	-	6,120	6,120

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2022

1. GENERAL INFORMATION

Specialist Fleet Services Limited ('the Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 02843547. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

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

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

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

2. REVENUE

	2022 £000	2021 £000
Finance Lease Rentals receivable	11,639	11,105
Operating Lease income	3,488	3,213
Workshop and hire income / (untaken int)	8,486	7,182
Gross income	23,613	21,500
Capital element of finance lease rentals	(5,070)	(5,409)
	18,543	16,091

3. COST OF SALES

	2022 £000	2021 £000
Vehicle maintenance	3,012	2,739
Contract hire depreciation and amortisation	2,800	2,742
Workshop and hire cost of sales	7,208	5,569
Impairment losses on loans and advances	(16)	(15)
	13,004	11,035

4. OTHER OPERATING INCOME

	2022 £000	2021 £000
Gain on disposal of property, plant and equipment – motor vehicles	272	536

5. ADMINISTRATIVE EXPENSES

	2022 £000	2021 £000
Staff Costs (note 18)	-	1,938
Administrative expenses	2,600	787
Audit fees relating to the Company	30	37
	2,630	2,762

Non-audit fees provided to the Group are disclosed in the accounts of the parent company and the exemption from disclosure of fees payable to the Company's auditor in respect to non-audit services in these financial statements has been taken.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year	**2022 £000**	**2021 £000**
Current tax		
Corporation tax	469	218
Adjustment in respect of prior periods	29	(30)
Total current tax	498	188
Deferred tax (note 13)		
Origination and reversal of timing differences	(13)	183
Adjustment in respect of prior periods	(28)	172
Rate change	(10)	(50)
Total deferred tax	(51)	305
Tax charge on profit on ordinary activities	447	493

b) Factors affecting the tax charge for the year

	2022 £000	**2021 £000**
Profit before tax	2,401	2,113
UK corporation tax at 19% (2021: 19%) based on the profit for the year	456	401
Effects of:		
Change in tax rate	(10)	(50)
Prior period adjustments	1	142
Tax charge for the year	447	493

The standard rate of corporation tax in the UK applicable to the Company in the period was 19.0% (2021: 19.0%), based on currently enacted legislation. During the previous period, legislation was substantively enacted, that will increase the rate to 25% with effect from 1 April 2023. Consequently, temporary differences at the balance sheet date will either reverse at 22% in the year ended 30 September 2023 or 25% in subsequent years.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

7. FINANCIAL ASSETS

	2022 £000	2021 £000
Finance lease receivables (note 8)	19,642	21,742
Loans to customers (note 9)	19,642	21,742

8. FINANCE LEASE RECEIVABLES

The minimum lease payments due under these loan agreements are:

	2022 £000	2021 £000
Amounts receivable under finance leases		
Within one year	6,256	6,542
Within one to two years	4,593	5,709
Within two to three years	3,961	3,871
Within three to four years	3,525	3,409
Within four to five years	2,769	2,954
After five years	2,122	3,159
	23,226	25,644
Less: future finance income	(3,567)	(3,869)
	19,659	21,775

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

	2022 £000	2021 £000
Amounts receivable under finance leases		
Within one year	5,295	5,555
Within one to two years	3,887	4,848
Within two to three years	3,353	3,287
Within three to four years	2,983	2,895
Within four to five years	2,344	2,508
After five years	1,797	2,682
	19,659	21,775
Allowance for uncollectable amounts	(17)	(33)
Present value of lease obligations	19,642	21,742

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

This note sets out information on the Company's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 8, which are accounted for under IAS 17, but are subject to the IFRS 9 impairment requirements.

The disclosures are set out under the following headings:

- Basis of provision
- Impairments by stage and division
- Movements in impairment provision in the period
- Impairments charged to income

Basis of provision

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

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

- The methods used for the calculation of ECL
- How it defines SICR
- How it defines default
- How it identifies which loans are credit impaired, as defined by IFRS 9
- How the ECL estimation process is monitored and controlled
- How the Group develops and enhances the models it uses in the ECL estimation process
- How the Group uses judgemental adjustments to ensure all elements of credit risk are fully addressed

Calculation of expected credit loss ('ECL')

For the majority of the Company'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 Company 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 Company'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 Company utilised all reasonably available information in its possession for this exercise.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

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 and costs of recovery. These calculations allow for the Company'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. In these cases, which represent a small proportion of the total portfolio, alternative approaches are adopted. These rely on internal credit monitoring practices and professional credit judgement.

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

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

At 30 September 2022 the UK economy was subject to levels of inflation and interest rates not seen for some considerable time and not represented sufficiently in the data sets used to create the Group's models. There was also a level of uncertainty as to the direction of government policy which was unusual for the UK. The situation was evolving rapidly at the year end, meaning that there was a risk that credit metrics and external credit bureau data might not fully reflect increasing risks, which would lead to a potential understatement of PDs.

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

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 Company'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 Company 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 Company's hands concerning the customers present credit position is included in the evaluation, as well as the impact of future economic expectations.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

Where 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 Company 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. No such evidence was noted at 30 September 2022, and hence no additional accounts were identified as having an SICR.

While no requirement to identify additional SICR cases has arisen in 2022, the approach is consistent with that adopted at 30 September 2021, and will be kept under review in future periods.

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 Company'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 Company'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 Company's buy-to-let mortgage portfolio the appointment of a receiver of rent to manage the property on the customers behalf is considered a default, while for portfolios assessed on a case-by-case basis, such as the Company's development finance loans, the movement of an account to the highest risk category is considered as a default.

This ensures that Company'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 Company'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.

Credit Impaired loans

IFRS 9 defines a credit impaired account as one where an account has suffered one or more event which has had a detrimental effect on future cash flows. It is thus a back-ward 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.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Credit Impaired loans (continued)

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 below distinguishing between probationary accounts, receiver of rent accounts, accounts subject to realisation / enforcement procedures and long term managed accounts, all of which are treated as credit impaired. While other indicators of default are in use, the categories shown account for the overwhelming majority of Stage 3 cases.

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 assets type remains appropriate. This exercise will be the subject of particular focus at year end and 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.

Model development

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

The adoption of this model has enabled the reporting process in the year to be more streamlined and supported increased use of scenario analysis.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Model development (continued)

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 Coved pandemic should be reflected in 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 PD model on the calculated provision were not significant.

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.

During the year, the dominance of Covid in these considerations reduced as the short-term impact of the pandemic receded and other economic factors such as the UK cost of living, rising interest rates and the conflict in the Ukraine became more significant.

Towards the end of the year the consensus view of the likely severity of these impacts became markedly more pessimistic, and together with political instability in the UK Government and emerging negative economic indicators this generated a situation where very careful assessment of credit prospects was required.

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.

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 feedback, evidence on the wider economy and quantitative and qualitative data and statements from industry, government and regulatory bodies. These are combined to form a broad estimate of the level of provision required across the Group.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Judgemental adjustments (continued)

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 Company will continue to monitor the requirement for these adjustments as the economic situation develops and its impacts begin to be 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.

Impairments by stage

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages.

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

- On initial recognition, and for assets where there has not been 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 ECLs

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
30 September 2022				
Gross loan book	19,659	-	-	19,659
Impairment provision	(17)	-	-	(17)
Net loan book	19,642	-	-	19,642
Coverage ratio	0.09%	0.00%	0.00%	0.09%

	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
30 September 2021				
Gross loan book	21,775	-	-	21,775
Impairment provision	(33)	-	-	(33)
Net loan book	21,742	-	-	21,742
Coverage ratio	0.15%	0.00%	0.00%	0.15%

In terms of the Company'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. However, these broad categorisations may vary between different product types.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Movements in impairment provision by stage

The movements in the impairment provision calculated under IFRS 9 is set out below.

	2022 £000	2021 £000
At 1 October 2021	33	48
Released in period	(16)	(15)
Amounts written off	-	-
At 30 September 2022	17	33

Accounts are considered to be written off for accounting purposes when 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 2022 enforceable contractual balances of £nil (2021: £nil) were outstanding on assets written off in the period. This will exclude those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances will be kept under review for operational purposes but no amounts will be 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 for the year ended 30 September 2022 and 30 September 2021 is set out below.

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

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

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

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	Stage 1	Stage 2 *	Stage 3 *	Total
	£000	£000	£000	£000
Loss allowance at 1 October 2021	33	-	-	33
New assets originated or purchased	-	-	-	-
Changes in loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Changes on stage transfer	-	-	-	-
Changes due to credit risk	(16)	-	-	(16)
Write offs	-	-	-	-
Assets derecognised	-	-	-	-
Loss allowance at 30 September 2022	17	-	-	17
Loss allowance at 1 October 2020	48	-	-	48
New assets originated or purchased	-	-	-	-
Changes in loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Changes on stage transfer	-	-	-	-
Changes due to credit risk	(15)	-	-	(15)
Write offs	-	-	-	-
Assets derecognised	-	-	-	-
Loss allowance at 30 September 2021	33	-	-	33

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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	Total
	£000	£000	£000	£000
Balances at 1 October 2021	21,775	-	-	21,775
New assets originated or purchased	4,082	-	-	4,082
Changes in staging				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Redemptions and repayments	(7,557)			(7,557)
Assets derecognised	-	-	-	-
Write offs	-	-	-	-
Other changes	1,359			1,359
Balance at 30 September 2022	19,659	-	-	19,659
Loss allowance	(17)	-	-	(17)
Carrying value	19,642	-	-	19,642
Balances at 1 October 2020	22,276	-	-	22,276
New assets originated or purchased	6,245	-	-	6,245
Changes in staging				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Redemptions and repayments	(8,220)	-	-	(8,220)
Assets derecognised	-	-	-	-
Write offs	-	-	-	-
Other changes	1,474	-	-	1,474
Balance at 30 September 2021	21,775	-	-	21,775
Loss allowance	(33)	-	-	(33)
Carrying value	21,742	-	-	21,742

Other changes includes interest and similar charges.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments credited to income

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

	2022 £000	2021 £000
Released in period	(16)	(15)
Written off amounts	-	-
	(16)	(15)

Economic impacts

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 2022 forecasting cycle (the ‘October forecast’), the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2021, with the starting point of the scenario updated to reflect the actual movements of economic variables and expectations in the year. The general trend of the Group’s central forecast is broadly negative in the short term, with interest rates and inflation increasing sharply by historical terms in the early part of the five year forecast period before normalising. Short term falls in house prices are also anticipated.

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Compared to the central scenario adopted at 30 September 2021, the new central forecast is based on a significantly higher interest rate environment throughout the period, reflecting increases already seen in the second half of the year and clear market expectations of higher rates to come. Inflation is much higher in the early years of the forecast than anticipated twelve months ago, with credit growth more constricted. GDP growth is slowed and house prices less positive in the short term, but recover later. These all reflect a worsening outlook for the UK than anticipated 12 months ago especially in the first two years of the period.

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 period, but the degree of divergence of the upside and downside scenarios from the central scenario has been reviewed to ensure that the asymmetrical nature of credit risk is properly accounted for and the full universe of possible outcomes adequately represented.

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 being used at 30 September 2022. This scenario is based on a dep recession, higher interest rates and falling asset prices. To ensure that the scenario is appropriately severe in the Groups circumstances a slightly higher unemployment level and a slightly worse outcome on house prices were assumed, otherwise the appreciation of security values in the later part of the forecast period would negate other impacts.

The economic variables comprising each scenario, and their projected average rates of increase (or decrease) for the first five years of the forecast period are set out below.

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)

9. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

30 September 2021

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

10. DEBTORS

	2022 £000	2021 £000
Amounts falling due within one year:		
Trade debtors	1,402	1,056
Other debtors	-	-
Sundry financial assets	1,402	1,056
Prepayments and accrued income	323	273
	1,725	1,329

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Commercial vehicles and plant and machinery	Cars, fixture and fittings	Office and computer equipment	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
At 1 October 2021	771	44,624	384	181	45,960
Additions	-	3,727	159	-	3,886
Disposals	-	(1,760)	(26)	-	(1,786)
At 30 September 2022	771	46,591	517	181	48,060
Accumulated depreciation					
At 1 October 2021	268	21,651	199	180	22,298
Charge for the year	174	5,813	148	1	6,136
Disposals	-	(1,442)	(26)	-	(1,468)
At 30 September 2022	442	26,022	321	181	26,966
Net book value					
At 30 September 2022	329	20,569	196	-	21,094
At 30 September 2021	503	22,973	185	1	23,662

The carrying values of right of use of assets, in respect of leases where the Company is the lessee, is the balance in land and buildings above.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

12. INTANGIBLE ASSETS

	Goodwill	Computer software	Total
	£000	£000	£000
Cost			
At 1 October 2021	450	3	453
Additions	-	-	-
At 30 September 2022	450	3	453
Accumulated amortisation			
At 1 October 2021	-	3	3
Charge for the year	-	-	-
At 30 September 2022	-	3	3
Net book value			
At 30 September 2022	450	-	450
At 30 September 2021	450	-	450

13. DEFERRED TAX

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

	2022 £000	2021 £000
Balance at 1 October 2021	268	573
Prior year profit and loss credit / (charge) (note 6)	28	(172)
Profit and loss credit / (charge) (note 6)	13	(183)
Rate change (note 6)	10	50
Balance at 30 September 2022	319	268

The net deferred tax asset for which provision has been made is analysed as follows:		
Accelerated tax depreciation	319	268

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2022

14. CREDITORS

	2022 £000	2021 £000
Amounts falling due within one year:		
Amounts due to group companies	30,987	32,842
Trade creditors	305	258
Other tax and social security	598	368
Other creditors	1,271	1,214
Sundry financial liabilities	33,161	34,682
Lease liability (note 15)	114	150
	33,275	34,832
Amounts falling due after more than one year:		
Lease liability (note 15)	231	335
Sundry financial liabilities	33,506	35,167

Borrowings from group companies comprises intercompany loans for day to day business and are repayable on demand.

15. LEASE PAYABLES

	2022 £000	2021 £000
Leasing Liabilities fall due		
In more than five years	-	8
In more than two but less than five years	123	214
In more than one year but less than two years	108	113
In more than one year (note 14)	231	335
In less than one year (note 14)	114	150
	345	485

16. CALLED UP SHARE CAPITAL

	2022 £	2021 £
Allotted:		
2 ordinary shares of £1 each (fully paid)	2	2

17. LEASING ARRANGEMENTS

As Lessor

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

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

Disclosure	**Note**
Investment in finance leases	8
Finance income on net investment in finance leases	2
Assets leased under operating leases	11
Operating lease income	2

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

	2022	**2021**
	£000	**£000**
Amounts falling due:		
Within one year	5,277	4,805
Within one to two years	2,171	2,327
Within two to three years	1,432	1,567
Within three to four years	876	992
Within four to five years	316	493
After more than five years	15	128
	10,087	10,312

As Lessee

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

The average term of the current building leases from inception is 8 years (2021: 8 years).

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

Disclosure	**Note**
Depreciation on right of use assets	3
Interest expense on lease liabilities	3
Additions to right of use assets	11
Carrying amount of right of use assets	11

There was no subleasing of any right of use asset and the total cash flows relating to leasing as a lessee were £140,000 (2021: £140,000).

NOTES TO THE ACCOUNTS - EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

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

18. DIRECTORS AND EMPLOYEES

a) Directors

	2022 £000	2021 £000
Directors' emoluments:		
Other emoluments	-	343
Long term incentives		-
	-	343
Pension contributions paid in respect of directors	-	47
Emoluments of the highest paid director:		
Excluding pension contributions	-	206
Pension contributions	-	35
	-	241

The number of directors during the year to whom retirement benefits were accruing under money purchase schemes was nil (2021: two). The number of the directors during the year in respect of whose service shares were received or receivable under the Group's long-term incentive schemes was nil (2021: seven).

NOTES TO THE ACCOUNTS - EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

18. DIRECTORS AND EMPLOYEES (CONTINUED)

b) Employees

The average number of persons (including directors) employed by the Company during the year was nil (2021: 72). The costs incurred during the year in respect of these employees were:

	2022	2022	2021	2021
	£000	£000	£000	£000
Share based remuneration	-		122	
Other wages and salaries	-		1,619	
Total wages and salaries		-		1,741
National insurance on share based remuneration	-		31	
Other social security costs	-		90	
Total social security costs		-		121
Defined contribution pension cost	-		76	
Total pension costs		-		76
Total staff costs		-		1,938

NOTES TO THE ACCOUNTS - EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

19. SHARE BASED REMUNERATION

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

The effect of the share based payment arrangements on the Company's profit is shown in note 18.

A summary of the number of share awards outstanding under each scheme at 30 September 2022 and at 30 September 2021 is set out below.

		Number 2022	Number 2021
(a)	Sharesave Plan	-	95,471
(b)	Performance Share Plan	-	93,731
(c)	Company Share Option Plan	-	16,597
(d)	Deferred Bonus Plan	-	14,733
		-	220,532

(a) Share option schemes

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

Options currently outstanding under the Sharesave schemes to purchase ordinary shares in the parent company are as follows:

Grant date	Period exercisable	Exercise price	Number 2022	Number 2021
Sharesave Schemes				
20/06/2016	01/08/2021 to 01/02/2022	249.44p	-	8,417
31/07/2018	01/09/2021 to 01/03/2022	408.80p	-	880
31/07/2018	01/09/2023 to 01/03/2024	408.80p	-	1,467
30/07/2019	01/09/2022 to 01/03/2023	360.16p	-	12,187
27/07/2020	01/09/2023 to 01/03/2024	278.56p	-	38,438
27/07/2020	01/09/2025 to 01/03/2026	278.56p	-	14,429
28/07/2021	01/09/2024 to 01/03/2025	424.00p	-	15,762
28/07/2021	01/09/2026 to 01/03/2027	424.00p	-	3,891
			-	95,471

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 decease of the holder).

19. SHARE BASED REMUNERATION (CONTINUED)

The fair value of options granted is determined using a Binomial model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2022 and the year ended 30 September 2021, which were all made under the Sharesave scheme, are shown below.

Grant date	**27/07/22**	**27/07/22**	**28/07/21**	**28/07/21**
Number of awards granted	-	-	15,762	3,891
Market price at date of grant	527.0p	527.0p	554.50p	554.50p
Contractual life (years)	3.5	5.5	3.5	5.5
Fair value per share at date of grant (£)	1.34	1.06	1.41	1.17
Inputs to valuation model				
Expected volatility	39.36%	33.75%	38.77%	33.10%
Expected life at grant date (years)	3.42	5.43	3.42	5.43
Risk-free interest rate	1.69%	1.74%	0.19 %	0.31%
Expected dividend yield	5.37%	5.37%	3.90%	3.90%
Expected annual departures	5.00%	5.00%	5.00%	5.00%

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the six years preceding the grant date. The five-year schemes use share price data for the preceding five years.

(b) Paragon Performance Share Plan

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

Awards vest on the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied. For employees, other than the executive directors, awards may be exercised from the vesting date to the day before the tenth anniversary of the grant date. Executive directors' awards made in 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. Where performance conditions are not met in full, awards lapse at this point. Awards will also lapse on cessation of employment, other than in 'good leaver' circumstances. Clawback provisions apply to awards granted under the PSP as detailed in the Remuneration Policy of the Group accounts.

19. SHARE BASED REMUNERATION (CONTINUED)

The conditional entitlements outstanding under this scheme at 30 September 2022 and 30 September 2021 were:

Grant Date	Period exercisable	Number 2022	Number 2021
22/12/2015	22/12/2018 to 21/12/2025 †	-	1,476
01/12/2016	01/12/2019 to 30/11/2026 β	-	17,743
08/12/2017	08/12/2020 to 07/12/2027 β	-	11,994
14/12/2018	14/12/2021 to 13/12/2028 ‡	-	20,314
06/07/2020	07/12/2022* to 05/07/2030 ϕ	-	23,788
11/12/2020	07/12/2023* to 05/07/2031 δ	-	18,416
		-	93,731

* Estimated date

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

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

- 50% to a Total Shareholder Return ('TSR') test based on a ranking of the Company's TSR against those of a comparator group of UK listed financial services companies, determined at the date of grant. This tranche vests in full for upper quartile performance, 25% vests for median performance and vesting between those points is determined on a straight line basis.
- 25% to an EPS test. This tranche vests in full if EPS increases by at least 7% more than the retail price index ('RPI') over the test period, 25% vests if this increase is at least 3% more than the RPI and vesting between those points is determined on a straight line basis.
- 25% to a risk test. The risk test is based on an internal scorecard of the Group's performance against its principal risk metrics.

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

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

- The EPS condition is measured against an absolute target. Full vesting occurs if EPS for the third year of the test period is at least 68p, 25% vesting if EPS in this year is 60p and vesting between those points on a straight line basis.

NOTES TO THE ACCOUNTS - EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

19. SHARE BASED REMUNERATION (CONTINUED)

(b) Paragon Performance Share Plan (continued)

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

- The TSR condition related to 25% of the grant, not 50%.
- The EPS condition is measured against an absolute target. Full vesting occurs if EPS for the third year of the test period is at least 67p, 25% vesting if EPS in this year is 60p and vesting between those points on a straight line basis.
- The risk condition comprises two components. 50% of the risk element is based on an assessment by the Chief Risk Officer of the six key measures of the Group's risk appetite: regulatory breaches; customer service performance; conduct; operational risk incidents; capital and liquidity; and credit losses. The remaining 50% is based on a strategic risk assessment reflecting the management of risk as it impacts on the delivery of the Group's medium term strategy.
- 12.5% of the grant is determined based on a customer service test assessed by the Chair of the Risk and Compliance Committee. The customer service test is based on the performance of the Group against its most significant customer service metrics including insight feedback on key product lines and complaint levels. 50% of this tranche will vest for on-target performance.
- 12.5% of the grant is determined based on a people test. The people test is based on the performance of the Group against its most significant employment metrics including employee engagement, voluntary attrition and gender diversity levels. 50% of this tranche will vest for on-target performance.
- Due to the volatility of the share price at the time of grant, the Remuneration Committee may adjust the vesting levels at the vesting date if it believes that the use of this share price has created a potential windfall gain.
- No CSOP grants were made in conjunction with this award, therefore no adjustment on vesting will take place.

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

- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 66p, 25% vesting if EPS in this year is 58p and vesting between those points on a straight line basis.
- The ability of the Remuneration Committee to adjust specifically for windfall gains was not a condition of this grant

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 72p, 25% vesting if EPS in this year is 63p and vesting between those points on a straight line basis

19. SHARE BASED REMUNERATION (CONTINUED)

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

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

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

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards over £1 ordinary shares made in the year ended 30 September 2022 and the year ended 30 September 2021 are shown below:

Grant date	**11/12/20**
Number of awards granted	18,416
Market price at date of grant	446.80p
Contractual life (years)	3.0
Fair value per share at date of grant	407.50p
Inputs to valuation model	
Expected volatility	37.85%
Expected life (years)	3.0
Risk-free interest rate	(0.12)%

For all of the above grants the contractual life and expected life at grant date is 3.0 years (2020: 3.0 years) and no departures are expected. The expected volatility is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date.

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

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

The PSP includes a tax advantaged element under which CSOP options can be granted. The CSOPs may be exercised alongside their accompanying PSPs based upon the exercise price that was set at the grant date. Each member of staff may be granted up to a maximum total value of £30,000 of tax benefitted options. No new CSOP awards were made in the year ended 30 September 2022 or 30 September 2021.

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 2022 and the year ended 30 September 2021 is shown below.

NOTES TO THE ACCOUNTS - EMPLOYMENT COSTS

YEAR ENDED 30 SEPTEMBER 2022

19. SHARE BASED REMUNERATION (CONTINUED)

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

	2022 Number	2022 Weighted average exercise price p	2021 Number	2021 Weighted average exercise price P
Options outstanding				
At 1 October 2021	11,691	381.63	21,151	397.25
Granted in the year	-	-	-	-
Transferred out	(11,691)	381.63	-	-
Exercised or surrendered in the year	-	-	(2,081)	361.88
Lapsed during the year	-	-	(2,473)	477.76
At 30 September 2022	-	-	16,597	385.89
Options exercisable	-	-	11,691	381.63

The weighted average remaining continental life of options outstanding at 30 September 2021 was 81.5 months. The weighted average market prices at exercise for share options exercised in the previous year was 466.70p.

The conditional entitlements outstanding under this scheme at 30 September 2022 and 30 September 2021 were:

Grant date	Period Exercisable	Exercise Price	Number 2022	Number 2021
01/12/2016	01/12/2020 to 30/11/2026 †	361.88p	-	9,698
08/12/2017	08/12/2020 to 07/12/2027 β	477.76p	-	1,993
14/12/2018	14/12/2021 to 13/12/2028 β	396.04p	-	4,906
			-	16,597

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

β 66.7% of these awards are subject to a TSR test and 33.3% are subject to an EPS test. These tests operate in the same manner and with the same conditions as those for the PSP grant of the same date.

To the extent that the CSOP awards vest, the vesting of the PSP award granted at the same time will be abated so that the overall gain to the grantee is the same as would be received on the related PSP award had the CSOP not been in place. No separate fair value has been attributed to the CSOP options for IFRS 2 purposes as the IFRS 2 market values for the CSOP and PSP combined will equate to that calculated for the PSP without allowing for the CSOP. The benefit from the CSOP is in relation to the employees' tax position, which does not affect the IFRS 2 charge.

19. SHARE BASED REMUNERATION (CONTINUED)

(d) Deferred Bonus awards

These plans are generally used for the deferral in shares of annual bonus awards made to executive directors and certain other senior managers. 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 2022 and 30 September 2021 were:

Grant date		Period exercisable	Number 2022	Number 2021
11/12/2020		11/12/2023 to 10/12/2030	-	1,029
11/12/2020	*	11/12/2023 to 10/12/2024	-	13,704
			-	14,733

* All employee award

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

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

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

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2021 and the year ended 30 September 2020 are shown below.

Grant date	**11/12/20** ***All employee***	**11/12/20** **Executive**
Number of awards granted	13,704	1,029
Market price at date of grant	446.80p	446.80p
Fair value per share at date of grant	353.62p	353.62p

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.

20. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution schemes

	2022	2021
	£000	£000
Defined contribution pension scheme expense	-	121

These amounts represent contributions to the Paragon Asset Finance Group Stakeholder defined contribution scheme and other defined contribution schemes.

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

21. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Company provides a range of leasing and lending products to its clients and funds these activities by means of intercompany borrowings. The intercompany loans are available to the Company at a fixed rate which minimises the interest rate risk. As follows:

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The board of the Company's holding company reviews and agrees policies for all companies in the group managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period and since the period end.

The identification, measurement and containment of risk is integral to the management of the Company's business. Risk policies and procedures are regularly updated to meet changing business requirements.

Credit risk

Credit risk arises from all exposures to customers on the Company's leasing and lending activities. The Company Board establishes underwriting limits, reviews concentrations and establishes procedures on credit decisions. Transactions that exceed the Company's own limits are then passed to the immediate parent for a decision. Regular meetings review major exposures and levels of default together with other credit issues. Concentration limits are set for exposure by asset type.

Exposure to credit risk is managed by detailed analysis of the customer's position prior to entering into an exposure, and by continued monitoring thereafter. The Company places significant emphasis on the value of the assets involved in the transaction; the Company monitors the value of the assets. For internal monitoring purposes, credit exposure on leases and loans are measured as the principal amount outstanding plus accrued interest.

The Company reviews credit exposures on leases and other lending products on a quarterly basis and for this purpose they are classified as 'Impaired' or 'Up to date', reflecting the risk of default and the estimate of loss in the event of default. The circumstances in which a financial asset is considered to be impaired are described in note 24.

The tables below disclose the maximum exposure to credit risk at the reporting date for financial assets with significant exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

	Note	2022 £000	2021 £000
Loans to customers	7	19,642	21,742
Cash		308	384
Trade debtors	10	1,402	1,056
Maximum exposure to credit risk		21,352	23,182

The Company has title to the plant and equipment that it leases. The fair value of the equipment on the lease is not considered to be significantly different to the net investment in the leases.

The Company monitors concentrations of credit risk by exposure to asset type. All of the Company's credit exposure is in the United Kingdom. The table below shows an analysis of loans and advances to customers by asset type.

	2022 £000	2021 £000
Refuse disposal vehicles	19,642	21,742
Total	19,642	21,742

Interest rate risk

The Company's assets are effectively fixed rate exposures and it is funded through fixed rate borrowings from other Group entities. Its interest rate risk is therefore immaterial.

Liquidity risk

It is the Company's policy to ensure that adequate resources are available at all times to provide for the day to day activities of the Company and to meet regulatory requirements. Management considers the period end position satisfactorily reflects the policies and objectives set out above.

The Company has no external borrowings and liquidity is provided as part of the Group's working capital arrangements.

This responsibility rests with the Assets and Liability Committee which sets the Group's liquidity policy and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS 7 – 'Financial Instruments: Disclosures' requires that where assets are measured at fair value these measurements should be classified using a fair value hierarchy reflecting the inputs used, and defines three levels.

- Level 1 measurements are unadjusted market prices
- Level 2 measurements are derived from 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.

All financial assets and liabilities in the Company's balance sheet are carried at amortised cost. The carrying values and the fair values are not materially different.

The Company had no financial assets or liabilities in the year ended 30 September 2022 or the period ended 30 September 2021 valued using level 3 measurements.

The Company has not reclassified any of its measurements during the period.

The methods by which fair value is established for each class of financial assets and liabilities is set out below.

Cash and intercompany borrowings

The fair values of cash and cash equivalents and intercompany borrowings, which are carried at amortised cost are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets mature within three months of the period 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.

Loan assets

To assess the likely fair value of the Company's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Company'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 2 measurements.

Market prices are not, however, available for certain financial assets and liabilities held or issued by the Company. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

YEAR ENDED 30 SEPTEMBER 2022

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

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

23. BASIS OF PREPARATION

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

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

On 31 December 2020, EU-adopted International Financial Reporting Standards ('IFRS') was brought into UK law and become UK-IAS, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company Financial Statements transitioned to UK-adopted international accounting standards (as described above) in its first financial year commencing after 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

The particular accounting policies adopted have been set out in note 24 and the critical accounting judgements and estimates which have been regarded in preparing these financial statements are described in notes 25 and 26 respectively.

Adoption of new and revised reporting standards

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

Standards not yet adopted

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

24. ACCOUNTING POLICIES

The particular accounting policies applied are described below.

Accounting convention

The Financial Statements have been prepared under the historical cost convention.

24. ACCOUNTING POLICIES (CONTINUED)

Going concern

Accounting standards require the directors to assess the Company's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them. Particular focus is given to the Group's financial forecasts to ensure the adequacy of resources available for the Company to meet its business objectives on both a short term and strategic basis.

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

In compiling the most recent forecast, for the period commencing 1 October 2022, particular attention was paid to the potential consequences of the uncertain economic outlook for the UK on the Group's operations, customers, funding and prospects, both in the short and long term. These considerations include the increased cost of living, rising interest rates and the impacts of Russia's intervention in Ukraine, as well as the long-term after effects of the Covid pandemic. To evaluate these impacts of a number of different scenarios with impacts of varying duration and severity were examined. In common with the Group's approach to IFRS 9, the economics used in the forecasting process were updated in October 2022 based on updated external projections.

The Company is dependent on Group funding, principally provided by Paragon Bank PLC ('the Bank'), in order to support its lending activities and working capital. The Company is therefore dependent on the future support of the Group and, in particular on the Bank not seeking repayment of the amounts currently due, which at 30 September 2022 amounted to £30,666,000. The Bank has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts, and the forecasts have been prepared on the basis that no such repayment is demanded.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

In addition to the above, the directors consider that the company remains an integral part of the Group and the forecasts have been prepared on that basis.

After performing this assessment, the directors concluded that there was a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future, and to continue as a going concern for a period of not less than twelve months from the date of approval of these financial statements. They therefore concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the Annual Report and Accounts and these Financial Statements have been prepared on that basis.

Cash at bank

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

24. ACCOUNTING POLICIES (CONTINUED)

Leases

For leases where the Company is the lessee a right of use asset is recognised in property plant and equipment on the inception of the lease based on the discounted value of the minimum lease payments at inception. A lease liability of the same amount is recognised at inception, with the unwinding of the discount included in the interest payable.

Leases where the Company is lessor are accounted for as operating or finance lease in accordance with IFRS 16 – 'Lease'. A finance lease is one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

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.

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.

Impairment of loans and receivables

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 expected credit loss ('ECL'), determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

All assets are assessed to determine whether there has been a significant increase in credit risk ('SICR') since the point of first recognition (origination or acquisition). Assets are also reviewed to identify any which are 'Credit Impaired'. SICR and credit impairment are identified on the basis of pre-determined metrics including qualitative and quantitative factors relevant to each portfolio, with a management review to ensure appropriate allocation.

Assets which have not experienced an SICR are referred to as 'Stage 1' accounts, assets which have experienced an SICR but are not credit impaired are referred to as 'Stage 2' accounts, while credit impaired assets are referred to as 'Stage 3' accounts.

An impairment allowance is provided on an account by account basis:

- For Stage 1, at an amount equal to 12-month ECL, i.e. the total expected ECL that results from those default events that are possible within 12 months of the reporting date, weighted by the probability of those events occurring
- For Stage 2 and 3 accounts, at an amount equal to lifetime ECL, i.e. the total expected ECL that results from any future default events, weighted by the probability of those events occurring

24. ACCOUNTING POLICIES (CONTINUED)

Impairment of loans and receivables (continued)

In establishing an ECL allowance, the Company assesses its probability of default, loss given default and exposure at default for each reporting period, discounted to give a net present value. The estimates used in these assessments must be unbiased and take into account reasonable and supportable information including forward-looking economic inputs.

While the Company 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.

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.

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.

Property, plant and equipment

All tangible assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is calculated using the straight-line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

Cars	4 years
Office equipment	3 – 5 years
Computer equipment and software	3 years
Plant and equipment	3 – 5 years

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.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These gains and losses are recognised in the profit and loss.

24. ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, tangible assets are assessed for indications of impairment. If such indications are present, these assets are subject to an impairment review. If impaired, the carrying values of assets are written down by the amount of any impairment and the loss is recognised in the statement of comprehensive income in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset is only increased up to the amount that it would have been had the original impairment not been recognised.

Intangible assets

Intangibles are stated at cost less any accumulated impairment losses. Intangible assets are not amortised but are tested annually for impairment, or more frequently when circumstances indicate that there carrying amount is too high. Intangibles are allocated to cash generating units with losses on goodwill recognised in the profit and loss account.

Residual Values

Management use a combination of historic experience and future projections to estimate the appropriate residual value for particular vehicles or items of plant and equipment.

Financial liabilities

All financial liabilities are carried at amortised cost.

Current tax

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

Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. As required by IAS 12 – ‘Income Taxes’, deferred tax assets and liabilities are not discounted to take account of the expected timing of realisation.

Revenue

Revenue represents the gross income of the contract hire, finance and operating lease rentals including maintenance income as earned and other income relating to the contracts, net of the capital element of finance lease rentals.

Direct maintenance cost is recognised as the cost is incurred and the maintenance revenue is recognised in the period in which the services are provided by the Company.

Spot hire income and workshop contract income are recognised as the services are provided. The entire turnover arises in the United Kingdom.

24. ACCOUNTING POLICIES (CONTINUED)

Financing costs

Interest payable arises on borrowings used to fund the Company's business and is recognised in the profit and loss using the effective interest rate method.

Other operating income

Other operating income is generated from profits on the sale of fixed assets.

Pensions

The Company does not operate its own pension scheme. It does make contributions to the Paragon Asset Finance Stakeholder defined contribution scheme and other external defined contribution schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The contributions payable by the Company to the independently administered funds are charged through the profit and loss as they arise.

Share Based Payments

In accordance with IFRS 2 – 'Share based payments' ('IFRS 2'), the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date. 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.

Disclosures

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

- The requirement to produce a cash flow statement and related notes
- The requirement to provide comparative period reconciliations in respect of fixed assets
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management
- The effects of new, but not yet effective IFRSs
- Disclosures in respect of key management personnel
- Disclosures of transactions with a management entity which provides key management personnel services to the Company

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

- Certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company.

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

25. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 24 relate to:

Significant Increase in Credit Risk ('SICR')

Under IFRS 9, the directors are required to assess where a credit obligation has suffered a Significant Increase in Credit Risk ('SICR'). The directors' assessment is based primarily on changes in the calculated probability of default, but also includes consideration of other qualitative indicators and the adoption of the backstop assumption in the Standard that all cases which are more than 30 days overdue have a SICR, for account types where days overdue is an appropriate measure.

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 the 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 9.

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 Company'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 Company's definition of default adopted is given in note 9.

26. CRITICAL ACCOUNTING ESTIMATES

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

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 and qualitative information, such as information on corporate performance or intended or current enforcement activity.

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 charged assets. These cash flows will include payments received from the customer. 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 2022 this process is made more complex by both the elevated level of uncertainties and the lack of recent experience of similar situations against which to benchmark. At the same time, the level to which Covid-related 'scarring' has yet to manifest itself in credit metrics is still unclear.

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 asset values, over and above any assumed by the model might increase the provision required in respect of accounts currently provided. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

In order to provide forward looking economic inputs to the modelling of the ECL, the Company must derive a set of scenarios which are internally coherent. The Company addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes. These scenarios at 30 September 2022 have been derived in light of the current economic situation, at that date, modelling a variety of possible outcomes as described in note 9. It should be noted, however, that there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK, which have diverged again over the period since September 2021, with both UK economic and geopolitical uncertainties building.

26. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Impairment losses on loans to customers (continued)

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

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

In addition to uncertainty created by the economic scenarios, the Group recognises that the present situation lies outside the range of situations considered when it originally derived its IFRS 9 approach to impairment. It is considered that 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 9.

The position after considering all these matters is set out in note 9.

Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each loan and hence the cash flows relating thereto, including those relating to early redemption charges. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. For each portfolio a model is in place to ensure that income is appropriately spread.

The underlying estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and those predicted, which in turn would depend directly or indirectly (in the case of borrowings) on customer behaviour.

27. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking of the Company is Paragon Asset Finance Limited and ultimate parent undertaking and controlling party of the Company is Paragon Banking Group PLC, a company registered in England and Wales. This is the largest and smallest group of which the Company is a member and for which consolidated financial statements are drawn up. Copies of the Group's financial statements are available from that company's registered office at 51 Homer Road, Solihull, West Midlands, B91 3QJ.