



Julian Hodge Bank Limited

**Annual report and financial
statements
31 October 2018
Registered number
00743437**

Officers and professional advisers

Directors	Adrian Piper	Chairman B.A., M.Sc., M.C.I.P.D., M.C.I.M
	Jonathan Hodge	Deputy Chairman
	David Austin	Chief Executive LL.B., A.C.A.
	David Landen	Chief Financial Officer B.Sc., F.C.C.A.
	Alun Bowen	M.A., F.C.A.
	Helen Molyneux	LLD (Hons), LLB (Hons)
	John Barbour	BSc., MBA
Company Secretary	Kirsty Carlick	
Registered Office	One Central Square Cardiff CF10 1FS	
Auditor	Ernst & Young LLP Bristol	
Principal bankers	Lloyds Bank Plc London Barclays Bank Plc Cardiff	
Economic adviser	Professor Patrick Minford Cardiff Business School	

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Chairman's Statement

I am delighted to present my statement for the year ended 31 October 2018.

During 2018, the Bank sold its subsidiary, Hodge Life Assurance Company Limited to its parent, Hodge Limited, at its book value. This had the effect of improving the Bank's regulatory capital base, thereby improving its new business growth capability.

Whilst the overall result for the year is down on the previous year, adjusted net operating income has improved markedly. This measure, which is explained and shown in note 3 to the accounts is considered to better reflect operating performance as it removes elements which distort year on year comparisons.

Highlights

- Increase in net interest income of 50.0%
- Increase in loans and advances to customers of 9.2%
- Increase in deposits (customer accounts) of 4.9%
- Increase in Tier 1 capital ratio to 22.3%.

We continue to make significant investment in our business, particularly within the digital arena, recognising that any successful financial services business must invest to stay relevant and to meet the aspirations and expectations of its customers.

The Board re-affirmed the Bank's strategy during the year, which is to focus on equity release, later life lending and commercial real estate, where our expertise and knowledge are widely recognised, but also to leverage that expertise with less need to deploy our own capital.

Economic environment

For the most part, the general economic environment during 2018 can be characterised as relatively benign in that the UK continues to experience GDP growth, albeit of the tepid variety.

Unemployment remains at historic lows and at last there appears to be some semblance of real wage growth.

Whilst inflation has remained above the Bank of England's 2% target throughout the year, in recent months it has tracked in a relatively narrow range and the Bank of England has only seen fit to raise base rate once, seemingly of the view that inflation will fall back towards target over its policy horizon.

However, from our perspective, the environment has been somewhat more challenging. The key market factors that affect the Bank's overall performance are longer term interest rates and residential real estate prices together with the rate of lifetime mortgage redemptions. This is due to the valuation methods we are required to apply to our lifetime mortgages and investment properties.

Increases in longer term interest rates and residential real estate prices are generally positive for the Bank's results and although these have moved higher over the year, those movements have been less beneficial than in previous years.

Lifetime mortgage redemptions have a negative impact on the Bank's results and the level of such redemptions this year has been significantly higher than anticipated.

The uncertainty caused by Brexit is likely to have a negative impact on the Bank's performance if the consequence is a weakening in residential real estate prices and lower long-term interest rates.

Chairman's Statement (continued)

IBOR reform

In July 2017, the UK Financial Conduct Authority (FCA) announced a transition away from LIBOR as the key interest rate index used in calculating floating or adjustable rates for loans, bonds, derivatives and other financial contracts. The FCA's intention is that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit rates for calculation of LIBOR. The Bank is currently assessing the impact of this change on its financial instruments which use LIBOR as their benchmark interest rate, this work will continue through 2019 as the impact on markets becomes clearer.

Financial performance

The Bank's performance at both a net operating income and profit before tax level has deteriorated relative to the prior period due to a planned increase in overheads, adverse fair value movements and the inclusion in the prior period performance of a one off fair value uplift of £3.9 million on a freehold investment property, the disposal of which was completed in 2018 at £nil gain or loss. Our preferred measure to assess the underlying performance of the group is adjusted net operating income.

The Bank's underlying adjusted performance has been extremely positive with a strong contribution from Commercial Lending and solid growth within Hodge Lifetime, which has expanded its product range.

Net interest income has increased by 50.0% on our core lending products, reflecting a combination of growth in our loan book and margin improvement.

Administrative expenses have continued to increase due to substantial investment in people, premises and systems to enable us to carry out our plans to grow the business over the coming years.

Five Year Summary

	FRS101				UK GAAP
	2018	2017	Restated 2016	Restated 2015	2014
	£m	£m	£m	£m	£m
Net operating income	18.2	18.9	33.8	8.9	9.3
Adjusted net operating income (note 3)	26.2	18.6	18.3	7.7	0.2
Profit before taxation	6.3	10.5	23.1	1.6	4.3
Adjusted profit/(loss) before tax (note 3)	14.3	10.2	3.6	0.4	(7.8)
Total assets	1363.4	1267.4	1324.0	1115.7	784.7
Loans and advances to customers	827.9	757.9	706.9	624.8	440.8
Customer deposits	994.6	947.7	991.7	848.6	633.2
Shareholder's funds	171.7	167.3	153.5	140.1	132.0

Hodge Lifetime

Hodge Lifetime is the group's brand in the retirement market, focusing on later life lending, equity release and annuity products. Having been established in 1965, we were the first entrant into the equity release market and have been a constant presence ever since.

Chairman's Statement (continued)

Equity release

Residential property remains the principal form of saving for most retirees and it is inevitable that a growing proportion will utilise their major asset to improve their retirement prospects through equity release. In 2017, this market topped £3 billion for the first time and has seen further strong growth in 2018. Market commentators expect the total market for 2018 to be in excess of £4 billion.

In addition to underwriting our own equity release products, we originate equity release assets on behalf of external funders. Fee income from external equity products increased by 39% over the previous year.

Later life lending

In addition to growth in the equity release market, there is a developing need for broader 'later life lending' products to reflect the growing trend of carrying mortgage debt beyond retirement and into older age. A key driver of this trend is the number of interest-only mortgages falling due for repayment where the existing repayment vehicle is insufficient to clear the loan in full.

Over the past two years we have responded to this trend by developing our later life lending proposition through the addition of our Retirement Mortgage (a hybrid lifetime mortgage) and 55+ Mortgage (a standard residential mortgage) to our product range.

In March 2018, the FCA facilitated the introduction of a further product type into this market by amending the definitions in the MCOB Sourcebook to permit Retirement Interest-Only ("RIO") mortgages, recognising that for many people, the only viable repayment option will be from the sale of their property on death or entry into long-term care.

We welcome this additional product choice for consumers and were amongst the first lenders to offer a RIO mortgage alongside our other product options.

Hodge Lifetime is one of the only UK businesses offering a full range of later life lending and equity release products, which puts us in a strong position to capitalise on this growing market.

The Bank also holds a legacy portfolio of reversionary interests in properties which are being run-off over the medium term.

We continue to invest heavily in technology and are developing an intermediary portal to allow advisers to transact with us on-line. The first phase of this development, a Key Facts Illustration generation tool, is due to go-live before 31 December 2018. Other core components, comprising on-line Decisions-in-Principle and application services, document exchange and case tracking are scheduled to be delivered during 2019.

Whilst we believe that our product range in the later life lending market is unrivalled, this needs to be complemented with systems which assist the adviser to interact with us when and how they want; the intermediary portal is a key component in delivering this aspiration.

Chairman's Statement (continued)

Commercial Lending

Our specialist Commercial Lending proposition, whereby we provide bespoke, senior real estate debt for experienced investors and developers, continues to be highly valued by our clients and their advisers. This is evident in the amount of repeat and client referral opportunities that we see.

Client feedback strongly validates this approach, with the clients' voice in our independently produced annual survey emphasising the high regard in which they hold the key people with whom they deal.

We have achieved consistent and sustained momentum within Commercial Lending which has resulted in strong operating profits for the year, achieved through record new business volumes in excess of £128 million, sustained margins, strong fee flow and sound risk management.

These results were achieved from lending within our core and proven risk appetite parameters and with an average weighted new business loan-to-value ratio of under 55%. As ever, the strategy is to be highly selective in our asset origination, focussing on the quality of clients and proposals, rather than a volume-led lending target.

We have made good progress in exiting some legacy risk positions, with the result that we have experienced a net recovery of impairments. More broadly, key risk metrics have generally improved through the year and we are in the process of implementing an enhanced risk grading system and Standard & Poors credit risk model as we transition to IFRS 9.

Looking forward, we expect to see sustained challenges for some sectors, particularly UK High Street retail, as well as the manifest uncertainty that the Brexit process entails. Given this uncertainty and the attendant risks to the economy and asset prices, we have slowed our rate of new business origination in recent months. We envisage maintaining this approach into the early part of 2019, or until the outlook is more stable. We continue to serve and fund clients but, for now, are circumspect around any net portfolio growth.

Our existing lending is well spread across the UK and does not contain undue concentration in any region. We also take care to ensure appropriate diversification in the types of property assets which secure our exposures. We have monitored closely the problems experienced by the UK High Street and consider the risks to us are reasonably mitigated through retail property exposures constituting less than 10% of our lending stock, with no material reliance on any single tenant, occupier or loan counterparty.

At the strategic level, we are in the early stages of planning an innovative approach to increasing the scale and earnings of our Commercial Lending activity and embracing the growth of 'Fintech'. These plans remain in development, and there is much to do, but set a direction of travel for 2020 and beyond.

Savings

Delivery of our digital strategy continues apace, and we have added account servicing to our offering so that for many of our products, customers can now conduct their entire transaction with us on-line.

During the forthcoming year, we aim to expand the range of products that can be transacted in this manner, providing customers with even more choice as to how they engage with us.

At the same time, we recognise that there will always be a need for human interaction, either because that is the way our customers wish to do business with us, or to resolve queries and problems which might arise throughout the customer journey whether on-line or in the traditional manner.

Chairman's Statement (continued)

In this respect we have extended the availability of our customer services team to include evenings and weekends to ensure that our advisers are available when our customers need them.

During the year, we achieved the milestone of £1 billion in customer balances, which is a testimony to the faith our customers have in our Savings proposition.

The success of our digital offering can be illustrated by the fact that £53.7 million of new Savings balances were raised in the year through the online channel. Most of this was from customers who would not previously have dealt with us.

The recent expansion of our digital offering to include on-line account servicing should attract more new customers and result in an increasing proportion of our Savings balances being raised through this channel.

The Bank is a participant in the Bank of England's Term Funding Scheme, which provides a cost-effective source of funding in the form of central bank reserves to support additional lending to the real economy. The Term Funding Scheme balance represents 6.6% of the overall funding from deposits with banks and customers at 31 October 2018.

Culture

The Bank continues to develop its culture and values following the review instigated in 2017, with the aim of unifying the organisation to work together towards a common purpose.

We have established a Culture Steering Committee with representatives from the Board, senior management and employees to provide the focus necessary to ensure that this aim is successfully delivered.

This Committee is supported by the Colleague Alliance which comprises members drawn from a cross-section of employees. The Alliance has been formed to provide the link between employees and the Board and to champion the values which it had a key role in developing.

The Alliance's work has been invaluable in creating engagement within Hodge and driving the importance of the values to the success of the Bank's strategy and delivering on its mission and vision.

The Alliance's greatest achievement during the year was the organisation, in July, of a "Hodge" event, which brought together the whole business for an entire day, outside the work environment, to showcase, in practical terms, the Hodge values.

The event was a tremendous success, significantly enhanced by the attendance of some of the Hodge Foundation's charity partners, who delivered inspirational examples of how the Foundation's assistance had enabled them to materially improve the lives of those who benefited from their help.

Our people

I referred last year to the fact that to facilitate our expansion we had taken extra space in our central Cardiff location. During the year, we completed the fit-out for this new space which has now become the hub for all the change activity being undertaken across the Bank.

This collaborative space has enabled us to bring together employees from different parts of the business to concentrate their activities on delivering the vital change which is imperative for the future success of the organisation.

Chairman's Statement (continued)

It is a great example of the Hodge values in action and something we wish to replicate across the rest of the organisation.

As always, Hodge is totally dependent on its people for its success. We now have over 190 employees across the group, who continue to show their dedication and commitment, but above all their enthusiasm, for the aims of the organisation and the values for which it stands.

In this respect, I would like to express my appreciation, and that of the Board for their continued support, and I have no doubt that, with their help, Hodge will go from strength to strength.

Governance and the Board

From a Board perspective this has been a year of significant change. David Austin, who has been with the Bank for 28 years and been its Chief Executive for 21 years is retiring in early 2019.

I would like to thank David for his outstanding dedication and commitment to the organisation over that period. He will be greatly missed by Hodge.

In anticipation of David's departure, much of the year was taken identifying and recruiting his replacement. In this respect we are delighted to have engaged the services of Steve Pateman who has had a long and distinguished career at a number of financial institutions, most recently as Chief Executive of Shawbrook Bank and prior to that as head of the UK banking businesses of Santander.

Our Company Secretary, Rhian Yates has also decided to leave Hodge when her current maternity leave ends to take a career break and spend time with her young children. Rhian has been with the Bank for 14 years, not only acting as Company Secretary but also as Head of Risk and Compliance. We will be sad to see her go but would like to offer our best wishes for the future.

The vacancy as Company Secretary has been filled by Kirsty Carlick who has been with Hodge for five years and acted as assistant to Rhian for over 3 years. I have no doubt that Kirsty will provide great support to the Board in her new role.

Maintaining the highest standards of corporate governance within Hodge remains central to my role, and in light of increased regulatory expectations as regards the role of the non-executive director, we anticipate recruiting additional members to the Board during 2019.

Chairman's Statement (continued)

Outlook

The defining issue for the economy over the next year and certainly the first half of 2019 will be Brexit. The market and political turbulence caused by the draft Brexit agreement announced in November is only likely to amplify as the March 2019 deadline for withdrawal approaches, unless there is some miraculous breakthrough.

Against this backdrop we are taking a cautious approach to new business until we have greater clarity on the Brexit outcome.

Nevertheless, it is vital that we see through short-term volatility and position ourselves for the long-term. In this respect, we continue to invest significantly in people and systems to ensure that we have a business fit for purpose for the digital age whilst still retaining the key Hodge values which have brought us great success to date.

Adrian Piper

Chairman

19 December 2018

Strategic Report

Principal activities

The Bank is principally engaged in the business of banking and 'later life lending'.

The Bank is an Authorised Institution under the Financial Services and Markets Act 2000.

Corporate strategy

The Board has adopted a strategic plan with the long-term aim of achieving stable and strong returns for our shareholder. At the heart of the Bank's philosophy is a wish to protect its capital base for the benefit of its depositors and shareholders by conducting business in those areas where it has the greatest expertise and experience and best understands the risks which it is taking.

A rolling five-year strategy is approved by the Board annually, complemented by a detailed business plan for the forthcoming financial year. The Board sets aside specific time during the year to review its strategy and to gauge progress towards its achievement. The current strategy is based on a continuing involvement in (a) commercial property, primarily through the Bank's commercial lending business and (b) residential and lifetime mortgages through its later life lending activities, both of which it believes will enable it to achieve its strategic objectives.

Risk appetite

On an annual basis, in the context of the Board's review of its strategy, the Board establishes a risk appetite with appropriate key risk indicators and risk limits for executive management to operate within. The Board monitors adherence to the risk appetite on a regular basis.

Business review, future developments and key performance indicators

A review of business, future developments and key performance indicators is included in the Chairman's statement on pages 1 to 7. The key performance indicators are considered to be adjusted net operating income and adjusted profit before tax.

Results and dividends

The profit for the year after taxation amounted to £5.5m (2017: £10.2m). No dividend was paid during the year (2017: £nil) leaving a surplus for the year of £5.5m (2017: £10.2m) to be taken to reserves.

Employees

The Bank has an equal opportunities employment policy, and it is the Board's policy to employ disabled persons whenever suitable vacancies arise and to provide for such employees the appropriate level of training and career progression within the Bank.

The directors recognise the importance of communication with employees and they make it their policy to be accessible to them.

Strategic Report (continued)

Corporate Governance

A comprehensive corporate governance framework is vital in supporting executive management in its execution of strategy and in driving long-term sustainable performance. It helps ensure that the shareholder's investment in the Bank is protected, while at the same time recognising the interests of our wider stakeholders.

The Board's agenda during 2018 was focused on overseeing and supporting executive management in delivering on the Bank's strategic objectives.

The Board comprises two executive and five non-executive directors and the roles of Chairman and Chief Executive are separate to ensure that neither can exercise unfettered powers of decision-making on matters of material importance.

The Board has sought to ensure that directors are properly briefed on issues arising at Board meetings by:

- distributing papers sufficiently in advance of meetings;
- considering the adequacy of the information provided before making decisions; and
- deferring decisions when directors have concerns about the quality of information.

The Board is ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness. The system of control is designed to manage rather than eliminate risks which are inherent in the Bank's business and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Bank's system of internal financial control includes appropriate levels of authorisation, segregation of duties and limits for each aspect of the business. There are established procedures and information systems for regular budgeting and reporting of financial information. Financial reports are presented at every Board meeting detailing the results and other performance data.

There is a well-established internal audit function within the Bank that is provided by PwC on an outsourced basis. Its role is primarily to review the effectiveness of controls and procedures established to manage risk. An audit programme is agreed annually in advance with the Audit Committee and the head of internal audit attends each meeting of the committee to present a summary of audit reports completed during the period and to provide any explanations required by the committee.

The Audit Committee has reviewed the effectiveness of the Bank's system of internal financial control during the year.

Strategic Report (continued)

Governance framework

The following is a summary of the framework for corporate governance adopted by the Bank.

The Board

The Board has ultimate responsibility for the proper stewardship of the Bank in all its undertakings. It meets regularly throughout the year to discharge its responsibilities for all important aspects of the Bank's affairs, including monitoring performance, considering major strategic issues, approving budgets and business plans and reviewing operational performance of the Bank. The Board holds regular discussions with the Bank's major shareholders to ensure a clear understanding of their views and requirements and during the year a shareholder covenant was agreed detailing the shareholders' expectations of the Bank.

The Chairman is responsible for the leadership and operation of the Board, setting the agenda and the tone of Board discussions as well as assessing the effectiveness of the Board and its directors.

A Board control manual has been adopted which describes the high-level policy and decision-making arrangements within the Bank. The manual includes a schedule of matters reserved to the Board together with those items delegated to directors and Board and executive committees.

Details of the members of the Board are set out below.

Adrian Piper – Chairman

Adrian has been a non-executive director since 2010 and was appointed its Chairman in July 2017.

Before joining the Board, Adrian enjoyed a career of almost 40 years with the Bank of England, latterly as its Agent for Wales. Adrian is also a member of the Audit Committee of Cardiff Metropolitan University.

Alun Bowen - Non-executive director

Alun joined the Board in 2013 and is the Chair of the Risk and Conduct Committee.

Alun enjoyed a long career at KPMG. He became the Managing Partner of KPMG in Kazakhstan in 2008 and before that was the firm's Senior Partner in Wales, specialising in the banking, insurance and retail financial services sectors. Between 2001 and 2005, he also headed KPMG's practice advising global companies on sustainability.

Alun is Chair of the Audit Committees of PAO Severstal and is a Fellow of the Institute of Chartered Accountants in England & Wales.

Alun has also been chairman of Business in the Community in Wales, a member of the Council of the Prince's Trust Cymru and the BT Wales Advisory Board.

Jonathan Hodge - Non-executive director

Jonathan is the son of the Company's founder, Sir Julian Hodge, and represents the family's interest on the Board as well as chairing the Nomination Committee.

Strategic Report (continued)

Helen Molyneux - Non-executive director

Helen joined the Board in June 2015 and is also Chair of the Remuneration Committee.

Until November 2016, Helen was chief executive of NewLaw Legal, a business she established from scratch, which now employs over 400 people. She is a non-executive director of EUI Ltd, a subsidiary of the Admiral Insurance Group.

In 2011 Helen was named Welsh Woman of the Year and in 2013, the Law Society's Business Woman of the Year. She was a member of the Silk Commission on Devolution in Wales and currently chairs the Institute of Welsh Affairs. In 2016, she was awarded an honorary doctorate by the University of South Wales in recognition of her services to the legal profession.

John Barbour - Non-executive director

John joined the Board in March 2017 and is also Chair of the Audit Committee.

John was previously Managing Director of Treasury at ICBC Standard Bank, the London-based financial markets and commodities bank, owned by China-based ICBC and South African-based Standard Bank. He has spent his entire career in treasury and financial markets-related roles, having previously worked at Investec and Bank of New York.

David Austin – Chief Executive

David joined the Board in 1991 as Finance Director and was appointed Chief Executive of the Bank in 1997 and of the Group in 2011. David is a chartered accountant having spent twelve years at KPMG in its Cardiff office.

David Landen – Chief Financial Officer

David joined the Bank in 2002 and has held a variety of finance and treasury roles during his time with the organisation. He was appointed to the Board as Chief Financial Officer in 2011. An accountancy graduate from Cardiff University, he is a fellow of the Association of Chartered Certified Accountants.

Board Committees

The Board has established the following standing committees:

- **Audit Committee:** John Barbour (Chair), Jonathan Hodge, Helen Molyneux, Adrian Piper and Alun Bowen.

All members of the Audit Committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the Audit Committee is to review the work of the internal audit function, to consider the adequacy of internal control systems, to review the relationship with the external auditors, to review the statutory accounts including the key estimates and judgements used in the statutory accounts and to consider compliance issues.

The committee meets at least four times a year.

Strategic Report (continued)

- **Risk and Conduct Committee:** Alun Bowen (Chair), Jonathan Hodge, Helen Molyneux, John Barbour and Adrian Piper.

All members of the Risk and Conduct Committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the Risk and Conduct Committee is to oversee the management of risk and the conduct of business on behalf of the Board to ensure that significant risks are identified, understood, assessed and managed and that good customer outcomes are achieved. It is responsible for the second line of defence of the business, ensuring that the level of assurance available to the Board is sufficient and appropriate.

The committee meets at least four times a year.

- **Remuneration Committee:** Helen Molyneux (Chair), Alun Bowen, Jonathan Hodge, John Barbour and Adrian Piper.

All members of the Remuneration Committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the Remuneration Committee is to consider remuneration policy and specifically to determine the remuneration and other terms of service of executive directors and senior managers. The executive directors decide fees payable to non-executive directors.

The committee meets as required.

- **Nomination committee:** Jonathan Hodge (Chair), Alun Bowen, Helen Molyneux, John Barbour and Adrian Piper.

All members of the Nomination Committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the is to recommend the appointment of directors to the Board and Board committees and to ensure that the Company has an appropriate succession plan for executive and senior management positions.

The committee meets as required.

Board and Committee Membership and Attendance

Name	Board		Audit Committee		Risk and Conduct Committee		Remuneration Committee		Nomination Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Adrian Piper	8	8	4	4	4	4	3	3	4	4
John Barbour	8	7	4	4	4	3	3	2	4	3
Jonathan Hodge	8	7	4	4	4	3	3	3	4	4
Helen Molyneux	8	8	4	4	4	4	3	3	4	4
Alun Bowen	8	8	4	4	4	4	3	3	4	4
David Austin	8	8	4	4	4	4	-	-	-	-
David Landen	8	8	4	4	4	4	-	-	-	-

(a) Number of meetings held

(b) Number of meetings attended

Strategic Report (continued)

Risk management

In the normal course of its business, the Bank is exposed to credit risk, liquidity risk, house price risk, interest rate risk, conduct risk and operational risk.

Credit risk is the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Bank. The Bank manages its credit risk through the Retail Credit Committee, Commercial Credit Committee and the Assets and Liabilities Committee. Regular credit exposure reports are produced which include information on credit and property underwriting, large exposures, asset concentrations, industry exposure and levels of bad debt provisioning.

Liquidity risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet commitments as they fall due. The Bank manages its liquidity risk through its Assets and Liabilities Committee, and monitors its liquidity position on a daily basis and has adopted a policy to ensure that it has adequate resources to enable it to conduct its normal business activities without interruption. The maturity analysis of assets and liabilities is disclosed in the notes to the financial statements.

The customer deposit base represents a stable source of funding due to the number and range of depositors. Liquidity is further managed through dealings in the money markets.

House price risk is the risk that arises when there is an adverse mismatch between actual house prices and those implicit in the costing of the Bank's lending into retirement products, such that the ultimate realisation of the property would not yield the expected return to the Bank and could, in certain circumstances, result in a capital loss. The Company mitigates house price risk by setting and monitoring maximum Loan to Value at inception of the loan.

Interest rate risk is the risk that arises when there is an imbalance between the maturity dates of rate sensitive assets, liabilities and off-Balance Sheet items. The Bank manages its interest rate risk through its Assets and Liabilities Committee. The Bank's policy is to maintain interest rate risk at a controlled level within limits set by the Board.

The table in note 33 shows an estimate of the interest rate sensitivity gap as at 31 October 2018. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

The Bank enters into derivative transactions, normally interest rate swaps. The purpose of such transactions is to manage the interest rate and other risks arising from the Bank's operations and other resultant positions. The Bank's interest rate risk management policy defines the type of derivative transactions that can be undertaken. Further information is given in note 33 to the accounts.

Conduct risk is the risk that the Bank's behaviour results in poor outcomes for customers. The Bank is exposed to this risk by virtue of the markets in which it chooses to operate. The Executive Risk Committee has overall responsibility for implementing and monitoring principles, frameworks, policies and limits. The committee is responsible for managing risk decisions and monitoring risk levels which it reports to the Board of Directors.

Operational risk is the risk of economic loss from control failures or external events, which result in unexpected or indirect loss to the Bank. The evaluation of the various risks and the setting of policy is carried out through the Bank's Executive Risk Committee which reports to the Risk and Conduct Committee, which ensures adherence to the Bank's risk management policy and framework. The Assets and Liabilities Committee covers liquidity risk and credit risk for treasury counterparties. Strategic risk is monitored through the Board.

The Bank is also exposed to pension risk through its defined benefit scheme.

Strategic Report (continued)

Going concern

The Bank's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposures to credit and liquidity risk are described above.

The Bank's forecasts and projections include scenario testing undertaken in accordance with the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP), which are required by the Prudential Regulation Authority to demonstrate appropriate levels of capital and liquidity respectively under stressed conditions. The directors consider that the overall level of capital, including Tier 1 capital, of £168.0m (22.3% as a percentage of risk weighted assets) and liquidity, including liquid assets (Gilts, central bank reserves and wholesale cash deposits), of £248.0m (24.9% of total deposits) are adequate. Accordingly, the directors confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in the preparation of the financial statements.

David Landen

Director

19 December 2018

Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 October 2018. Certain disclosures are given in the Strategic Report and the financial statements are incorporated here by cross-reference. Specifically, these incorporate the following disclosures:

Business review and future developments - page 8
Results and dividends - page 8
Going concern - page 14
Risk management policies - page 13
Financial instruments – note 33

Directors and their interests

The directors who held office during the year are listed below:

Adrian Piper *	Chairman	* Non-executive
David Austin	Chief Executive	
Alun Bowen *		
Jonathan Hodge *	Deputy Chairman	
Helen Molyneux*		
John Barbour*		
David Landen	Chief Financial Officer	

All non-executive directors excluding Jonathan Hodge are deemed to be independent by the board. Jonathan Hodge is the holder of 45,724 ordinary shares in the Bank's UK parent entity, The Carlyle Trust Limited. None of the other directors held any interests in the shares of any Group companies.

During the year, there were no contracts entered into by the Bank in which the directors had material interest.

Political contributions

The Bank made no political contributions during the year.

Post Balance Sheet events

There are no post Balance Sheet events to disclose.

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Qualifying third-party indemnity provisions

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies' Act 2006. Such qualifying party indemnity provisions remain in force as at the date of approving the Directors' Report.

Auditor

A resolution for the re-appointment of Ernst & Young LLP as auditor of the Bank and authorising the Audit Committee to determine its remuneration is to be proposed at the forthcoming Annual General Meeting of The Carlyle Trust Limited.

By order of the Board

David Landen

Director

19 December 2018

Directors' Responsibilities Statement

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Member of Julian Hodge Bank Limited

Opinion

We have audited the financial statements of Julian Hodge Bank Limited for the year ended 31 October 2018 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 38 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 October 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> The risk that inappropriate actuarial assumptions are used in the valuation of equity release mortgage assets The risk that inappropriate property valuations are applied in the calculation of the commercial loan loss provision The risk of incorrect valuation of derivatives
Materiality	<ul style="list-style-type: none"> Overall materiality of £2.6m which represents 1.5% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>The risk that inappropriate actuarial assumptions are used in the valuation of equity release mortgage assets (Loans and advances to customers (lifetime mortgages): £269.9m, 2017: £294.7m, Investment properties – reversionary interest in properties: £100.3m, 2017: £105.8m).</p> <p>The valuation of the equity release mortgage assets (lifetime mortgages and reversionary interest in properties) is highly judgemental as it relies upon a number of assumptions with high estimation uncertainty, including those in respect of the No Negative Equity Guarantee (NNEG), voluntary early redemption, discount rate, policyholder mortality/longevity and expenses.</p> <p>Inappropriate assumptions may lead to a material misstatement in the financial statements.</p>	<p>We performed a walkthrough to understand the assumption setting process and tested controls within the process.</p> <p>Utilising our actuarial specialists, we assessed and challenged the assumptions used within the Equity Release Mortgage (ERM) asset valuations to ensure that they are in line with peer companies, internal experience analysis and the requirements of financial reporting and regulatory standards. The key assumptions we focussed our audit work on were as follows:</p> <p><u>No Negative Equity Guarantee</u> We have considered each of the assumptions used within the NNEG calculation, considering a combination of historic and projected future house price growth, the potential variability in it and the specific experience of the portfolio.</p> <p><u>ERM voluntary early redemption</u> We considered the voluntary early redemption assumptions on the business compared with experience in the portfolio and the assumptions</p>	<p>Overall, we consider the assumptions that are used within the ERM asset valuations to be reasonable with the individual assumptions closer to the middle of our acceptable range than the prior year.</p>

<p>The lifetime mortgages are disclosed as loans and advances to customers in note 16 of the financial statements, which also includes sensitivity analysis of changes to key assumptions.</p> <p>The reversionary interest in properties are disclosed as investment properties in note 21 of the financial statements, with the principal assumptions and sensitivities analysis of changes to key assumptions disclosed in note 21.</p>	<p>of other peer companies in the sector.</p> <p>Particular attention was paid to the implications for actual experience of the revised ERM operating environment that has emerged over the last 2-3 years.</p> <p><u>Discount rate</u> We assessed the discount rate assumption used in the valuation of ERM assets and long term business provision. This includes benchmarking the discount rates against the discount rates used by other companies in the sector as well as relative liquidity levels and customer rates available in the market.</p> <p><u>Policyholder mortality/longevity</u> We assessed the mortality assumptions by considering recent actual experience and comparing the assumption adopted by management for future improvements with those used by other companies in the sector, allowing for particular factors around the profile of the Company's business compared to the industry experience</p> <p><u>Expenses</u> Our assessment considered both recent and future expected expense experience and how this has been appropriately reflected within the unit costs and inflation assumptions used within the valuation.</p>	
<p>The risk that inappropriate property valuations are applied in the calculation of the commercial loan loss provision: £3.7m (2017: £6.4m)</p>	<p>We performed a walkthrough to understand the provisioning process and tested the controls over the valuation of collateral. We also assessed the provisioning</p>	<p>The controls within the process were tested and were operating effectively.</p> <p>For the sample selected for testing, each item was evaluated</p>

<p>The assessment of the loan loss provision is inherently judgemental, with the valuation of the collateral a key input to the calculation of the provision.</p> <p>The loan collateral is disclosed in note 34 of the financial statements.</p>	<p>methodology to ensure compliance with financial reporting standards.</p> <p>For a sample of individually impaired loans we utilised our property valuation team specialists to evaluate whether a sample of the property valuations were materially correct at the reporting date. This involved understanding the latest developments on the property and performing an independent valuation of the collateral.</p> <p>The sample covered £30.2m (2017: £32.6m) of the collateral value for the loans with indicators of impairment.</p>	<p>and determined to be within an acceptable range.</p>
<p>The risk of incorrect valuation of derivatives: £107.8m (2017: £131.1m)</p> <p>The Company has significant derivative financial instruments, which it uses to manage interest rate risk. The valuation of these derivatives is determined through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates.</p> <p>Due to the significance of the financial instruments and the related estimation uncertainty this is considered a key audit risk.</p> <p>The financial statement value is the counterparty valuation, which is independently assessed for reasonableness by management.</p> <p>The fair value of these derivative financial instruments is disclosed in note 26 of the financial statements.</p>	<p>Utilising our derivative valuation specialists we reperformed the valuation of a sample of derivative financial instruments. We compared our independent valuation to management's valuation and considered whether management's value was within an acceptable threshold.</p> <p>The sample selected covered £85.6m (2017: £125.3m) of the total population.</p>	<p>The valuation of the sample selected was determined to be within an acceptable range.</p>

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality: *The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £2.6m (2017: £2.3m), which is 1.5% (2017: 1.4%) of equity. We believe equity to be the most appropriate basis as the key stakeholders (including the principal shareholder and the PRA) are focused on the financial strength and solvency position of the business, which is represented in the financial statements by equity.

During the course of our audit, we reassessed and confirmed that the final materiality was in line with initial materiality.

Performance materiality: *The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2017: 50%) of our planning materiality, namely £2.0m (2017: £1.1m). We have set performance materiality at this percentage because our prior year audit experience indicates a lower risk of misstatements, both corrected and uncorrected.

Reporting threshold: *An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2017: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements to be audited 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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant were the regulations, license conditions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also performed a review of regulatory correspondence and reviewed minutes of the Board and Executive Risk Committees held; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework ('RMF') and internal control processes.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the entity level controls that by the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of those charged with governance, senior management and internal audit for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with the FCA and PRA.
- The Company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 22 April 2016 to audit the financial statements for the year ending 31 October 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 October 2016 to 31 October 2018.
- Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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.

Andy Blackmore (Senior statutory auditor)

*for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol*

20 December 2018

Notes:

1. The maintenance and integrity of the Julian Hodge Bank Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 October 2018

	Notes	2018	2017
		£m	£m
Interest receivable and similar income	5	46.0	40.0
Interest payable and similar charges	6	(27.7)	(27.8)
Net interest income		18.3	12.2
Fees and commissions receivable		2.5	1.8
Fees and commissions payable		(1.1)	(1.2)
Net fee and commission income		1.4	0.6
Other operating income	7	0.1	1.0
Investment income		6.4	4.8
Other fair value (losses)/gains	8	(8.0)	0.3
Net operating income		18.2	18.9
Administrative expenses	10	(12.0)	(9.5)
Depreciation and amortisation		(0.9)	(0.5)
Impairment provision credit for losses on loans and advances to customers	17	1.0	1.6
Profit before taxation	9	6.3	10.5
Tax on profit	11	(0.8)	(0.3)
Profit for the financial year		5.5	10.2

Statement of Other Comprehensive Income

For the year ended 31 October 2018

	Notes	2018	2017
		£m	£m
Profit for the financial year		5.5	10.2
Items that will not be reclassified subsequently to profit and loss:			
Re-measurement of defined benefit pension plan	30	0.6	0.4
Deferred tax thereon	22	(0.1)	(0.1)
Movement of pension scheme reimbursement asset	23	(0.1)	(0.9)
Deferred tax thereon	22	-	0.1
Items that may be transferred to the Income Statement			
Available-for-sale investments:			
Fair value movements taken to reserves		(1.8)	(0.1)
Deferred tax thereon	22	0.3	(0.8)
Total other comprehensive income		(1.1)	(1.4)
Total comprehensive income for the year		4.4	8.8

The results for the year ended 31 October 2018 relate entirely to continuing operations. The notes on pages 28 to 83 form part of these financial statements.

Balance Sheet

As at 31 October 2018

	Notes	2018	2017
		£m	£m
Assets			
Cash and balances held at central banks	12	153.2	87.0
Treasury bills	13	81.2	87.3
Debt securities	14	87.5	77.0
Loans and advances to credit institutions	15	96.2	107.6
Loans and advances to customers	16	827.9	757.9
Shares in group undertakings	18	-	16.0
Intangible assets	19	3.1	1.7
Property, plant & equipment	20	2.2	2.0
Investment properties	21	100.3	118.6
Deferred tax assets	22	6.5	7.3
Other assets	23	5.3	5.0
Total assets		1,363.4	1,267.4

	Notes	2018	2017
		£m	£m
Liabilities			
Deposit from banks	24	72.5	2.8
Deposits from customers	25	994.6	947.7
Derivative financial instruments	26	107.8	131.1
Other liabilities	27	1.2	2.1
Accruals and deferred income	28	2.7	3.1
Other provisions	29	0.1	0.3
Pension liabilities	30	12.8	13.0
Total liabilities		1,191.7	1,100.1
Share capital and reserves			
Called-up share capital	31	105.0	105.0
Other Reserves		66.7	62.3
Total equity		171.7	167.3
Total equity and liabilities		1,363.4	1,267.4

These financial statements were approved by the Board of directors on 19 December 2018 and were signed on its behalf by:

David Austin
Director

David Landen
Director

Statement of Changes in Equity

For the year ended 31 October 2018

	Called up Share Capital	Profit and loss account	Available-for-sale reserve	Pension reserve	Total
	£m	£m	£m	£m	£m
2018					
At beginning of year	105.0	66.8	4.2	(8.7)	167.3
Profit for the financial year	-	5.9	-	(0.4)	5.5
Other comprehensive income	-	-	(1.5)	0.4	(1.1)
At end of year	105.0	72.7	2.7	(8.7)	171.7

	Called up Share Capital	Profit and loss account	Available-for-sale reserve	Pension reserve	Total
	£m	£m	£m	£m	£m
2017					
At beginning of year	100.0	56.2	5.1	(7.8)	153.5
Profit for the financial year	-	10.6	-	(0.4)	10.2
Other comprehensive income	-	-	(0.9)	(0.5)	(1.4)
Issue of share capital	5.0	-	-	-	5.0
At end of year	105.0	66.8	4.2	(8.7)	167.3

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies**Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The Company is a privately owned company incorporated and registered in England and Wales.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006, applicable to companies reporting under IFRS (Schedule 2 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The immediate parent undertaking of the Company is Hodge Limited. The parent undertaking of the smallest group of undertakings for which group accounts are drawn up and of which the Company is a member is Hodge Limited. The ultimate parent undertaking and controller is The Carlyle Trust (Jersey) Limited (incorporated in Jersey). Within the meaning of the Companies Act 2006, The Carlyle Trust Limited is the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member. The accounts of Hodge Limited and The Carlyle Trust Limited can be obtained from: The Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Reconciliation between carrying amounts of investment properties at the beginning and at the end of the period;
- Disclosures in respect of transactions with members of a group;
- Disclosures in respect of the compensation of Key Management Personnel and related parties.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The classification of transactions and balances included within the financial statements has been reviewed in the current period to enhance the understandability of the financial statements to its users. Where transactions and balances have been presented differently in the current period, the prior period comparative has been updated to ensure consistency with the current period classification.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**New Standards and interpretations not yet adopted**

A number of IASB pronouncements have been issued but are not yet effective for this financial year. The standards considered most relevant to the group are as follows;

IFRS 9 Financial Instruments

In July 2014, the IASB issued the complete version of IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement. The new classification and measurement and impairment requirements will be applied by adjusting our Balance Sheet on 1 November 2018, the date of initial application.

Based on current estimates, the adoption of IFRS 9 in relation to expected credit loss is expected to result in a decrease in the Bank's total assets of approximately £2.5 million, with a related increase in deferred tax asset of £0.4 million. The overall impact on retained earnings is therefore expected to be a reduction of approximately £2.1 million.

The impact is primarily attributable to increases in the allowance for credit losses under the new impairment requirements as outlined in the relevant section below. The adoption of IFRS 9 is also expected to impact the Bank's regulatory capital. The fully loaded day 1 reduction in the consolidated retained earnings for the regulatory group would reduce the CET1 capital ratio by 0.2% to 22.1%. However, the Bank will follow the transitional regulatory capital arrangements adopted by the EU which enable the expected increase in impairment provisions to be spread over a five-year period commencing 1 November 2018 for capital purposes. Adopting the transitional capital treatment, the Bank's CET1 capital ratio is expected to reduce by approximately 0.01% as at 1 November 2018.

Implementation approach

To manage our transition to IFRS 9, the Bank's implementation project was initiated in early 2017. Dependent on the product type, the expected credit loss (ECL) models were either built in-house by the Bank's Actuarial function with support from external advisors, or built by outsourced service providers with oversight from the Bank. All models were subject to user acceptance testing before the models went live on 1 November 2018. The Bank continues to refine and validate the impairment models and related process.

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Financial assets are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. Classification is determined by the nature of the cash flows of the assets and the business model in which they are held. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9. The application of the IFRS 9 classification criteria will impact the available-for-sale assets which will be classified as FVOCI or FVTPL. IFRS 9 is not expected to result in significant recognition differences when compared to our classification under IAS 39.

Impairment

IFRS 9 introduces an ECL impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in earlier recognition of credit losses.

Additional details on the key elements of the new expected credit loss model are described below. The most significant impact will be on the Bank's commercial loans.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**IFRS 9 Financial Instruments (continued)***ECL impairment model*

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-stage expected credit loss impairment model. As soon as a financial instrument is originated or purchased, 12-month expected credit losses must be recognised in profit and loss and an impairment allowance will be established (Stage 1). If the credit risk increases significantly (and the resulting credit quality is not considered to be low credit risk) full lifetime expected credit losses will be provided for (Stage 2). Under both Stage 1 and Stage 2, interest income is recognised on the gross carrying value of the financial asset. Financial assets will move into Stage 3 when they are considered to be credit impaired, i.e. when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance) – as under IAS 39.

The expected day 1 increase in provisions, as quantified above, is driven by:

- For Stage 1 assets, the 12-month ECL provisions under IFRS 9 are generally higher than collective allowances under IAS 39 where the emergence period is less than 12 months.
- Recognition of lifetime ECL on assets which have experienced a significant increase in credit risk since origination (but are not yet credit impaired). This represents the ECL that will result from all possible default events over the expected life of an instrument.
- IFRS 9 provisions include ECL in respect of undrawn (i.e. off-Balance Sheet) loan commitments and guarantees.

Post-day 1 movements in the ECL provisions reported through the Income Statement are likely to be more volatile than under IAS 39 due to the forward looking nature of the new approach and the need to take account of future macroeconomic conditions in the ECL modelling, which will be sensitive to management judgement and estimates.

Inputs into measurement of ECL

For the purposes of impairment provisioning, ECL is a function of the Probability of Default (PD), the Exposure at Default (EAD) and Loss Given Default (LGD) discounted to the reporting date, using the effective interest rate, or an approximation thereof. An expected credit loss estimate will be produced for individual exposures, including undrawn commitments on pipeline lending. The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas which are discussed below:

Significant increase in credit risk

We have established thresholds for significant increases in credit risk based on a change in internal risk setting relative to initial recognition. The exact thresholds applied will differ by product and/or business. Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk. Additionally, we do not intend to rebut the presumption within IFRS 9 that instruments which are 30 days past due have experienced a significant increase in credit risk.

Definition of default

The definition of default under IFRS 9 will be broader than the individual assessment of financial assets for objective evidence of impairment under IAS 39. The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due which we do not intend to rebut.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**IFRS 9 Financial Instruments (continued)**

The Bank will consider a financial instrument in default if either one, or both, of the following conditions is met:

1. If the exposure is 90 days or more past due date, or
2. If the borrower exhibits unlikelihood to pay characteristics

Forward-looking information, macroeconomic factors and multiple scenarios

IFRS 9 requires that the measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgement.

Credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. The variables used will include but not be limited to GDP, unemployment rates and change in S&P 500.

The Bank will use three probability weighted scenarios (base case, upside and downside) to determine ECL.

Governance

As part of the implementation of IFRS 9, we have designed new controls and governance procedures in several areas that contribute to the calculation of expected credit losses. These include controls over credit risk data and systems, expected credit loss models and calculation engine, forecasts of future macroeconomic variables, design and probability-weighting of future macroeconomic scenarios, and the determination of significant increases in credit risk.

Hedge accounting

When initially applying IFRS 9, the Bank expects to exercise the accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for its macro hedging relationships.

Reclassification

A proportion of loans and advances to customers will be reclassified as fair value through profit and loss. The impact of moving from amortised cost to fair value through profit and loss has been assessed as not material. In addition, treasury bills and debt securities will be reclassified from available for sale to fair value through the Other Comprehensive Income or fair value through profit and loss.

IFRS 15 Revenue from Contracts with Customers

Effective from 1 January 2018, IFRS 15 replaces IAS 18 Revenue and several related interpretations. IFRS 15 introduces a single framework for revenue recognition based on a five-step model to determine when to recognise revenue and at what amount. The five steps of the model are: identify the contract; identify performance obligations; determine the transaction price; allocate the transaction price and recognise revenue. Depending on whether certain criteria are met, revenue is recognised either over time, in a manner that depicts the entity's performance, or at a point in time, when control of the goods or services is transferred to the customer. The new standard is not expected to have a significant impact on the financial statements of the Bank. The Bank will apply the new standard from 1 November 2018.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**IFRS 16 Leases**

Effective from 1 January 2019, IFRS 16 replaces IAS17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease and two related SIC interpretations. The new standard requires lessees to recognise right-of-use assets and lease liabilities for most leases over 12 months long. Lessor accounting has largely remained unchanged. The new standard is not expected to have a significant impact on the financial statements of the Bank. The Bank will apply the new standard from 1 November 2019.

Summary of Significant Accounting Policies**Measurement convention**

The Company prepares its accounts under the historical cost convention, except for certain financial assets and liabilities held at fair value.

Consolidation

The Company was the parent of Hodge Life Assurance Company Limited for part of the year. The Company disposed of this subsidiary on 31 July 2018 to its immediate parent, Hodge Limited.

The Company is a wholly owned subsidiary of its immediate parent Hodge Limited, the intermediate parent The Carlyle Trust Limited and ultimate parent, The Carlyle Trust (Jersey) Limited. Julian Hodge Bank Limited is included in the consolidated financial statements of both Hodge Limited and The Carlyle Trust Limited which are publicly available.

Therefore, the Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to produce consolidated financial statements.

Interest receivable and interest payable

Interest receivable and payable for loans and advances to customers, lifetime mortgages and customer accounts are recognised in the Income Statement using the effective interest rate method (EIR).

The effective interest rate method calculates the amortised cost of a financial asset or a financial liability, and allocates the interest income or interest expense over the expected product life. The EIR is the rate that exactly discounts the estimated associated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

In calculating the EIR, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the EIR and other premiums above or below market rates.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Investment income

Investment income consists of realised gains and losses on reversionary interests held at fair value through profit and loss. The reversionary interests accounting policy is disclosed on page 38.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**Fees and commissions**

Fee and commission income arises through a range of services the Company provides to its customers.

Fee and commission income relates primarily to fees for arranging mortgages to customers. Fee and commission expenses primarily relate to broker fees.

Fees and commissions receivable and payable that are not spread across expected asset lives under the EIR method are taken to income on an accruals basis as services are provided, or on completion of an act to which the fee relates.

Loan commitment fees received are deferred and included in the EIR calculation upon completion of the loan.

Financial assets

The Company classifies its financial assets at inception into the following categories:

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's commercial and residential loans and advances to customers and loans and advances to credit institutions are classified as loans and receivables and on initial recognition are measured at amortised cost using the effective interest rate method, net of impairment provisions, with subsequent measurement movements being recognised in the Income Statement. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

ii) Fair value through profit or loss (FVTPL)

This category consists of derivative financial assets, Treasury bills and lifetime mortgages which are held at fair value. These financial assets are initially designated as FVTPL upon initial recognition and initially measured at fair value with transaction costs taken directly to the Income Statement. Subsequent measurement is at fair value with changes in value reflected in the Income Statement.

For those derivatives in fair value hedge accounting relationships, gains and losses arising from changes in the fair values are recognised in the Income Statement. The impact of hedging on the measurement of financial assets and liabilities is detailed in note 33.

The measurement of lifetime mortgage products is designated at fair value through profit and loss due to the existence of an embedded derivative in the form of a no negative equity guarantee which forms part of the terms and conditions applicable to these products.

Embedded derivatives

Certain derivatives are embedded within other non-derivative host instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument, the Company separates the embedded derivative from the host instrument and measures it at fair value with the changes in fair value recognised in the Income Statement.

The "no-negative equity guarantee" is an embedded derivative and further details are disclosed in note 33. The Company does not separate the "no negative equity guarantee" embedded derivative from the host instrument.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**iii) Available-for-sale**

Available-for-sale financial assets are non-derivative financial assets, principally but not exclusively Debt securities and Treasury bills intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity. They are initially measured at fair value and subsequently at fair value with changes in fair value being recognised in Equity in the "Available for Sale" reserve, except for impairment losses which are recognised in the Income Statement. The fair value of available-for-sale assets is derived from market data. Where this market data is not available, an independent third party provides a valuation. If the asset is sold before maturity, cumulative gains and losses are recognised in Equity ("available for sale" reserve) and are recycled to the Income Statement and included in Other fair value gains/(losses).

iv) Held-to-maturity

The Company does not hold any financial assets classified as held to maturity.

Impairment of financial assets

The Company assesses its loans and advances to customers for objective evidence of impairment at each Balance Sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that have occurred after initial recognition and before the Balance Sheet date and which has a reliably measurable impact on the estimated future cash flows.

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event or events) which has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the Balance Sheet and the amount of the loss is recognised in the Income Statement.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

In the case of commercial loans that are considered individually significant, cash flows are estimated on a case-by-case basis considering the following factors:

- i) Total aggregate exposure to the customer;
- ii) The amount and timing of expected receipts and recoveries;
- iii) The likely funds available on liquidation or bankruptcy including any guarantees;
- iv) The realisable value of security at the expected date of sale and likelihood of successful repossession; and
- v) The deduction of any likely costs involved in recovery of amounts outstanding.

In the case of commercial loans that are not considered individually significant, cash flows are estimated based on past experience taking into account the total exposure to the customer, the likelihood that the loan will progress through the various stages of delinquency, including being written off and the amount and timing of expected receipts and recoveries.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**Impairment of financial assets (continued)**

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any difference between loss estimates and actual loss experience. If, in a subsequent period, the amount for the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the provision is adjusted and the amount of the reversal is recognised in the Income Statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement. Loans subject to individual impairment assessment are subject to ongoing review to determine whether they remain impaired or are considered to be past due. Management applies overlays to assumptions where there is a lack of past experience.

Debt securities and Treasury bills are subsequently measured at fair value which is based on quoted market prices and as such any impairment will be reflected in the market price.

Cash and balances Held at Central Banks

Cash and balances held at Central Banks includes cash in hand, deposits held at call with central banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Financial Liabilities

Financial liabilities incorporates bank and other deposits, amounts owed to other customers and derivative financial liabilities. The Company classifies its financial liabilities into the following categories:

i) Other financial liabilities

Other financial liabilities includes deposits from banks, deposits from customers, accruals, deferred income and other liabilities which are initially measured at fair value. Subsequent to initial recognition these financial liabilities are measured on an amortised cost basis. This represents the face value adjusted for any unamortised premiums, discounts and transaction costs directly attributable to the acquisition or issue. The amortisation is recognised in interest payable and similar charges using the EIR method.

ii) Fair value through profit or loss

All derivatives are initially measured at fair value and subsequently measured at fair value.

For those derivatives in fair value hedge accounting relationships and for any derivatives not in a hedge accounting relationship, gains and losses arising from changes in the fair values are recognised in the Income Statement. The impact of hedging on the measurement of financial assets and liabilities is detailed in note 33.

Financial liabilities held at fair value through the profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognised in the Income Statement. The net gain or loss recognised in the Income Statement incorporates any interest paid on the financial liability and is included in the 'Other fair value gains' line item in the Income Statement.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**De-recognition of financial assets and financial liabilities****(i) Financial assets**

A financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through arrangement; and either
- The Company has transferred substantially all the risks and rewards of the asset.

Or

- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

Financial liabilities are de-recognised when the obligation is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing facility are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Income Statement.

Derivative financial instruments

The Company holds derivative financial instruments to manage the risks associated with its various fixed rate assets and its fixed rate liabilities. The Company has no foreign currency transactions. In accordance with its treasury policy, the Company holds derivative financial instruments only for risk management and not for speculative or trading purposes.

Derivatives are initially measured at fair value on the date on which the derivative contract is entered into and are subsequently re-measured to fair value at each reporting date with movements recorded in the Income Statement. Fair values are calculated by discounted cash flow models using yield curves that are based on observable market data or are based on valuations from counterparties. Fair values are calculated using mid-prices. All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal ability and intention to settle net, the derivative is classified as a net asset or liability, as appropriate.

Where cash collateral is given, to mitigate the risk inherent in amounts due from the Company, it is included as an asset in 'loans and advances to credit institutions'.

Loans and advances to credit institutions

The International Swaps and Derivatives Association (ISDA) Master Agreement is the Company's preferred agreement for documenting derivative activity. For certain counterparties a Credit Support Annex (CSA) has been executed in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between counterparties to mitigate the market contingent counterparty risk inherent in the outstanding positions.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**Hedge accounting**

All derivatives entered into by the Company are for the purposes of providing an economic hedge. Where the criteria set out in IAS 39 are met, the Company uses hedge accounting and designates the hedging derivative as hedging fair value risks.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods.

Hedge ineffectiveness is recognised in the Income Statement in other fair value gains/(losses). For situations where the hedged item is a forecast transaction, the Company also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Income Statement.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement under other fair value gains/(losses) in the period in which the movement occurs together with the change in fair value of the hedged asset or liability that is attributable to the hedged risk (interest rate risk). This also applies if the hedged item is classified as an available-for-sale financial asset.

Offsetting financial assets and financial liabilities

In accordance with IAS32 Financial Instruments; the Company reports derivative financial instruments on a net basis as there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. A table is provided within note 26 which demonstrates the amounts which have been offset in the Balance Sheet.

Loans and advances to credit institutions and Treasury bills includes collateral pledged against the market value of derivative instruments. The collateral is subject to an enforceable master netting arrangement but does not qualify for netting under the requirements of IAS 32 as the Company has no intention to settle on a net basis.

Shares in subsidiaries

Investments in subsidiary undertakings and participating interests are stated at cost less accumulated impairment losses.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**Intangible assets**

IAS 38 'Intangible Assets' requires the capitalisation of certain expenditure relating to software development costs. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Where software costs are capitalised, they are amortised using the straight-line method over their estimated useful lives which is three to five years. The amortisation periods used are reviewed annually. Costs associated with maintaining software are expensed as they are incurred. Amortisation is charged to administration expenses in the Income Statement.

Intangible assets are assessed for indicators of impairment at each Balance Sheet date.

An intangible asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of the intangible assets is deemed to be its value in use. If there is objective evidence of impairment, an impairment loss is recognised in the Income Statement.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying value of the asset and are included within the Income Statement.

Depreciation is provided on a straight line basis over the anticipated useful lives as follows:

Fixtures, fittings and equipment	-	5 years
Short leasehold improvements	-	Shorter of remaining term of the lease and useful life

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties

Investment properties include reversionary interests in properties which is a legacy product no longer offered to new customers. Reversionary interests in properties are included in the financial statements initially at cost (being the amount of the cash advanced to the customer together with related acquisition costs), and subsequently at fair value, with any change therein recognised in the Income Statement within 'Other fair value gains'.

The current market value of the underlying property is taken as the last formal valuation of the property on a vacant possession basis, modified by the change in the monthly national Nationwide House Price Index, adjusted down by an annual underperformance assumption.

A further deduction is made from the value to reflect the expected sale expenses and a delay factor between death and sale of the property.

Investment properties are de-recognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains/losses on the retirement or disposal of an investment property are recognised in the Income Statement in the year of disposal.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**Taxation including deferred tax**

Corporation tax on profits for the year comprises current and deferred taxation.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on a non-discounted basis at the tax rates that are expected to apply when the related asset is realised or liability settled based on the tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Corporation tax is charged or credited directly to Other Comprehensive Income if it relates to items that are credited or charged to Other Comprehensive Income and to the Statement of Changes in Equity if it relates to items that are credited or charged directly to equity. Otherwise corporation tax is recognised in the Income Statement.

Employee benefits**i) Pensions**

The Company operates a defined benefit pension scheme for members of staff. The Company and a fellow subsidiary of Hodge Limited participates in The Carlyle (1972) Pension and Life Assurance Scheme, a defined benefits scheme operated by The Carlyle Trust Limited. The assets of the scheme are held separately from those of the Company.

The Company's net obligation under the defined benefit pension scheme is assessed annually by an independent qualified actuary. The net obligation is calculated as the difference between the fair value of the scheme's assets and the amount of future entitlements earned by scheme members from service in the current and prior periods, discounted back to present values using a rate based on an index of long-dated AA rated corporate bonds using the projected unit method. This calculation allows the net obligation of the scheme to be expressed as either a surplus or deficit, which is recognised as either an asset or liability respectively in the Company's accounts at the Balance Sheet date.

Pension costs for service in the period are assessed in accordance with advice from a qualified actuary and are recognised in the Income Statement. Gains or losses arising from the re-measurement of the defined benefit plan are recognised in full, in the year they occur, in the Statement of Other Comprehensive Income.

ii) Reimbursement asset on pension deficit

The Bank has recognised a reimbursement asset in respect of its pension scheme deficit which relates to retired employees that were contracted to the Bank's ultimate parent, The Carlyle Trust Limited (see note 30). The movement in the reimbursement asset each year (following its initial recognition in the year ended 31 October 2014) is recognised in the Income Statement to the extent that the reimbursement relates to a charge in the Bank's Income Statement. Any movement in the reimbursement asset which does not relate to the Company's Income Statement is recognised in the Statement of Other Comprehensive Income.

The calculation of the reimbursement asset is based on the split of scheme members by employer.

Notes to the accounts

For the year ended 31 October 2018

1 Accounting policies (continued)**iii) Short-term employment benefits**

The cost of short-term employee benefits, including wages and salaries, social security costs, bonuses payable within twelve months and healthcare, is recognised in the year of service.

iv) Pension reserve

The pension reserve consists of the net position of the defined benefit scheme liability, the reimbursement asset and the net deferred tax position relating to both of these items.

Leases

Where the Company enters into a lease that entails taking substantially all the risks and rewards of ownership of an asset the agreement is treated as a finance lease. The asset is recorded on the Balance Sheet within property, plant and equipment and is depreciated over its estimated useful life. If there is no reasonable certainty that the Company will obtain ownership at the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life. Future instalments under such leases, net of finance charges, are included within other liabilities. Rentals payable are apportioned between the finance element, which is charged to the Income Statement at a constant annual rate, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and payments are charged to administration expenses on a straight line basis over the period of the lease.

Provisions and contingent liabilities

A provision is recognised when there is a present obligation as a result of a past event from which it is probable that the obligation will be settled and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised within the Balance Sheet unless arising from a business combination.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Available for Sale Reserve

The Available for Sale Reserve comprises changes in fair value of available for sale investments in the period.

Funding for Lending Scheme (FLS)

In order for the Company to access funding from the FLS, mortgages have been pledged as collateral. Where the risk and reward of ownership of the collateral remains with the Company, they are retained on Balance Sheet. The interest receivable on these assets continues to be accounted for as earned on an accruals basis. FLS transactions do not involve the transfer of risk on the collateral and hence fail the derecognition criteria under IAS 39. Therefore, for accounting purposes, the underlying collateral is retained on the Balance Sheet and the Treasury bills received are not. The outstanding drawings under the FLS scheme are £17 million (2017: £27 million).

Notes to the accounts

For the year ended 31 October 2018

2 Judgement in applying accounting policies and critical accounting estimates

The Company has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year. The most significant areas where judgement and estimates are made are as follows:

*Judgements***Fair values of Financial Instruments**

The Company uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate swaps that use only observable market data. Further analysis can be found in note 26.

Availability of observable market prices and model inputs reduces the need for management judgement and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Where observable market data is unavailable, unobservable inputs are used in the actuarial valuation models to value lifetime mortgages. The key judgements and assumptions used and the related sensitivities are outlined in note 33.

*Estimates and assumptions***Impairment losses on loans and advances to customers**

In accordance with the accounting policy described in note 1, impairment is measured as the difference between an asset's carrying amount and the present value of management's estimate of discounted future cash flows. Key assumptions include the probability of any account going into default, the probability of defaulting accounts progressing to possession and the eventual loss incurred in the event of forced sale or write-off. These assumptions are made based on observable historical (and other independent third party) data and updated as management considers appropriate to reflect current conditions.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance assumptions are made based on historical experience and current economic condition.

The sensitivity of provisions is affected in part due to the Company's policy of limiting advances to a maximum of 60% of property market value for residential properties. If average residential property prices were to fall by 10%, no further provision would be required.

The loan loss provision against the commercial lending portfolio is sensitive to a number of factors including: commercial real estate values at the expected date of sale, the likely funds available on liquidation or bankruptcy, including any guarantees, and the time taken to dispose of the collateral.

These assumptions are based on observed historical data and updated as management considers appropriate to reflect current and future conditions. The accuracy of the impairment provision would therefore be affected by unexpected changes in the above assumptions.

Notes to the accounts

For the year ended 31 October 2018

2 Judgement in applying accounting policies and critical accounting estimates (continued)*Estimates and assumptions***Value of investment properties**

All gains and losses arising from reversionary interests in property are largely dependent on property prices and longevity of the tenant. The key assumptions used are disclosed in note 21.

Pension scheme assumptions

Estimation uncertainty surrounds the measurement of the pension scheme liabilities. The assumptions used as part of the valuation include the rate of salary increase, the discount rate applied to scheme liabilities and inflation. The key assumptions used are disclosed in note 30.

Guaranteed Minimum Pensions ("GMP") equalisation

Uncertainty exists as to the methods for equalisation between males and females in respect of GMP. No liability has been recognised by the Bank. Further information on this assumption is given in note 30.

Measurement of the no-negative guarantee with respect to lifetime mortgages

Estimation uncertainty surrounds the measurement of liabilities arising from the no-negative guarantee in respect of lifetime mortgages. The key assumptions used as part of the valuation calculation include future property prices and their volatility, mortality and the rate of voluntary redemptions. Further information on these assumptions is given in note 33(d).

Change in accounting estimate for the measurement of lifetime mortgages

There is significant judgement in the methodologies and assumptions applied in estimating the fair value of lifetime mortgages. These methodologies and assumptions contain unobservable inputs resulting in the fair value being classified as a Level 3 estimate within the IFRS 13 fair value hierarchy. Changes have been made to the methodology applied to the discounting and expected lapses used in calculating the no negative equity guarantee and the methodology used in the valuation of subsequent draws. The net impact of these changes amounts to an additional £2.6 million expense in 2018 which has been accounted for prospectively as a change in accounting estimate.

Notes to the accounts

For the year ended 31 October 2018

3 Reconciliation to non-GAAP measures and performance

In measuring the Company's adjusted performance, additional financial measures derived from the reported results have been used in order to eliminate factors which distort year on year comparisons. The Company's adjusted performance is used to explain year on year changes when the effect of certain items is significant, including net losses from revaluation of derivative financial instruments (interest rate swaps) and net gains or losses arising from fair value re-measurement. The Directors consider that this basis more appropriately reflects operating performance and a better understanding of the key performance indicators of the business.

	2018	2017
	£m	£m
Reconciliation of net operating income to adjusted net operating income		
Net operating income	18.2	18.9
Adjusted for:		
Net gains from derivative financial instruments;	(14.7)	(18.4)
Net losses arising from fair value re-measurements	22.8	16.8
Movement in fair value of hedged items attributable to hedged risk	(0.1)	1.3
Adjusted net operating income	26.2	18.6

	2018	2017
	£m	£m
Reconciliation of profit before tax to adjusted profit before tax		
Profit before tax	6.3	10.5
Adjusted for:		
Net gains from derivative financial instruments;	(14.7)	(18.4)
Net losses arising from fair value re-measurements	22.8	16.8
Movement in fair value of hedged items attributable to hedged risk	(0.1)	1.3
Adjusted profit before tax	14.3	10.2

The principal reconciling items are as follows:

Net gains from derivative financial instruments

Under FRS 101, the market value of the interest rate swaps is required to be reflected on the Balance Sheet. The gain of £14.7 million for the year to 31 October 2018 (2017: gain of £18.4 million) as disclosed in note 26 represents the movement in market value of the derivative financial instruments for the year ending 31 October.

Net losses arising from fair value re-measurements

The fair value re-measurements relate to those assets and liabilities fair valued as disclosed in note 33. They reflect market value at 31 October discounted at an appropriate discount rate to reflect the time value of money.

Notes to the accounts

For the year ended 31 October 2018

3 Reconciliation to non-GAAP measures and performance (continued)
Movement in fair value of hedged items attributable to hedged risk

The fair value movements relate to the fair value movements of items attributable to hedged risk as disclosed in note 8.

4 Segmental information

The Board of Directors is the Company's chief operating decision-maker. The Board of Directors receive information for the entire bank. As such no segmental analysis is required.

5 Interest receivable and similar income

	2018	2017
	£m	£m
Loans and advances to customers	40.7	35.3
Loans and advances to credit institutions	1.7	0.8
On other loans	-	0.2
Interest and other income on treasury bills & debt securities	3.6	3.7
	46.0	40.0

6 Interest payable and similar charges

	2018	2017
	£m	£m
On customer accounts	13.8	14.2
On defined benefit pension scheme	0.4	0.4
On term funding scheme	0.3	-
On derivative financial instruments	13.2	13.2
	27.7	27.8

7 Other operating income

	2018	2017
	£m	£m
Rental income from investment properties (Note 21)	0.1	0.4
Other	-	0.6
	0.1	1.0

Notes to the accounts

For the year ended 31 October 2018

8 Other fair value (losses)/gains

	2018	2017
	£m	£m
Gains on derivatives designated as fair value	14.7	18.4
Losses on assets designated as fair value	(22.8)	(16.8)
Movement in fair value of hedged items attributable to hedged risk	0.1	(1.3)
	(8.0)	0.3

Fair value (losses)/gains on Available-for-sale investments of £(1.8)m (2017: £(0.1)m) have been taken to the Statement of Other Comprehensive Income.

9 Profit on ordinary activities before taxation

	2018	2017
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Remuneration of the auditor and its associates		
Audit of these financial statements	73	48
Audit of pension scheme	10	10
Other assurance fees	63	-
Non audit fees	5	-
Depreciation	377	274
Amortisation	453	243
Impairment provision credit	(1,007)	(1,554)

10 Administrative expenses

	2018	2017
	£m	£m
Staff costs		
Wages and salaries	6.0	4.9
Social security	0.7	0.5
Pension costs (note 30)	1.3	0.8
	8.0	6.2
Other administrative expenses	4.0	3.3
	12.0	9.5

Notes to the accounts

For the year ended 31 October 2018

10 Administrative expenses (continued)

Directors and employees

The average number of employees of the Company during the year was as follows:

	2018	2017
	No	No
Provision of finance and banking	147	105
	147	105

Staff costs include remuneration in respect of directors as follows:

	2018	2017
	£m	£m
Fees	0.2	0.2
Aggregate emoluments as executives	0.3	0.3
	0.5	0.5

The emoluments of the highest paid director, excluding pension contributions, were as follows:

	2018	2017
	£000	£000
Aggregate emoluments	239	206
	239	206

The pension accrued for the highest paid director was £nil (2017: £nil).

Retirement benefits are accruing to 1 (2017: 1) director in the defined benefit scheme.

Notes to the accounts

For the year ended 31 October 2018

11 Tax on profit

	2018		2017	
	£m	£m	£m	£m
Analysis of charge in year				
<i>UK corporation tax</i>				
Current tax on income for the year	0.2		-	
Prior period adjustment	(0.4)		0.1	
Total current tax		(0.2)		0.1
<i>Deferred tax (see note 22)</i>				
Origination/reversal of timing differences:				
Current period	0.8		1.0	
Prior period adjustment	0.2		(0.8)	
Total deferred tax		1.0		0.2
Tax on profit on ordinary activities		0.8		0.3

The total tax charge for the year is lower than (2017: lower than) the blended rate of corporation tax in the UK. The differences are explained below.

	2018		2017	
	£m	£m	£m	£m
<i>Total tax reconciliation</i>				
Profit on ordinary activities before tax	6.3		10.5	
Current tax at 19.00% (2017: 19.40%)		1.2		2.0
Investment properties	(0.1)		(0.8)	
Index Linked Gilt RPI movement	(0.3)		(0.3)	
Rate differences	-		(0.1)	
Other	0.2		0.2	
Adjustments in respect of previous years	(0.2)		(0.7)	
Total tax charge (see above)		0.8		0.3

Reductions in the UK corporation tax rate to 17% (effective 1 April 2020) were substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

The deferred tax asset at 31 October 2018 has been calculated based on these rates.

Notes to the accounts

For the year ended 31 October 2018

12 Cash and balances held at central banks

	2018	2017
	£m	£m
Repayable on demand:		
Deposits with other central banks	153.2	87.0
	153.2	87.0

13 Treasury bills

	2018	2017
	£m	£m
Treasury bills – at amortised cost	11.2	8.4
Treasury bills – available-for-sale	13.2	20.6
Treasury bills – fair value through profit and loss	54.2	55.1
Fair value adjustment – hedge accounting	2.4	2.8
Fair value adjustment – available-for-sale	0.2	0.4
	81.2	87.3

The movement in treasury bills is summarised as follows:

	2018	2017
	£m	£m
At 1 November	87.3	84.7
Additions	6.1	6.0
Redemptions	(10.7)	(2.0)
(Losses) from hedge accounting – Income Statement	(0.4)	(1.0)
(Losses) from changes in fair value – Income Statement	(0.9)	(0.7)
(Losses)/gains from changes in fair value - OCI	(0.2)	0.3
At 31 October	81.2	87.3

Of this amount £29.5m (2017: £30.0m) has been provided as collateral for derivative financial instruments (see note 26). Collateral that has been pledged is not restricted.

Of this amount £26.7m (2017: £nil) has been pledged as collateral under the Term Funding Scheme (“TFS”). Collateral that has been pledged is restricted.

Notes to the accounts

For the year ended 31 October 2018

14 Debt securities

	2018	2017
	£m	£m
Debt securities – at amortised cost	6.9	3.5
Debt securities - available-for-sale	76.9	68.0
Fair value adjustment – hedge accounting	0.7	0.9
Fair value adjustment – available-for-sale	3.0	4.6
	87.5	77.0

The movement in debt securities is summarised as follows:

	2018	2017
	£m	£m
At 1 November	77.0	89.1
Additions	30.7	10.7
Redemptions	(18.4)	(21.9)
(Losses) from hedge accounting - Income Statement	(0.2)	(0.5)
(Losses) from changes in fair value – OCI	(1.6)	(0.4)
At 31 October	87.5	77.0

Of this amount £19.4m (2017: £18.2m) has been pledged as collateral under the Funding for Lending Scheme (“FLS”). Collateral is provided by the Bank of England in the form of Treasury Bills against residential borrowing, as part of its participation in the FLS, which the Bank is permitted to re-use. Collateral that has been pledged is not restricted.

15 Loans and advances to credit institutions

	2018	2017
	£m	£m
Repayable on demand	13.6	4.3
Collateral held by swap counterparties	82.6	103.3
	96.2	107.6

The collateral is pledged against the market value of derivative instruments and comprises interest-bearing cash deposits (see note 26). Collateral that has been pledged and held is not restricted and is returned at the end of the contract. There are no provisions held in respect of loans and advances to credit institutions (2017: nil).

Notes to the accounts

For the year ended 31 October 2018

16 Loans and advances to customers

	2018	2017
	£m	£m
Loans and advances – classified as loans and receivables	556.3	461.0
Amounts owed from immediate parent and fellow subsidiaries	1.7	1.8
Fair value adjustment for hedged risk	-	0.4
	558.0	463.2
Loans and advances (lifetime mortgages) – classified as fair value through profit & loss – see note 33	269.9	294.7
	827.9	757.9

Of this amount £74.9m (2017: £76.3m) has been pledged as collateral under the FLS. Collateral is provided by The Bank of England in the form of Treasury Bills against residential borrowing, as part of its participation in the FLS, which the Bank is permitted to re-use. Collateral that has been pledged and held is not restricted and is returned at the end of the contract.

Of this amount £64.7m (2017: £nil) has been pledged as collateral under the Term Funding Scheme (“TFS”). Collateral that has been pledged is restricted.

	2018	2017
	£m	£m
Loans and advances to customers		
Gross balances	562.3	469.9
Less: Provision for impairment	(3.7)	(6.4)
Less: Loan fee deferral	(2.3)	(2.5)
Net balance	556.3	461.0

Notes to the accounts

For the year ended 31 October 2018

17 Impairment provisions on loans and advances to customers

	Specific	Collective	Total
	£m	£m	£m
2018			
At 1 November	6.2	0.2	6.4
Utilised on redemption	(1.7)	-	(1.7)
Income Statement			
Amounts written back during the year	(1.3)	(0.1)	(1.4)
Charge for loan impairment	0.4	-	0.4
	(0.9)	(0.1)	(1.0)
At 31 October 2018	3.6	0.1	3.7

	Specific	Collective	Total
	£m	£m	£m
2017			
At 1 November	9.8	0.2	10.0
Utilised on redemption	(2.0)	-	(2.0)
Income Statement			
Amounts written back during the year	(2.4)	-	(2.4)
Charge for loan impairment	0.8	-	0.8
	(1.6)	-	(1.6)
At 31 October 2017	6.2	0.2	6.4

For further details on loans and advances to customers refer to Note 33(d).

18 Shares in group undertakings

	2018	2017
	£m	£m
At cost	-	16.0
	-	16.0

The Bank sold its only subsidiary, Hodge Life Assurance Company Limited to its parent, Hodge Limited during the year. £nil profit or loss was generated from this sale.

Notes to the accounts

For the year ended 31 October 2018

19 Intangible assets

	Computer software	
	2018	2017
	£m	£m
Cost:		
At 1 November	2.0	1.3
Disposals	(0.1)	-
Additions	2.0	0.7
At 31 October 2018	3.9	2.0
Amortisation:		
At 1 November	(0.3)	(0.1)
Amortisation	(0.5)	(0.2)
At 31 October 2018	(0.8)	(0.3)
Net book value:		
At 31 October 2018	3.1	1.7

£0.1m of expenditure relating to intangible projects was expensed during the year as it did not meet the development criteria of IAS 38 and has therefore been expensed as incurred.

20 Property, plant and equipment

2018:	Short leasehold improvements	Fixtures, fittings and equipment	Total
	£m	£m	£m
Cost:			
At 1 November 2017	1.6	0.7	2.3
Additions	0.5	0.1	0.6
At 31 October 2018	2.1	0.8	2.9
Depreciation:			
At 1 November 2017	(0.1)	(0.2)	(0.3)
Depreciation	(0.3)	(0.1)	(0.4)
At 31 October 2018	(0.4)	(0.3)	(0.7)
Net book value:			
At 31 October 2018	1.7	0.5	2.2
At 31 October 2017	1.5	0.5	2.0

Notes to the accounts

For the year ended 31 October 2018

21 Investment properties

	Freehold	Reversionary Interests	Total
	£m	£m	£m
2018			
At 1 November 2017	12.8	105.8	118.6
Disposals	(12.8)	(8.5)	(21.3)
Fair value adjustments	-	3.0	3.0
At 31 October 2018	-	100.3	100.3

On the 19 January 2018, the group sold a freehold property which had a carrying value of £12.8 million to a third party, £nil profit or loss was generated from this sale.

All of the investment properties have been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 33).

The amounts recognised in the Income Statement in respect of Investment Properties were as follows:

	2018	2017
	£m	£m
Rental income from Investment properties	0.1	0.4
	0.1	0.4

Reversionary interests are categorised as Level 3 in the fair value hierarchy. There were no transfers into or out of Level 3 in the year.

Reversionary interests - principal assumptions

All gains and losses arising from reversionary interests are largely dependent on the longevity of the tenant.

Principal assumptions underlying the calculation of reversionary interests include the following:

Mortality or entry into long term care

This is based on the expected death or entry into long term care of the tenant or the last remaining tenant in relation to a joint contract. Mortality assumptions have been derived by reference to the PCMA00/PCFA00 mortality tables and include an allowance for mortality improvements.

Expenses

Assumptions for future policy expense levels are based on the Company’s recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.23% (2017: 4.16%).

Discount rate

The discount rate applied to the reversion cash flows comprises two parts: a risk-free yield curve and an allowance for illiquidity. The risk-free yield curve is based on the GBP curve published by EIOPA. The average discount rate for the portfolio (assumed to be the 15 year point on the yield curve based on average duration at 31 October 2018) was 2.62% (31 October 2017: 2.46%).

Notes to the accounts

For the year ended 31 October 2018

21 Investment properties (continued)

Property prices

The value of a property is based on the value at the last survey increased to the current valuation date using the Nationwide House Price Index, this is then adjusted down by an annual underperformance assumption. No future property price inflation is assumed beyond the valuation date.

Sensitivity analysis

Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The Company has estimated the net decrease in profit before tax for the period arising from changes to these inputs as follows:

	Reversionary Interests		
	Delay in mortality or entry into long term care - 10%	Expenses +10%	Property prices -10%
	£m	£m	£m
At 31 October 2018	(1.3)	(0.1)	(9.1)
At 31 October 2017	(1.4)	(0.1)	(10.0)

The sensitivity factors are applied via actuarial models. The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts cannot be interpolated or extrapolated from these results.

22 Deferred tax

	2018	2017
	£m	£m
At 1 November	7.3	8.3
Charge to the Income Statement	(1.0)	(0.2)
Credit/(charge) to the Statement of Other Comprehensive Income	0.2	(0.8)
At 31 October	6.5	7.3

Deferred tax assets and liabilities are attributable to the following items:

	2018	2017
	£m	£m
Accelerated capital allowances	0.1	0.3
Other timing differences	5.2	6.0
Timing differences on available-for-sale reserve	(0.5)	(0.8)
Timing differences on reimbursement asset	(0.4)	(0.4)
Defined benefit pension scheme	2.1	2.2
At 31 October	6.5	7.3

Notes to the accounts

For the year ended 31 October 2018

23 Other assets

	2018	2017
	£m	£m
Prepayments and accrued income	1.3	1.2
Pension reimbursement asset	2.4	2.5
Corporation tax debtor	1.3	0.8
Other assets	0.3	0.5
At 31 October	5.3	5.0

24 Deposits from banks

	2018	2017
	£m	£m
Repurchase agreement	2.5	2.8
Term funding scheme	70.0	-
	72.5	2.8

25 Deposits from customers

	2018	2017
	£m	£m
Repayable on demand	10.5	17.8
With agreed maturity dates or periods of notice and repayable:		
- within three months	286.1	337.7
- between three months and one year	364.6	366.3
- between one and five years	330.4	214.8
	991.6	936.6
Amounts owed to parent and fellow subsidiary undertakings	3.2	11.4
Fair value adjustment for hedged risk	(0.2)	(0.3)
	994.6	947.7

Notes to the accounts

For the year ended 31 October 2018

26 Derivative financial instruments

Interest rate swaps are used by the Company for hedging purposes. These are commitments to exchange one set of cash flows for another. No exchange of principal takes place.

	Contract/notional amount		Fair value	
	2018	2017	2018	2017
	£m	£m	£m	£m
Derivative liabilities held for hedging purposes and designated fair value hedges:				
Interest rate swaps	363.1	338.3	105.3	126.5
RPI index linked interest rate swaps	55.0	55.0	(1.1)	(0.1)
Derivatives held in fair value hedges	234.8	176.5	3.6	4.7
Total recognised derivative liabilities	652.9	569.8	107.8	131.1

The following table describes the types of derivatives used, the related risks and the activities against which the derivative financial instruments are used to hedge.

Type of Hedge	Risk	Activity
Interest rate swap	Sensitivity to changes in interest rates	Fixed rate savings products, fixed rate residential mortgages and fixed rate commercial loans.
RPI index linked interest rate swaps	Interest rates linked to retail price index	Investment securities linked to RPI

At 31 October 2018, the fixed interest rates vary from 0.3% to 5.4% (2017: 0.3% to 5.4%) and the main floating rates are LIBOR. Gains and losses recognised on interest rate swap contracts are credited to the Income Statement.

	2018	2017
	£m	£m
Net gains recognised within the Income Statement	14.7	18.4
	14.7	18.4

The Bank agreed to exit a number of interest rate swaps during the year which were held at fair value of £6.8m. £nil profit or loss was incurred on disposal.

Offsetting

In accordance with IAS32 Financial Instruments; the Company reports derivative financial instruments on a net basis as there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. A table is provided below which demonstrates the amounts which have been offset in the Balance Sheet:

Notes to the accounts

For the year ended 31 October 2018

26 Derivative financial instruments (continued)

	Amounts subject to netting arrangements		
	Gross amounts	Amounts offset	Net amounts reported on Balance Sheet
	£m	£m	£m
2018			
Derivative financial assets	1.5	(1.5)	-
Impact on total assets	1.5	(1.5)	-
Derivative financial (liabilities)	(109.3)	1.5	(107.8)
Impact on total (liabilities)	(109.3)	1.5	(107.8)
2017			
Derivative financial assets	0.1	(0.1)	-
Impact on total assets	0.1	(0.1)	-
Derivative financial (liabilities)	(131.2)	0.1	(131.1)
Impact on total (liabilities)	(131.2)	0.1	(131.1)

The collateral pledged against the market value of derivative instruments comprises interest bearing cash deposits, which are included in loans and advances to credit institutions (note 15), and Treasury bills (note 13).

27 Other liabilities

	2018	2017
	£m	£m
Due within one year:		
Other tax and social security	0.2	-
Amounts owed in relation to mortgages administered for third parties	0.6	1.8
Other creditors	0.4	0.3
	1.2	2.1

28 Accruals and deferred income

	2018	2017
	£m	£m
Due within one year:		
Accruals	2.7	3.1
	2.7	3.1

Notes to the accounts

For the year ended 31 October 2018

29 Other provisions

	2018	2017
	£m	£m
At 1 November	0.3	0.4
Utilisation	(0.2)	(0.1)
At 31 October	0.1	0.3

The Company is a member of the Financial Services Compensation Scheme (FSCS), and it has been advised that it will be asked to contribute additional levies for the foreseeable future following the failure of a number of banks. The amount held on the Balance Sheet in relation to the above at 31 October 2018 was £nil (2017: £0.2m).

In addition, a provision of £0.1m (2017: £0.1m) for conduct risk in relation to PPI is included at the Balance Sheet date.

30 Pension scheme

The Carlyle Trust Group operates a defined benefit pension scheme for certain directors and employees, The Carlyle (1972) Pension and Life Assurance Scheme.

The assets of the scheme are administered by Trustees and are held in a fund that is separate and independent of other Bank funds. The scheme was established with effect from 1972, is fully approved under Chapter I Part XIV of the Income and Corporation Taxes Act 1988.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme typically exposes the Company to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities. This would detrimentally impact the Balance Sheet and may give rise to increased charges in future periods. The Company has not changed its processes used to manage its risks from previous periods.

The weighted average duration of the defined pension obligation at the period ended 31 October 2018 is 21 years (2017: 21 years).

Pension costs are assessed in accordance with the advice of a qualified, independent actuary using the projected unit method. The assumptions which have the most significant effect on the calculation are the long-term average investment return expected in future and the rate of future increases to benefits, both before and after retirement.

The benefit basis changed to a career average revalued earnings ("CARE") basis, from a final salary basis, with effect from 1 April 2005.

The calculations are based upon an assessment of the Scheme's liabilities as at 31 October 2018. These have been based upon the results of the 1 April 2016 formal triennial valuation projected forward with allowance for benefit accrual and expected investment return. The next triennial valuation will be carried out on 1 April 2019. No further provision has been recognised.

Notes to the accounts

For the year ended 31 October 2018

30 Pension scheme (continued)

The Bank's total expense for the year amounted to £2.0m (2017: £1.6m). Its fellow subsidiary Hodge Life Assurance Company Limited reimbursed the Company £0.3m for its share of the total expense. The Company has agreed that it will aim to eliminate the pension scheme deficit over the next 10 years and additional contributions of £0.5m were paid into the scheme in the year ended 31 October 2018. Funding levels are monitored on an annual basis and the Company has agreed to maintain the contribution rate at 19.5% from 1 November 2018.

The IAS 19 valuation as at 31 October 2018 has been produced by a qualified independent actuary, and is based on the results of the valuation as at 1 April 2016.

GMP equalisation

On 26 October 2018, in a long awaited ruling, the High Court determined that defined benefit pension schemes will be required to equalise benefits for the effect of inequalities between males and females in respect of Guaranteed Minimum Pensions (GMP) accrued after 17 May 1990. The method for equalisation remains unclear with further announcements expected during 2019, as such the Bank has not recognised any liability for this equalisation but initial estimates show that the potential impact is not material.

Scheme assets and liabilities

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2018	2017
	£m	£m
Fair value of plan assets	24.2	24.2
Present value of defined benefit obligations	(37.0)	(37.2)
Deficit	(12.8)	(13.0)

Movements in present value of defined benefit obligations

	2018	2017
	£m	£m
Present value of scheme liabilities at start of the period	37.2	39.2
Interest cost	1.0	1.1
Current service cost	1.6	1.2
Member contributions	0.2	0.2
Actuarial (gain)/loss on defined benefit obligation of which:		
due to demographic assumptions	(0.4)	(0.4)
due to financial assumptions	(1.6)	0.1
Benefits paid	(1.0)	(4.2)
Present value of scheme liabilities at end of the period	37.0	37.2

Notes to the accounts

For the year ended 31 October 2018

30 Pension scheme (continued)

Cashflows have been adjusted to allow for the IAS19 assumptions detailed below:

Movements in fair value of plan assets

	2018	2017
	£m	£m
Market value of assets at the beginning of the year	24.2	25.7
Interest income	0.6	0.7
Actuarial (loss)/gain	(1.4)	0.1
Member contributions	0.2	0.2
Employer contributions	1.6	1.7
Benefits paid	(1.0)	(4.2)
Market value of assets at the end of the year	24.2	24.2

Expense recognised in the profit and loss account

	2018	2017
	£m	£m
Current service cost – staff costs	1.6	1.2
Net Interest expense – other finance costs	0.4	0.4
	2.0	1.6

The total amount recognised in the Statement of Other Comprehensive Income in respect of actuarial gains and losses is a gain of £0.6m (2017: gain of £0.4m) before tax.

Cumulative losses reported in the Statement of Other Comprehensive Income since the date of transition to FRS 101 are losses of £8.1m (2017: losses of £8.7m) before tax.

Plan assets

The fair value of the plan assets and the return on those assets was as follows:

	Fair Value	
	2018	2017
	£m	£m
Quoted equity investments	1.2	5.8
Diversified growth funds	19.0	16.1
Private investments	2.3	-
Property	-	0.2
Bonds	1.4	1.3
Cash	0.3	0.8
Total market value of assets	24.2	24.2

The actual return on assets was £0.7m (2017: £0.7m)

Notes to the accounts

For the year ended 31 October 2018

30 Pension scheme (continued)

Future contributions

The group expects to contribute approximately £2.0m (2017: £2.0m) to its defined benefit plan in the next financial year.

Major assumptions

The major assumptions underpinning the defined benefit obligation are:

	2018	2017
	%	%
Rate of increase in salaries	4.40	4.40
Rate of increase – RPI capped at 5.0% per annum	3.30	3.30
Rate of CARE revaluation	2.40	2.40
Discount rate applied to scheme liabilities	2.90	2.70
RPI inflation assumption	3.40	3.40

The assumptions relating to longevity underlying the pension liabilities at the Balance Sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The life expectancy of scheme members is as follows:

	2018	2017
Current pensioners age 65 - male	86.7	87.0
Current pensioners age 65 - female	88.6	88.8
Future pensioners age 65 (current age 45) - males	87.8	88.0
Future pensioners age 65 (current age 45) - females	89.9	90.0

Sensitivities

The Company has to make assumptions on the discount rate, inflation and life expectancy when valuing the pension scheme liability. The sensitivity of the defined pension obligation to changes in the weighted principal assumptions is:

Impact on present value of obligation:

	Change in assumption	Change in deficit £m
Discount rate	0.1%	0.8
Rate of Inflation (RPI or CPI)	0.1%	0.6
Life expectancy	1 year	1.1

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

Notes to the accounts

For the year ended 31 October 2018

30 Pension schemes (continued)

History of plan Balance Sheets

(* the year 2014 was measured under UK GAAP)	2018	2017	2016	2015	2014
	£m	£m	£m	£m	£m
Fair value of plan assets	24.2	24.2	25.7	24.7	23.5
Present value of funded defined benefit obligations	(37.0)	(37.2)	(39.2)	(29.1)	(27.1)
Deficit	(12.8)	(13.0)	(13.5)	(4.4)	(3.6)

History of experience gains and losses

(* the year 2014 was measured under UK GAAP)	2018	2017	2016	2015	2014
Difference between the expected and actual return on scheme assets:					
Amount	£(1.4)m	£0.1m	£0.5m	£0.2m	£(0.6)m
Percentage of year end scheme assets	5.6%	0.0%	1.5%	0.7%	2.5%
Experience gains and losses on scheme liabilities:					
Amount	£(0.0)m	£(0.0)m	£(0.4)m	£(0.0)m	£(0.0)m
Percentage of year end present value of scheme liabilities	0.0%	0.0%	1.0%	0.0%	0.0%
Total amount recognised in statement of comprehensive income:					
Gain/(losses) before tax	£0.6m	£0.4m	£(9.1)m	£(0.6)m	£(1.7)m
Percentage of year end present value of scheme liabilities	1.6%	1.1%	23.0%	2.0%	6.3%

31 Called up share capital

	2018	2017
	£m	£m
Authorised, allotted, called-up and fully paid:		
105,000,000 ordinary shares of £1 each	105.0	105.0
	105.0	105.0

Notes to the accounts

For the year ended 31 October 2018

32 Financial commitments and contingent liabilities

Loan commitments

	2018	2017
	£m	£m
Commitments		
expiring in less than one year	33.4	83.8
expiring in more than one year	64.5	57.3
	97.9	141.1

Capital commitments

The Bank had contracted capital commitments amounting to £nil at 31 October 2018 (2017: £nil).

Commitments under non-cancellable operating leases

In 2016, the Company leased an office building as its head office under a non-cancellable operating lease agreement. The lease term is 15 years, and is renewable at the end of the lease period.

Future minimum lease payments under non-cancellable operating leases relating to land and buildings were as follows:

	2018	2017
	£m	£m
Within one year	0.5	0.5
Between one and five years	2.2	2.2
After five years	4.1	4.7
	6.8	7.4

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments
a) Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost.

The accounting policies note describes how the classes of financial instruments are measured and how income and expenses including fair value gains and losses, are recognised. The following tables analyse the financial assets and liabilities in the Balance Sheet by the class of financial instrument to which they are assigned and by the measurement basis and include both non-financial assets and liabilities in order to reconcile disclosures to Balance Sheet totals.

As at 31 October 2018	At amortised cost	Loans and receivables	Available- for-sale	Fair value through profit and loss	Total
	£m	£m	£m	£m	£m
Assets					
Cash and balances held at central banks	153.2	-	-	-	153.2
Treasury bills	13.7	-	13.3	54.2	81.2
Debt securities	7.6	-	79.9	-	87.5
Loans and advances to credit institutions	96.2	-	-	-	96.2
Loans and advances to customers	1.7	556.3	-	269.9	827.9
Total financial assets	272.4	556.3	93.2	324.1	1,246.0
Total non-financial assets					117.4
Total assets					1,363.4
Liabilities					
Deposit from banks	72.5	-	-	-	72.5
Deposit from customers	994.6	-	-	-	994.6
Derivative financial instruments	-	-	-	107.8	107.8
Other liabilities	1.2	-	-	-	1.2
Accruals and deferred income	2.7	-	-	-	2.7
Total financial liabilities	1,071.0	-	-	107.8	1,178.8
Total non-financial liabilities					12.9
Share capital and other reserves					171.7
Total reserves and liabilities					1,363.4

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)
a) Categories of financial assets and liabilities (continued)

As at 31 October 2017	At amortised cost	Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
	£m	£m	£m	£m	£m
Assets					
Cash and balances held at central banks	87.0	-	-	-	87.0
Treasury bills	11.6	-	20.6	55.1	87.3
Debt securities	9.0	-	68.0	-	77.0
Loans and advances to credit institutions	107.6	-	-	-	107.6
Loans and advances to customers	2.2	461.0	-	294.7	757.9
Total financial assets	217.4	461.0	88.6	349.8	1,116.8
Total non-financial assets					150.6
Total assets					1,267.4
Liabilities					
Deposit from banks	2.8	-	-	-	2.8
Deposit from customers	947.7	-	-	-	947.7
Derivative financial instruments	-	-	-	131.1	131.1
Other liabilities	2.1	-	-	-	2.1
Accruals and deferred income	3.1	-	-	-	3.1
Total financial liabilities	955.7	-	-	131.1	1,086.8
Total non-financial liabilities					13.3
Share capital and other reserves					167.3
Total reserves and liabilities					1,267.4

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)

b) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

The table below summarises the fair value of the Company’s financial assets and liabilities. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which all significant inputs are based on observable market data.
- Level 3: Valuation techniques for which significant inputs are not based on observable market data.

Where applicable, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an on-going basis. For all other financial instruments, the Company determines fair value using other valuation techniques.

The fair value of financial assets and liabilities carried at amortised cost approximate to their carrying value on the Balance Sheet.

The following table presents the Company’s financial assets and liabilities that are measured at fair value on the face of the Balance Sheet and the disaggregation by fair value hierarchy and product type:

As at 31 October 2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Treasury bills	54.2	-	-	54.2
Loans and advances to customers	-	-	269.9	269.9
Total financial assets at FVTPL	54.2	-	269.9	324.1
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	107.8	-	107.8
Total financial liabilities at FVTPL	-	107.8	-	107.8

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)

As at 31 October 2017	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Treasury bills	55.1	-	-	55.1
Loans and advances to customers	-	-	294.7	294.7
Total financial assets at FVTPL	55.1	-	294.7	349.8
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	131.1	-	131.1
Total financial liabilities at FVTPL	-	131.1	-	131.1

c) Level 1 and 2 assets and liabilities measured at fair value

Treasury bills and debt securities:

The fair value of financial instruments traded in active markets is based on quoted market prices at the Balance Sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Instruments included in Level 1 comprise primarily UK Government investment securities (Treasury bills) and debt securities classified as fair value through profit or loss.

Derivative financial instruments:

Derivative products using a valuation technique with observable market inputs are interest rate swaps. Their fair value is based on counterparty valuations. Those valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Transfers

There were no transfers between Levels 1 and 2 during the year.

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)

d) Level 3 assets and liabilities measured at fair value

Loans and advances to customers – lifetime mortgages:

Loans and advances to customers include £269.9m (2017: £294.7m) of assets which have been classed as fair value through the profit and loss as they relate to lifetime mortgages.

On initial recognition, the fair value of loans secured by mortgages is calculated by discounting the future cash flows at swap rates together with an allowance for illiquidity. If the difference between the fair value at transaction date and the transaction price is a gain, it is not recognised but deferred and recognised uniformly over the expected life of the loan. If the difference is a loss, this is expensed to the Income Statement immediately.

The movement in the aggregate difference yet to be recognised in profit or loss between the fair value of mortgages and the amount that would have been recognised using the valuation technique is shown below.

	2018	2017
	£m	£m
At start of period	14.8	16.1
Amounts deferred in the period	0.3	1.0
Amounts recognised in the Income Statement in the period	3.4	(2.3)
At end of period	18.5	14.8

Reconciliation of the opening and closing recorded amount of Level 3 loans secured by lifetime mortgages:

	2018	2017
	£m	£m
At start of period	294.7	331.0
Total losses in Income Statement	(5.5)	(9.8)
Loans advanced	2.0	2.6
Redemptions	(21.3)	(29.1)
At end of period	269.9	294.7

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)***Lifetime mortgages - principal assumptions***

Principal assumptions underlying the calculation of lifetime mortgages include the following:

Mortality or entry into long term care

This is based on the expected death or entry into long term care of the customer or the last remaining customer for a joint contract. Mortality assumptions have been derived by reference to PCMA00/PCFA00. This table is adjusted from 2000 by calendar year for mortality improvements based on the CMI 2017 mortality projection model. The mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor.

Lapses

Due to limited market information, these assumptions have been derived from the Company's own experience on this product.

Expenses

Assumptions for future policy expense levels are based on the Company's recent experience analyses. Expenses are modelled as an amount per policy per annum that incorporate an annual inflation rate allowance of 4.23% (2017: 4.16%).

Discount rate

The discount rate applied to the mortgage cash flows comprises two parts: a risk-free yield curve and an allowance for illiquidity. The risk-free yield curve is based on the GBP curve published by EIOPA.

The average discount rate for the portfolio (assumed to be the 15 year point on the yield curve based on average duration at 31 October 2017) was 2.62% (31 October 2017: 2.46%).

No-negative equity guarantee

The fair value of loans secured by mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black Scholes option pricing model. The key assumptions used to derive the value of the no-negative equity guarantee include property growth, volatility and credit risk. Property price is based on the last survey valuation adjusted by Nationwide Monthly HPI with an annual underperformance assumption. The future property price is based on Future HPI with an annual underperformance assumption.

The property growth and volatility assumed at 31 October 2018 were 3.28% (31 October 2017: 3.04%) and 13% (31 October 2017: 11%) respectively. The value of the no-negative equity guarantee as at 31 October 2018 was £9.2m (31 October 2017: £13.3m).

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)

Sensitivity analysis

Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The Company has estimated the net decrease in profit before tax for the period arising from changes to these inputs as follows:

	Interest rates +100 BP	Maintenance expenses +10%	Property inflation -100bps	Property prices -10%	Lapses +10%	Delay in mortality +10%
	£m	£m	£m	£m	£m	£m
At 31 October 2018	(28.1)	(0.4)	(4.9)	(2.8)	(6.6)	(3.1)
At 31 October 2017	(32.6)	(0.5)	(7.9)	(4.4)	(8.5)	(3.1)

The sensitivity factors are applied via actuarial models. The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts cannot be interpolated or extrapolated from these results.

The sensitivity factors take into consideration that the Bank's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. In addition, swaps taken out will mitigate some of these sensitivities to movements in rates disclosed above.

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)
e) Maturity profile of financial assets and liabilities

The table below analyses the carrying value of financial assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. In practice, customer deposits will be repaid later than on the earliest date on which repayment can be required. Likewise, in practice, customer assets may be repaid ahead of their contractual maturity. As such, the Company uses past performance of each asset and liability class along with management judgement to forecast likely cash flow requirements.

As at 31 October 2018	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances held at central banks	153.2	-	-	-	-	153.2
Treasury bills	-	-	2.6	68.5	10.1	81.2
Debt securities	1.4	2.6	7.3	40.3	35.9	87.5
Loans and advances to credit institutions	96.2	-	-	-	-	96.2
Loans and advances to customers	44.1	8.8	37.9	219.3	517.8	827.9
Total financial assets	294.9	11.4	47.8	328.1	563.8	1,246.0
Liabilities						
Deposit from banks	2.5	-	-	70.0	-	72.5
Deposit from customers	299.6	80.2	284.4	330.4	-	994.6
Derivative financial instruments	-	-	0.3	9.0	98.5	107.8
Other liabilities	1.2	-	-	-	-	1.2
Accruals and deferred income	2.7	-	-	-	-	2.7
Total financial liabilities	306.0	80.2	284.7	409.4	98.5	1,178.8
Loan Commitments liabilities	23.4	1.4	8.6	47.9	16.6	97.9

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)
e) Maturity profile of financial assets and liabilities (continued)

As at 31 October 2017	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances held at central banks	87.0	-	-	-	-	87.0
Treasury bills	-	4.5	6.2	66.1	10.5	87.3
Debt securities	27.4	1.9	2.0	14.8	30.9	77.0
Loans and advances to credit institutions	107.6	-	-	-	-	107.6
Loans and advances to customers	30.9	25.7	11.9	224.4	465.0	757.9
Total financial assets	252.9	32.1	20.1	305.3	506.4	1,116.8
Liabilities						
Deposit from banks	2.8	-	-	-	-	2.8
Deposit from customers	366.6	114.0	252.3	214.8	-	947.7
Derivative financial instruments	0.2	0.1	0.5	10.2	120.1	131.1
Other liabilities	2.1	-	-	-	-	2.1
Accruals and deferred income	3.1	-	-	-	-	3.1
Total financial liabilities	374.8	114.1	252.8	225.0	120.1	1,086.8
Loan commitments Liabilities	82.2	0.8	0.8	50.0	7.3	141.1

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)
f) Maturity profile of financial liabilities-contractual undiscounted cash flows

The table below analyses the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the period to maturity at the Balance Sheet. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cashflows.

As at 31 October 2018	Book value	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities							
Deposit from banks	72.5	2.5	-	-	71.7	-	74.2
Deposit from customers	994.6	299.5	80.8	288.2	342.5	-	1,011.0
Derivative financial instruments	107.8	2.5	0.8	4.1	41.9	75.5	124.8
Other liabilities	1.2	1.2	-	-	-	-	1.2
Accruals and deferred income	2.7	2.7	-	-	-	-	2.7
Total financial liabilities	1,178.8	308.4	81.6	292.3	456.1	75.5	1,213.9

As at 31 October 2017	Book value	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities							
Deposit from banks	2.8	2.8	-	-	-	-	2.8
Deposit from customers	947.7	366.5	114.5	254.9	224.6	-	960.5
Derivative financial instruments	131.1	7.7	4.4	7.1	44.9	91.2	155.3
Other liabilities	2.1	2.1	-	-	-	-	2.1
Accruals and deferred income	3.1	3.1	-	-	-	-	3.1
Total financial liabilities	1,086.8	382.2	118.9	262.0	269.5	91.2	1,123.8

Notes to the accounts

For the year ended 31 October 2018

33 Financial instruments (continued)

The above disclosures do not directly align to those presented for the Balance Sheet as they include interest relating to future periods.

The contractual undiscounted cash flows related to derivative financial instruments used for risk management purposes are the net amounts for derivatives that are net settled.

g) Foreign currencies

The group holds no financial assets or liabilities denominated in foreign currencies.

34 Financial risk management objectives and policies**Risk management**

The risk management approach encompasses the requirements for identifying, assessing, managing, monitoring and reporting on risk.

The evaluation of the various risks and the setting of policy is carried out through the Bank's Executive Risk Committee which reports to the Risk and Conduct Committee, which ensures adherence to the Bank's risk management policy and framework.

Risk management objectives

Risk is inherent in all aspects of the Bank's business. A risk management framework is in place to ensure that all material risks faced by the Bank have been identified and measured, and that appropriate controls are in place to ensure that each risk is mitigated to an acceptable degree.

In the normal course of its business, the Bank is exposed to credit risk, liquidity risk, house price risk, interest rate risk, conduct risk and operational risk. These are discussed in more detail in sections a) to f) below.

(a) Credit risk

Credit risk is the risk that borrowers or a counterparty will be unable or unwilling to meet a commitment that they have entered into with the Bank.

The maximum credit risk as at 31 October is the carrying value recognised on the Balance Sheet as disclosed in the table in note 33(a), along with the loan commitments as disclosed in the table in note 33(e).

There were no past due, or impaired, or past due but not impaired balances in respect of all financial asset classes except for commercial lending which is disclosed below.

Credit risk within the commercial lending portfolio is defined as a borrower's inability to repay or service their debt obligations. The primary drivers of credit risk in the Bank's case are property price risk and tenant risk.

The primary driver of credit risk within roll-up mortgages and reversionary interests in property is a fall in house prices, which would cause credit losses should house prices fall sufficiently in real terms at the date of redemption.

The primary driver of credit risk within the treasury assets portfolio, which comprises deposits with other banks, gilts and debt securities is counterparty default, meaning a counterparty can no longer repay its obligations. Only instruments issued by counterparties with a minimum rating of BBB- at the point of purchase are held. The Company intends to hold its treasury assets to maturity and is therefore not directly affected by market risk.

For both commercial lending and residential mortgages, the Bank takes security in the form of a legal charge over the property against which loans are advanced. The Bank's low risk approach to new business lending is reflected in the loan to value profile of the commercial property and residential property books.

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For the year ended 31 October 2018

34 Financial risk management objectives and policies (continued)

The Bank manages its credit risk through its Retail Credit Committee, Commercial Credit Committee and Assets and Liabilities Committee. Regular credit exposure reports are produced which include information on credit and property underwriting, large exposures, asset concentration and levels of bad debt provisioning.

Credit risk in relation to loans and advances to customers, analysed between residential lending credit risk, commercial lending credit risk and credit risk in relation to treasury financial instruments is described in the relevant sections below:

Credit risk: loans and advances to residential customers

The Bank's exposure to credit risk relating to loans and advances to residential customers can be broken down by security as follows:

	2018	
	£m	%
In respect of loans and advances to customers:		
Fully secured by a first charge on residential property	412.1	100.0
	412.1	100.0
Fair value adjustments	65.9	
	478.0	

	2017	
	£m	%
In respect of loans and advances to customers:		
Fully secured by a first charge on residential property	369.4	100.0
	369.4	100.0
Fair value adjustments	84.9	
	454.3	

The cumulative change in fair values due to credit risk amounts to losses of £9.2m (2017: £13.3m), and the change in the year is a profit of £4.1m (2017: £2.1m).

There were no past due, but not impaired balances, nor were there any past due and impaired balances in respect of loans and advances to residential customers.

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For the year ended 31 October 2018

34 Financial risk management objectives and policies (continued)

Credit risk: loans and advances to residential customers (continued)

Residential: Risk concentrations

Loan to value (LTV) is one of the main factors used to determine the credit quality of loans secured on residential property. All residential loans and receivables have an LTV of less than 60% when advanced.

The Bank provides loans secured on residential property across England, Northern Ireland, Scotland and Wales.

Residential: Performance

Performance risk is measured by those accounts in arrears. Total arrears balances as at 31 October 2018 amount to £nil (2017: £nil). The Bank has no accounts where forbearance options have been utilised. There are no residential loans and receivables that are impaired.

Credit risk: Commercial lending

Commercial: Analysis of Risk concentration

Loans secured on commercial property are as follows:

	2018		2017	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
Commercial mortgage	35.7	73.8	26.0	48.2
Development finance	62.7	94.4	45.6	70.8
Investment loans	235.2	411.7	217.8	373.4
	333.6	579.9	289.4	492.4

On inception commercial property loans are fully secured against the value of the related properties.

Commercial: Analysis of Risk concentration

The Bank's commercial loan portfolio comprises the following:

	2018		2017	
	£m	%	£m	%
Loans secured on commercial property	333.6	94.2	289.4	93.2
Loans relating to Renewable energy sector	20.7	5.8	20.9	6.8
	354.3	100.0	310.3	100.0
Less: Loan fee deferral	(2.3)		(2.5)	
Provisions for impairment	(3.7)		(6.4)	
	348.3		301.4	

Notes to the accounts

For the year ended 31 October 2018

34 Financial risk management objectives and policies (continued)
Credit risk: Commercial lending (continued)
Commercial: Analysis of Risk concentration (continued)

The Bank provides loans secured on property across England, Scotland and Wales. An analysis of commercial property and renewable energy sector loans by geographical location is provided below:

	2018		2017	
	£m	%	£m	%
Wales	81.3	23.0	85.8	27.7
London-England	123.8	34.8	106.1	34.2
South East & East of England	16.2	4.6	22.4	7.2
Midlands-England	31.0	8.8	4.9	1.6
South West of England	68.6	19.4	73.4	23.6
North West & North East of England	19.9	5.6	4.1	1.3
Scotland	13.5	3.8	13.0	4.2
Mixed/Other	-	-	0.6	0.2
	354.3	100.0	310.3	100.0

The average loan to value (LTV) in respect of commercial loans is estimated to be 54.2% (2017: 58.8%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term/tenant as well as geographical location.

£13.2m (2017: £16.2m) of exposures have an LTV of greater than 100%. Of these, £12.8m (2017: £14.8m) are already classified as impaired, £nil (2017: £nil) are on the Watchlist, leaving £0.4m (2017: £1.4m) of exposures considered to be satisfactory. In these instances, management is satisfied that the cash flows generated by the underlying assets will be sufficient to fully repay the debt over time.

The largest exposure to one counterparty is £18.5m (2017: £23.0m) or 5.2% (2017: 7%) of gross balances.

Commercial: lending performance

Procedures are in place which grade borrowers in line with the perceived severity of the risk and are designed to identify cases of potential cause for concern to facilitate early risk mitigation or forbearance activity where appropriate. Using this risk grading system, the commercial loan portfolio is classified as follows (figures do not include provisions for loan impairment or unamortised loan fees):

	2018		2017	
	£m	%	£m	%
Satisfactory	310.3	87.6	277.3	89.4
Watchlist	28.0	7.9	18.1	5.8
Impaired	16.0	4.5	14.9	4.8
	354.3	100.0	310.3	100.0

As at 31 October 2018 there were £16.9m of commercial loans in arrears (2017: £nil).

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For the year ended 31 October 2018

34 Financial risk management objectives and policies (continued)

Credit risk: Commercial lending (continued)

Commercial: lending provisions

Provisions are held against impaired loans as follows:

	2018	2017
	£m	£m
Specific provisions	3.6	6.2
Collective provisions	0.1	0.2
	3.7	6.4

Past Due but not impaired

As at 31 October 2018 there were £16.9m (2017:£nil) of commercial loans that were past due and not impaired.

Forbearance

There have been no instances of forbearance arising during the year.

Treasury credit risk

Treasury risk comprises exposure to central banks, treasury bills, debt securities, credit institutions and financial derivatives. The following table shows the maximum exposure to credit risk excluding collateral:

	2018	2017
	£m	£m
UK government and amounts held with central banks	153.2	87.0
Treasury bills	81.2	87.3
Debt securities	87.5	77.0
Loans and advances to credit institutions	96.2	4.3
	418.1	255.6

None of these exposures is past due or impaired.

Credit quality of financial assets that are neither past due nor impaired

The following shows the exposures broken down by credit rating:

	2018	2017
	£m	£m
AAA to AA-	388.1	225.3
A+ to A-	14.6	14.3
BBB+ to BBB-	11.7	12.1
BB+ to BB-	3.7	3.9
	418.1	255.6

Notes to the accounts

For the year ended 31 October 2018

34 Financial risk management objectives and policies (continued)

Treasury Credit risk (continued)

Concentration of credit risk

The geographical exposure is as follows:

	2018	2017
	£m	£m
UK	393.3	229.6
Other	24.8	26.0
	418.1	255.6

The treasury risk function monitors exposure concentrations against a variety of criteria including counterparty limits.

b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet commitments as they fall due. The Bank manages its liquidity risk through its Assets and Liabilities Committee, and monitors its liquidity position on a daily basis and has adopted a policy to ensure that it has adequate resources to enable it to conduct its normal business activities without interruption. The maturity analysis of assets and liabilities is disclosed in note 33 (e) & (f) to the financial statements.

The customer deposit base represents a stable source of funding due to the number and range of depositors. Liquidity is further managed through dealings in the money markets.

The Board has approved a liquidity risk management policy that sets out the liquidity requirements with which the Bank must comply. The principal liquidity risk mitigants used by management are:

- A buffer of highly liquid assets (comprising high quality government, covered bonds and supranational bank securities) which can meet cash requirements;
- Cash reserves with the Bank of England;
- Cash resources held at other financial institutions.

c) Interest rate risk

Interest rate risk is the risk that arises when there is an imbalance between the maturity dates of rate-sensitive assets, liabilities and commitments. The Company manages its interest rate risk through its Assets and Liabilities Committee. The Company’s policy is to maintain interest rate risk at a controlled level within limits set by the Board.

The table in note 33(d) shows an estimate of the interest rate sensitivity gap as at 31 October 2018. The principal risk management tool to mitigate interest rate risk is the use of derivatives to align the interest rate re-pricing profile of assets and liabilities. All of the derivatives used by the Company are interest rate swap contracts of varying maturities and start dates.

The Company’s interest rate risk management policy defines the type of derivative transactions that can be undertaken, which are all actioned by the Bank’s treasury function, and are subject to review and approval at the dealing stage. The Treasurer, who is responsible for treasury matters on a day to day basis, prepares a treasury report for the Board, which includes analysis of interest rate risk exposures.

Notes to the accounts

For the year ended 31 October 2018

34 Financial risk management objectives and policies (continued)
d) House price risk

House price risk is the risk that arises when there is an adverse mismatch between actual house prices and those implicit in the costing of the Company's lifetime mortgages and reversionary interests, such that the ultimate realisation of the property would not yield the expected return to the Company and could, in certain circumstances, result in a capital loss. The Company mitigates house price risk by monitoring maximum Loan to Value at inception of the loan and reversionary interests. The reversionary interests are a legacy product which is being run-off over the medium term.

Geographical analysis of lifetime mortgages

The Company provides loans secured on property across England, Scotland, Northern Ireland and Wales. An analysis of residential property by geographical location is provided below:

	2018		2017	
	£m	%	£m	%
Wales	8.5	4.2%	7.9	3.9%
South East	46.2	22.5%	47.5	23.1%
South West	26.2	12.8%	26.2	12.7%
London	22.7	11.1%	22.5	11.0%
East Anglia	24.7	12.1%	25.0	12.2%
North West	20.7	10.1%	20.1	9.8%
West Midlands	12.3	6.0%	12.2	6.0%
North East	9.6	4.7%	9.6	4.7%
Yorkshire & Humberside	7.9	3.9%	8.7	4.2%
East Midlands	9.3	4.5%	9.3	4.5%
Scotland	7.7	3.8%	7.5	3.7%
Northern Ireland & Other	8.8	4.3%	8.5	4.2%
	204.6	100.0%	205.0	100.0%

e) Conduct risk

Conduct risk is the risk that the Bank's behaviour results in poor outcomes for customers. The Bank is exposed to this risk by virtue of the markets in which it chooses to operate. The Executive Risk Committee has overall responsibility for implementing and monitoring principles, frameworks, policies and limits. The committee is responsible for managing risk decisions and monitoring risk levels which it reports to the Risk and Conduct Committee.

The Company holds a provision of £0.1m as at 31 October 2018 (2017: £0.1m) in respect of conduct risk which is disclosed in note 29.

f) Operational risk

Operational risk is the risk of economic loss from systemic failure, human error and fraud (control failures) or external events, which result in unexpected or indirect loss to the Company. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Notes to the accounts

For the year ended 31 October 2018

35 Capital risk management

The Company conducts an Internal Capital Adequacy Assessment Process (“ICAAP”), at least annually, which is approved by the Board. This is used to assess the Company’s capital adequacy and to determine the level of capital required to support the future development of the business as set out in the strategic plan.

The ICAAP addresses all the Company’s material risks and includes Board-approved stress scenarios which are intended, as a minimum, to meet regulatory requirements. The ICAAP is used by the PRA to set the Company’s Individual Capital Guidance (ICG).

The Company’s capital resources requirements are calculated based on the CRD IV CRR regulatory framework as implemented by the PRA, namely:

- Pillar 1-based on a Standardised Approach for credit risk, operational risk and market risk;
- Pillar 2-set by the PRA via the ICG to address those risks not covered under Pillar 1.

The Board is ultimately responsible for capital management and monitors the capital position of the Company at each board meeting through the receipt of management information which sets out the Company’s current and forecast capital position, based on the methodology adopted within its ICAAP.

This means that the Company will:

- i) Maintain a level of capital at least equal to the minimum amount set by the PRA in the ICG, and;
- ii) Hold all its capital in the form of Common Equity Tier 1 and Tier 2 capital.

	2018	2017
	£m	£m
Common Equity Tier 1 capital	168.0	149.3
Total risk weighted assets	751.7	706.3
Common Equity Tier 1 capital ratio	22.3%	21.1%
Total own funds	168.0	149.5
Total risk weighted assets	751.7	706.3
Total capital ratio	22.3%	21.2%

Notes to the accounts

For the year ended 31 October 2018

35 Capital risk management (continued)

Capital Requirements Directive

Article 89 of the Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information:

- Name, nature of activities and geographical location: The principal activities of the Bank are noted in the Strategic Report.
- Average number of employees: as disclosed in Note 10 to the accounts.
- Annual turnover (Net Interest Income) and profit before tax: as disclosed in the Income Statement.
- Corporation Tax paid: 2018 £0.3m (2017: £8.4m).
- Public subsidies: There were none received in the year.

All minimum regulatory requirements were met during the year and the prior year.

The Company’s objectives when managing capital are:

- To have sufficient capital to safeguard the Company’s ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders;
- To comply with the bank capital requirements set out by the PRA in the UK;

The Company’s capital comprises all components of equity, movements of which are set out in the Statement of Changes in Equity.

36 Disposal of investment

On 31 July 2018 Julian Hodge Bank Limited disposed of its investment in Hodge Life Assurance Company Limited for £15,972,115 generating a profit or loss on disposal of £nil.

37 Related parties

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of transactions with members of The Carlyle Trust Limited group. The following balances were owed to or from related parties at 31 October:

	2018	2017
	£m	£m
Amounts owed from parent and fellow subsidiaries		
The Carlyle Trust Limited – parent	0.3	-
Carlyle Property Development Company Limited – fellow subsidiary	0.4	-
Hodge Life Assurance Company Limited – fellow subsidiary	0.9	1.8
Sterling House Limited – fellow subsidiary	0.1	-
Total	1.7	1.8
Deposits owed to parent and fellow subsidiaries		
Jane Hodge Foundation – shareholder of The Carlyle Trust Limited	(2.5)	(2.2)
The Carlyle Trust Limited – parent	(0.2)	(3.4)
Hodge Life Assurance Company Limited – fellow subsidiary	(0.5)	(5.8)
Total	(3.2)	(11.4)

Notes to the accounts

For the year ended 31 October 2018

38 Ultimate parent undertaking

The immediate parent undertaking of the Company is Hodge Limited. The parent undertaking of the smallest group of undertakings for which group accounts are drawn up and of which the Company is a member is Hodge Limited. The ultimate parent undertaking and controller is The Carlyle Trust (Jersey) Limited (incorporated in Jersey), a company controlled by a Hodge family trust, whose sole natural trustee is Jonathan Hodge.

Within the meaning of the Companies Act 2006, The Carlyle Trust Limited is the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. The accounts of Hodge Limited and The Carlyle Trust Limited can be obtained from: The Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.