Annual report and financial statements

30 September 2023

Registered number 00743437

Officers and professional advisers

Graeme Hughes
Chairman
M.B.A.,
D.M.S.,
A.C.I.B.

David Landen
Chief Executive Officer
F.C.C.A.,
B.Sc.

Jan Preece
Chief Financial Officer
A.C.A.

John Barbour
Non-Executive Director
M.B.A.,
B.Sc.

Iain Laing
Non-Executive Director

Aileen Wallace
Non-Executive Director
M.C.B.I
C.I.R.M.
A.M.B.C.S.

Penny Bickerstaff
Non-Executive Director
F.C.A.

Melanie Kincaid
Company Secretary
(appointed 26
January 2023)

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1 Strategic Report

Chairman's Statement

For Hodge, supporting customers and society in the moments that matter goes beyond making sure we are delivering great outcomes and fair financial decisions for our customers.

A look back

It seems that, once again, I begin my reflections on the year by saying that the macro environment remains very challenging for businesses and for consumers alike as the war in Ukraine continues to impact energy prices and as post pandemic global economies struggle.

The inflationary pressures that were evident this time last year materialised, peaking at 11.1% in October 2022. Inevitably this has caused many people to experience a real financial challenge as interest rates have risen from 12 years of historically low rates with 7 increases this year to over 5% today.

Whilst this is potentially positive for individual savers, clearly for mortgage borrowers and for UK business more generally this creates a significant pressure on their ability to spend or to invest and so creates the possibility of a downturn in the economy with little or no growth.

As a result of the ongoing economic turbulence, house price growth has steadily declined throughout 2023 and is expected to continue decreasing in 2024, with some estimates suggesting a potential 10% price correction.

Alongside this, September 2022 saw the so called 'mini budget' which, whilst intended to stimulate growth, created a run on sterling and unprecedented falls in the gilts market that saw pension funds in particular under such pressure that the Bank of England intervened by buying Government Bonds.

The impact of this event was that both the residential housing market and the commercial market lost a degree of confidence, the latter being more significantly affected.

> The growth in our retail lending remains on plan despite the challenging market conditions but not so for our commercial book.

The impact on Hodge

Our retail mortgage strategy continues to focus on later life and specialist borrowing and so the quality of our book remains high and the current level of arrears very low (0.5% of total book as of September 2023). Nevertheless, we remain alert to helping our customers where they experience financial difficulties and to ensuring that we are always available to provide advice and support.

The growth in our retail lending remains on plan despite the challenging market conditions but not so for our commercial book. Here we took the decision to restrict our lending into the market for the 6 months following the 'mini-budget' as asset values and interest rate coverage became less predictable. As a result, the next 2 years of commercial growth will be lower than previously targeted, but we fully expect to regain momentum and build our commercial balance sheet in line with the 5-year strategy.

We remain very committed to being a leading specialist commercial lender and have extended our proposition several times over the year to provide a broader, more complete set of products aimed at developers and investors alike.

The increased interest rates have reinvigorated the savings market with a greater range of products available across the market. Our decision to invest in a new digital savings platform has become even more important today, enabling us to offer our customers new instant and easy access products, which will allow us to raise funding in a more cost effective and dynamic way and so help manage our net interest margin.

> We remain very committed to being a leading specialist commercial lender and have extended our proposition several times over the year.

A look ahead

Our strategic objective remains to build a specialist bank where we utilise our capital most effectively through carefully selected, lower volume / higher value lending. By the end of the current 5-year strategy, the change in market dynamics means that we expect to see a higher than originally forecast level of profitability and return on capital. Our focus on higher value specialised lending, combined with greater flexibility in our retail funding and an ongoing tight control over our cost base, enables us to grow the income margin.

We are cognisant however of a potentially challenging period ahead and have spent time evaluating where a combination of our expertise, risk appetite and broader funding options may allow us to partner with, or invest in, a complimentary asset class to diversify our income channels. Following this review period, I am delighted we announced our partnership with Blue Motor Finance Limited in October 2023.

This strategic partnership for asset financing complements our existing business and further supports our path to securing returns on capital sufficient to meet Board targets.

> Through all these donations and sponsorships, we're reinforcing our message as a purpose driven bank.

Returning to our Purpose

The strategic focus of our ESG strategy is in the areas where we recognise the strongest alignment to our purpose as a specialist lender predominately owned by a Charitable Foundation. In particular, the continued ambition to assess, understand and reduce our carbon footprint both directly and indirectly, the promotion of inclusivity and diversity and the creation of greater financial inclusion, by helping those people less able to access the products and services that suit their needs.

We have made encouraging progress in delivering our climate change action plan, the initial focus having been on minimising the impact of our activities and operations towards net zero. We have been working in partnership with the Carbon Trust, with the next stage of our strategy being to quantify and then work towards minimising our scope 3 financed emissions in the coming year.

For Hodge, supporting customers and society in the moments that matter goes beyond making sure we are delivering great outcomes and fair financial decisions for our customers, it also means supporting causes and charities close to the hearts of colleagues and customers. Colleagues continue to be active and volunteer in the local community through our '4 to do More' days.

This year we have been able to support a variety of causes; we made a notable contribution to the Syria and Turkey disaster relief fund following the devastation the natural disaster caused. Locally, in Wales we are front of shirt sponsor for a newly created veteran football team in the Rhondda. On a more national scale, we also benefited from some brand awareness with the Welsh touch rugby over 30's men's squad and the mixed under 15's squad in their recent campaign at the European Touch Championships in August, with a bronze podium for the U15's.

Finally, we headline sponsored rowing team, Flyin' Fish', a mature group of 5 who completed the first ever Pacific Ocean race challenge, alongside 14 other teams for charity. This particular charitable sponsor is a perfect fit for both our purpose and business, as the team showcase those over 50 and into retirement living life very much to the full. The team also set a new World Record for being the first ever 5 to cross the Pacific.

Through all these donations and sponsorships, we're reinforcing our message as a purpose driven bank. We are purposefully selecting charities and causes that mean something to Hodge, our colleagues and our customers.

Updates to our Board

Finally, I am delighted to have welcomed Penny Bickerstaff as our Senior Independent Director, having joined us in September last year. Penny brings expertise in Finance, Operations, Marketing and Technology, having been a partner in a Big Four company as well as an entrepreneur in her own right, and it is this diversity of thought and challenge that is of huge benefit to the Board.

Graeme Hughes
Chairman
8 December 2023

Our business, social responsibility and stakeholder engagement

We are a privately owned bank seeking to make life better for customers and society in the moments that matter.

What we do

Hodge is a specialist UK lending and savings bank focused on specialist finance and savings. We differentiate ourselves by concentrating on markets where our expert knowledge, judgement and personalised approach to lending offer us a competitive advantage.

Retail mortgages

The Bank's specialist retail mortgage business is focused on complex income, later life lending, holiday buy-to-let and professional income plus products.

> The rising interest rate environment has meant that the Bank has had to move quickly as rates have risen significantly for the first time in numerous years.

We work closely in partnership with our trusted network of intermediaries, serving customers looking to invest in a holiday home through our holiday let mortgage, and personal customers through our complex income and later life mortgages.

Our range of retail mortgages allow customers to either repay down the capital or choose interest only.

Our interest only mortgages allow customers to repay the mortgage with or without a fixed-term end. Our later life mortgages are available to those over 50, a growing market that we are committed to serving.

In 2023 we continued to build on the service delivery improvements we made in prior years placing our customers at the heart of everything we do. We continue to engage, value and respond to feedback from the broker community, delivering a range of product updates and service enhancements throughout the year. We work closely with them to ensure the products we offer deliver for our customers, whilst providing flexibility in a notoriously rigid market.

We have also committed significant investment in our team, strengthening our expertise and capability to serve and respond to the market. This continues to pay dividends in the feedback we receive from brokers.

The rising interest rate environment has meant that the Bank has had to move quickly as rates have risen significantly for the first time in numerous years, although hopefully we are now close to the peak.

Commercial lending

Our core purpose is to support experienced, serially active investors and developers of real estate assets, in residential schemes. This means that we impact positively on the communities into which we lend, by helping our customers deliver much needed new homes for sale or rent, as well as regenerating areas.

The Commercial team has developed new product offerings for our customers and we are confident our updated offerings will prove attractive to our target market. We will be looking to grow our lending volumes and secure new customers, whilst continuing to service our existing client base.

Our customers remain central to everything we do and we are continuing to invest time, effort and money in improving the efficiency of our systems, processes and people as we strive for excellent client experience across all areas of our business.

Savings

Customer savings are, and will remain to be, the most important part of our funding base.

Throughout 2023 we have continued our commitment to support more customers through our online channels and have continually monitored our savings rate in the current rising interest rate environment.
The continued investment in digital capabilities, simplifying processes and leveraging technology to quicken our service is continuing to drive positive feedback from current and new customers as evidenced in our 'excellent' Trust Pilot score.

We have made a significant investment in our technology infrastructure to provide a leading digital experience to give our customers even more control over how they engage with us. Whilst allowing customers more flexibility to manage their finances, we will provide an experience that is simple and easy but also personalised in the moments that matter. We know that our customers appreciate the value of human touch and that is why we will continue to ensure our experts are available to answer any queries.

We continue to manage over £1bn of our customers' savings balances and will continue to grow our presence in the personal savings market providing an excellent digital experience, attractive interest rates and products and services that meet our customers' needs.

The Bank is also a participant in the Bank of England's Term Funding Scheme ('TFSME'), which provides a cost-effective source of funding in the form of central bank reserves to support additional lending to the real economy.

> Customer savings are, and will remain to be, the most important part of our funding base.

Colleagues

Our people are central to the value we deliver for our customers and the key to creating a strong experience for our customers. We remain committed to building a culture where people thrive through rewarding talent and performance.

- **Learning and Development:** We have continued to invest in the development of skills and capabilities of our colleagues. This included many individuals commencing Certificate in Mortgage Advice and Practice certifications and more of our leaders developing their capabilities with Institute of Leadership and Management ("ILM") courses. Hodge also made an investment in on-demand learning materials for colleagues in tech roles to be able to continually upskill themselves with new practices or techniques. As ever, Hodge continued to be a key employer for the Welsh Financial Services and Data graduate schemes and welcomed 10 graduates for placements across the business in the last financial year. All of this on top of maintaining the usual high standard of compliance with mandatory training modules that are essential for all colleagues working in financial services. That included Consumer Duty for the first time, to coincide with the implementation of phase one by the FCA in July 2023.
- **Colleague Wellbeing:** We have continued to support our colleagues through our 'Healthy Hodge' scheme, providing resources and support for maintaining healthy minds, bodies, families, finances, and connections. We have improved this by investing in a range of training programmes to increase our mental health awareness and support our hybrid working approach for our leaders and colleagues. We have also continued to review how best to support our colleagues through the increasing cost-of-living, making a cost of living payment to our most impacted colleagues.
- **Inclusivity and Flexibility:** Throughout the year, we have continued to ensure focussed activity on being a truly inclusive employer. We have launched our quiet room to provide a dedicated space for mindfulness or for prayer for our colleagues to use when they are visiting our office space. Additionally, with the support of the Equality Network, we have worked closely with Careers Wales to inspire the next generation into financial services. Additionally, we have launched our Allyship program at Hodge, delivering training to colleagues and inviting those who completed the training to voluntarily pledge to become an ally. We hope that this will help to increase representation across the Bank, and we are seeing more colleagues updating their Diversity and Inclusion (D&I) data fields in the HR system.

Corporate Social Responsibility

Through the donations and sponsorships outlined in the Chairman's statement on page 6, we are reinforcing our message as a purpose driven bank. We're purposefully selecting charities and causes that mean something to Hodge, our colleagues and our customers, like promoting age positivity and supporting our local communities. As we move forward, we'll become even more diverse, working with charities against gender bias and those supporting equality and inclusion.

Stakeholder Engagement – S172 Statement

The Companies Act 2006 requires the Directors of the Bank to act in the way they consider, in good faith, would be most likely to promote the success of the Bank for the benefit of its stakeholders as a whole. In doing so, S172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the Bank's employees;
- need to foster the Bank's business relationships with suppliers, customers and others;
- desirability of the Bank maintaining a reputation for high standards of business conduct;
- impact of the Bank's operations on the community and environment; and

• Our business, social responsibility and stakeholder engagement (continued)

- interests of the Bank's Shareholder.

In discharging its S172 duties, the Directors of the Bank have regard to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. The Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all of the Bank's stakeholders. By considering the Bank's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board aims to make sure that its decisions are consistent.

The Board delegates authority for the day-to-day running of the business to the Bank's CEO and, through him, to the Executive Committee to set, approve and oversee the execution of the Bank's strategy and related policies. The Board reviews matters relating to financial and operational performance, business strategy, key risks, stakeholder-related matters, compliance, conduct, legal and regulatory matters over the course of the financial year. This is supported through the consideration of reports and presentations provided at board meetings and reviewing aspects of the Bank's strategy at least twice a year. A high-level summary of the Bank's strategy can be found in the Chairman's Statement on page 5.

The Bank has a number of key stakeholder groups with whom it actively engages. Listening to, understanding and engaging with these stakeholder groups is an important role for the Board in setting strategy and decision-making. The Bank recognises its obligations and requirements to be a well-controlled financial services business, compliant with regulation and delivering good customer outcomes. The Regulators are consulted and kept closely informed in relation to key decisions made by the Board, as appropriate. A summary of how the Board engages with customers, employees, suppliers, the community and the Shareholder is provided below.

Our Customers

As a customer-centric business the Bank uses a range of methods to involve and engage with our customers. The Board values feedback from customers to ensure the Bank is providing them with what they want and need.

The Bank works closely with its broker community to ensure the products we design are needed and add value for customers. We capture feedback through a variety of surveys and capture reviews through Trustpilot as an independent measure of our service and experience as and when customers interact with the Bank.

Hodge continues to invest heavily in technology to improve our operational and digital capability which is vital in delivering great service to our customers. This investment brings efficiency and scalability to our operations. Throughout 2023, the Bank has continued to invest in a new banking platform that will underpin our entire business model, improving efficiencies and capabilities for our teams, whilst delivering first class experiences to our customers.

Our Employees

We continue to invest in our people, with leadership support and mentoring across the business. This commitment will enhance strategic leadership as well as strengthening capability at multiple levels throughout the organisation.

The Board has appointed a designated non-executive director to assist with providing a link between employees and the Board and regularly attends colleague engagement meetings to provide a summary to the other directors on the output of such meetings. During 2023, the Board consulted employees in relation to flexible working arrangements and the new annual reward plan.

Our Suppliers

Our suppliers play an important role in the operation of the Bank's business to enable the delivery of an effective and efficient business model.

During 2023 several material and outsourcing contracts were presented to the Board for approval, covering both new relationships and contract renewals. In approving these contracts, the Board considered the strategic value of the relationships as well as looking at the customer impacts, risk exposure, concentrations, legal and compliance considerations and financial implications. The Bank has a framework in place which provides a consistent and proportionate approach to the procurement and management of suppliers to ensure that it can effectively engage, manage and terminate, where appropriate, supplier relationships.

Our Shareholder

A Shareholder Engagement policy has been agreed and adopted by the Board, detailing the Shareholder's expectations of the Bank and those matters that require shareholder approval or shareholder consultation, to support appropriate governance and oversight.

The Board provides updates to and engages with the Shareholder of the Bank regularly to obtain a clear understanding of its views and requirements. During 2023, the Shareholder was consulted in relation to the five year strategic plan, the remuneration of the Executive Committee and Non-Executive Directors, a review of the pension scheme and additional cash payments and the proposed strategic partnership with Blue.

The Environment

A Climate Change policy has been developed outlining governance structures, disclosures, our approach to risk management and the SMF responsibility in the business. An internal working group has been established to develop the Bank's approach and understanding of the risk posed by climate change. Climate change is also being considered specifically as part of the regulatory risk management documents; Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment ('ILAAP'). The Bank continues to report Green House Gas ('GHG') emissions, to comply with the Streamlined Energy & Carbon Reporting (SECR) initiative.

We tasked The Carbon Trust, an independent third party, to calculate our GHG emissions under the rules laid out by the World Resources Institute's GHG Protocol Corporate Accounting and Reporting Standard. This enables us to ensure the accuracy of these disclosures and to monitor our own performance in reducing our carbon footprint. We are focused on making the Bank a more sustainable organisation, both in terms of our carbon footprint and the products that we offer. The figures presented below are for the years to June 2023 and June 2022. The year to June 2023 includes Scope 3 – purchased goods and services for the first time. This is not a requirement of the SECR initiative.
The Bank is compliant with the Streamlined Energy and Carbon Reporting standard ("SECR").

Scope	GHG Emissions Source	2023	2022
Scope 1 (tCO2e)	Fuel (Buildings)	49.4	52.9
	Refrigerants	-	5.3
		49.4	**58.2**
Scope 2 (tCO2e)	Electricity	19.9	16.8
		19.9	**16.8**
Scope 3 (tCO2e)	Business travel	72.0	23.7
	Employee commuting	100.2	83.7
	Employee working from home	221.5	132.0
	Other	-	0.5
		393.7	**239.9**

		2023	2022
Directly controllable emissions		**463.0**	**314.9**
Scope 3 (tCO2e)	Purchased goods and services	683.4	
Total location based GHG emissions (tCO2e)		**1,146.4**	**314.9**
Average number of employees[1]		336	321
GHG per employee (tCO2e)		3.4	0.98
GHG use per £m income (tCO2e)[2]		17.0	6.2

1 Based on employee data at 1 September each year
2 Based on turnover for the financial year to 30 September

• The Environment (continued)

The growth in directly controllable emissions in 2023 is considered to be the result of two principal factors:-

- Employee commuting in the year to June 2022 will have been reduced owing to the impact of COVID-19. In addition, the disruption caused by the ongoing work on the South Wales Metro, which led to line closures and cancellations may have caused more employees to commute by car;
- Our data collection survey for employees working from home is enhanced each year to enable employees to better understand their domestic emissions.

All the Bank's operations are UK based. The Bank's GHG emissions are reported in (tCO_2e) and usage in (kWh). GHG emissions per employee and income are reported as intensity metrics, for future ease of comparison.

Further information with regards to the Bank's assessment of the impact of climate change and its approach to risk management can be found on page 23.

Scope 1 – direct GHG emissions

Includes emissions from activities owned or controlled by the Bank that release emissions into the atmosphere. Examples include emissions from combustion in owned or controlled boilers and vehicles.

Scope 2 – energy indirect emissions

Includes emissions from own consumption of purchased electricity, heat, steam and cooling. These are a consequence of the Bank's activities but are from sources not owned/controlled.

Scope 3 – other indirect emissions

Emissions that are as a consequence of the Bank's actions, but the source is not owned or controlled, and which are not classed as scope 2 emissions

Scope 3 – purchased goods and services

Emissions that are as a consequence of the Group's purchasing actions, but the source is not owned or controlled, and which are not classed as scope 2 emissions.

Chief Executive Officer's Statement

Hodge will always support its people as well as our customers in the moments that matter most.

Last year I spoke about the pressure households and businesses were facing and 2023 has been a year where that pressure has continued to build, with persistently high inflation and rising interest rates putting a significant strain on economic growth, consumer spending and businesses.

Performance

With this challenging backdrop I am pleased to report an improvement of our underlying operating income during 2022/23, we have achieved a significant milestone moving from an underlying loss (defined as operating profit excluding investment income) of £4.4million in 2022 to an underlying profit of £2.2million. This has been achieved through strengthening our foundations in specialist markets for savings, retail mortgages and commercial lending, whilst adapting to a new business model following the significant business restructure in 2021.

Our mortgage business has performed well; gross new lending was in line with expectations at £190million during the year which is a notable achievement given the challenging market conditions. More broadly, there have been market difficulties in the Holiday Buy to Let market, with potential regulatory and legislative changes, this has been made up for with strong performance in our later life range where we are one of the leading specialists. We are looking forward to enhancing our range during 2023/24 to further provide solutions for customers who have challenges getting the mortgage they need.

Last year we widened our commercial real estate offering, launching new products aimed at providing a greater range of solutions for our customers. Following the 'mini budget' in September 2022 and the consequential prolonged volatility in markets, UK Commercial lending stalled. This volatility has been difficult for our customers and has meant we have not lent and supported our customers as much as we hoped. Gross new lending figures in 2023 equated to £55m, but as the economy adjusts to the new environment we are operating in, we have the funds and appetite to continue to support our commercial customers in 2024 and beyond.

> We continue to aspire to deliver brilliant experiences for our customers through every single interaction.

With the cost of living crisis the need for our money to work hard for us is even more important; through our savings business we have continued to provide consistently competitive rates which in a small way will help our customers protect against inflation showing our continued commitment to everyone who chooses to trust us with their savings.

Customers

We continue to aspire to deliver brilliant experiences for our customers through every single interaction, in whichever way our customers want to deal with us. As we modernise our digital journeys we still pride ourselves on the ability of our customers to speak to us easily, with this commitment demonstrated in our continued Trustpilot score of "excellent" with 94% of reviews either "excellent" or "great". Our Net Promoter Score (NPS), the primary way we judge overall satisfaction with our service, has also remained outstanding at +63 (2022: +61) for the Bank as a whole.

This year I am also pleased to announce that we have been further recognised by the Institute of Customer Service, through its national standard ServiceMark, which independently recognises organisation's achievement in customer service. I am delighted that Hodge has achieved this standard, the only bank in the UK to receive such accreditation.

This achievement is only possible because of our dedicated and talented colleagues, I feel proud every day of our commitment to delivering for our customers and it is so pleasing to see that commitment being recognised.

Colleagues

Our colleagues have also continued to be impacted by the cost of living challenges and we know this disproportionately effects those on lower incomes. To support colleagues, alongside the annual pay review, I am also pleased to say that we again supported our band one to three colleagues with a £1,000 payment to reflect the continued challenges we face and as a gesture demonstrating Hodge will always support its people as well as our customers in the moments that matter most.

During the year Matt Burton, our Retail Director, moved on from Hodge. I would like to take this opportunity to thank Matt for all his contributions to Hodge over the 7 years he was with us, first within the finance and mortgage teams and then latterly joining the Board and wider retail business. We wish Matt well for the future. Matt has been replaced by Christie Cook who joins to lead our retail business and we are hugely excited to have Christie with us as we develop our retail offering. I am also happy to announce Charlie Ellaway has been promoted to lead our People team, Charlie has been a key part of our people services team and we look forward to her developing our purpose led business.

Consumer Duty

During the year, one of the most major reforms since the global financial crisis was introduced through the Consumer Duty. This Duty sets a new bar for the outcomes we provide to our customers. Significant time and effort was committed to ensure we met the 31st July 2023 implementation date; the principals set out within the Duty will be a fundamental pillar of Hodge and how we do business going forward.

Transformation

Our investment in technology continues using modern components and a modular approach to move forward at pace and with real agility.

Following a significant period of build we are really looking forward to launching our new banking platform for our savings customers in early 2024, and enhancing functionality, customer experience and products through 2024 and beyond. Based on modern infrastructure this has introduced bio metric authentication for new customers and will enable us to move swiftly in 2023/24. This sets Hodge up for the future enabling us to continue to deliver great value to our savings customers as well as transforming the efficiency and scalability which is fundamental to our future plans.

Future plans

Our strategy to develop our core business is well underway but alongside this as part of our strategic review in 2022 we highlighted the need to diversify and build resilience into the business to complement our core income channels. I am pleased to announce a new partnership with Blue Motor Finance Limited. This is a great strategic fit for Hodge augmenting our existing business and demonstrates our strong financial position with the Bank providing Blue a source of funding of up to £240m with the potential to increase and extend this facility. As we move into the motor finance sector our development as a specialist bank will continue, offering a wide range of solutions across customer finance needs.

I am incredibly proud to lead an organisation with such a strong sense of purpose and with great people to deliver our strategy, it's that alignment of purpose and strategy that gives me so much optimism for the future.

David Landen
Chief Executive Officer

8 December 2023

Chief Financial Officer's Report

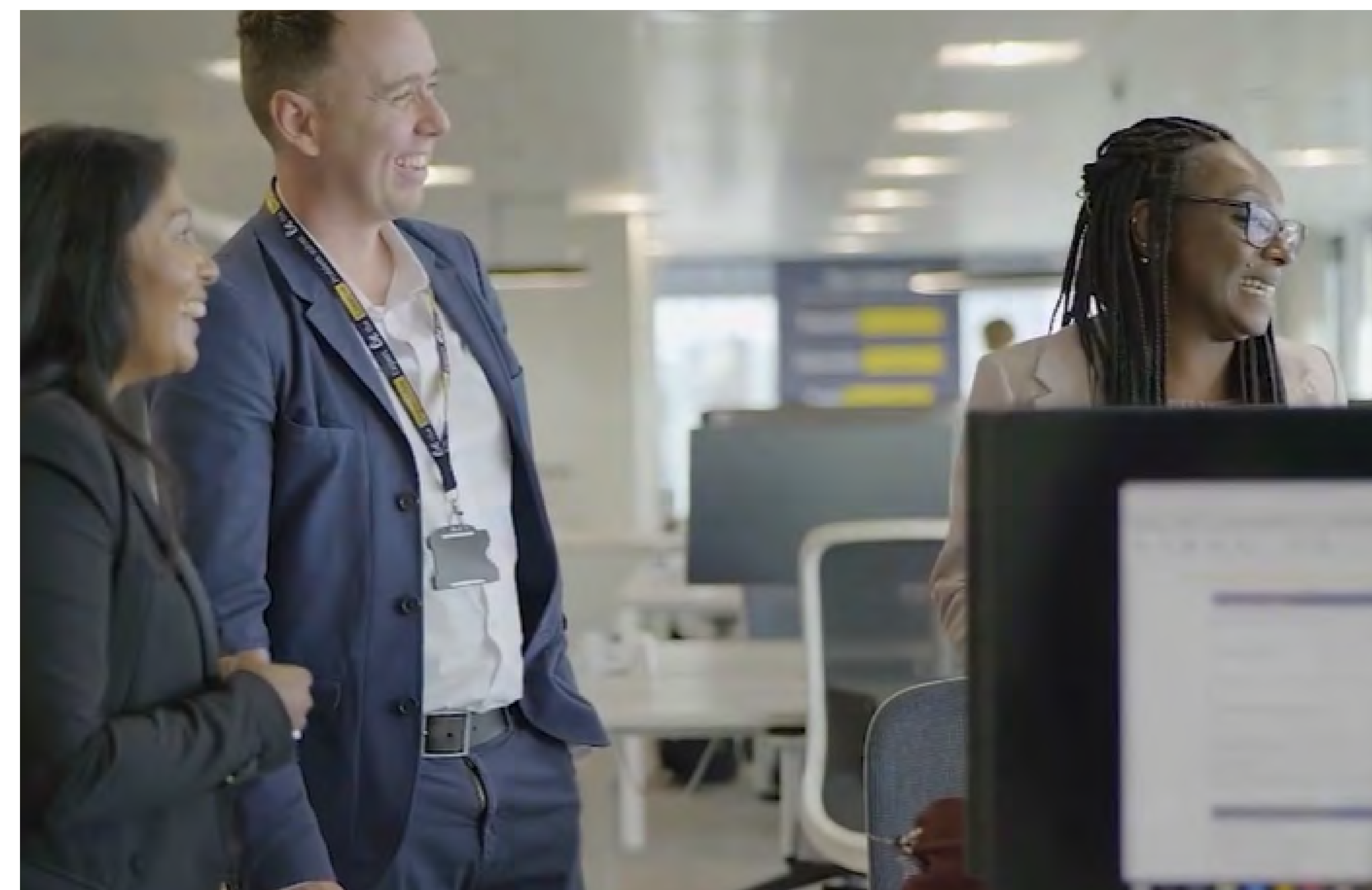
This financial year has again proved challenging, with interest rates rising seven times from 2.25% at the start of the year to 5.25%, creating a loss of confidence in the residential and commercial property markets.

This financial year has again proved challenging, with interest rates rising seven times from 2.25% at the start of the year to 5.25%, creating a loss of confidence in the residential and commercial property markets. On the opposite side, savers became incentivised to break fixed term deposits and seek higher returns available in the market.

An overview of the Bank's financial performance is provided below:-

Income statement

	2023 £m	2022 £m
Interest receivable	67.3	50.5
Interest payable	(27.9)	(21.1)
Net interest income	**39.4**	**29.4**
Net fees and commissions receivable	2.4	2.5
Investment and other operating income	4.8	6.7
Net operating income	**46.6**	**38.6**
Administration expenses	(35.3)	(34.2)
Depreciation and amortisation	(2.9)	(2.5)
Impairment gains	(1.6)	-
Bad debt recovery	-	0.4
Operating profit	**6.8**	**2.3**
Other fair value (losses)/gains	(7.0)	4.3
(Loss)/profit before taxation	**(0.2)**	**6.6**



Financial ratios	2023	2022
Net interest income	**£39.4m**	**£29.4m**
Average total assets	£1,842.0m	£1,787.1m
Net interest margin[1]	2.1%	1.6%
Cost to income ratio[2]	**75.8%**	**88.6%**

1 Net interest margin: net interest income / average total assets

2 Cost to income ratio: administration expenses as a proportion of net operating income.

Net interest income

Net interest income increased by £10.0m or 34.0% (2022: £11.8m or 67%). The Bank chose to reduce its strong liquidity position, utilising lower interest paying liquid assets (as defined on page 12) to fund its lending activities and this also improved the net interest margin. In addition, there was continued growth in loans and advances to customers of 6% (2022: 32%).

• Chief Financial Officer's Report (continued)

Cost to income ratio

The cost to income ratio fell from 88.6% to 75.8% although this remains high relative to our peers. The ongoing delivery of our strategic plan combined with our new motor finance partnership will continue to ensure we focus on improving this.

Operating profit

The Bank's performance at an operating profit level has improved by £4.5m, primarily as a result of the growth in net interest income, whilst holding the growth in administrative expenses below inflation. The Bank has continued to dispose of its remaining interests in Reversion properties and this contributed £4.6m (2022: £6.7m) towards operating profit.

Administrative expenses

Overall administrative expenses increased by £1.1m (2022: £8.3m increase) or 3% (2022: 32%). Staff costs accounted for £1.2m (2022: £4.1m) of the increase as the Bank competed for scarce resources and continued to support its staff with a Cost of Living payment. Average headcount fell from 354 to 334.

Expected credit losses ("ECL")

	Charge for year 2023 £m	ECL provision at 2023 £m
Retail mortgage portfolio	0.2	0.5
Commercial lending	(3.4)	3.7
Commercial bad debt write off	4.2	-
Portfolio buy-to-let	0.6	1.8
Total	**1.6**	**6.0**

Total ECLs at 30 September for the retail mortgage portfolio amounted to £0.5m (2022: £0.5m). The impairment charge for the year on the retail portfolio is £0.2m, reflecting both the growth in the retail book and the uncertainty of the current economic climate.

For commercial lending, the ECL at 30 September stood at £3.7m (2022: £7.1m). The Bank successfully exited two impaired historic loans with a resultant write back of the provisions.

For portfolio buy-to-let, the ECL at 30 September stood at £1.8m (2022:£1.2m).The impairment charge of £0.6m partly reflects the difficulties facing commercial landlords as their tenants deal with the costs of living crises.

Other fair value gains

The growth in interest rates towards the end of the financial year has resulted in a fair value loss on interest rate swaps of £1.9m, plus a hedge ineffectiveness gain of £0.5m, offset by a decrease in the fair value of reversionary assets of £5.1m and a fair value loss on the retirement mortgage portfolio of £0.5m. The higher interest rate environment results in a higher discount rate being applied to discount the future anticipated cash flows associated with these assets and liabilities.

Balance Sheet overview

	2023 £m	2022 £m	% Change
Liquid assets[1]	248.6	345.7	(28.1)
Loans and advances to customers	1,488.5	1,404.6	6.0
Investment properties	2.6	9.2	(71.7)
Other assets[2]	83.4	101.3	(17.7)
Total assets	**1,823.1**	**1,860.8**	**(2.0)**
Deposits from banks	240.7	221.0	8.9
Deposits from customers	1,368.1	1,425.0	(4.0)
Other liabilities[3]	26.2	25.3	3.6
Pension liabilities	4.3	4.5	(4.4)
Share capital and reserves	183.8	185.0	(0.6)
Total equity and liabilities	**1,823.1**	**1,860.8**	**(2.0)**

1 Liquid assets: made up of Cash and balances held at central bank, Government bonds, Debt securities Loans and advances to credit institutions

2 Other assets: made up of Intangible assets, Property plant and equipment, Deferred tax assets, Other assets and Derivative financial instruments

3 Other liabilities: made up of Derivative financial instruments and Other liabilities

Loans and advances to customers

Loans and advances to customers continues to grow, underpinned by gross new lending of retail mortgages of £190m (2022: £512.4m). New lending to Commercial and PBTL customers amounted to £46.3m. The retail mortgage book has grown primarily due to increased demand for later life lending. The growth in the retail mortgage portfolio has been partially offset by the planned reduction in a number of legacy commercial exposures.

Liquidity

The Bank holds liquid assets to meet its financial obligations in both business-as-usual and stressed situations. At 30 September, the Bank held £248.6m of liquid assets (2022: £345.7m) which are available to protect it from liquidity stresses.

Liquidity levels remained within board risk appetite and regulatory requirements throughout the year, including the Liquidity Coverage Ratio ('LCR'), which ensures that sufficient high-quality liquid assets ("HQLA") are held to survive a short term severe but plausible liquidity stress. The banks LCR as at 30 September 2023 was above the regulatory minimum of 100% at 176.9% (2022: 251.9%), the reduction being driven by the planned decrease in Bank of England cash balances and reduced HQLA qualifying bonds.

Funding

Retail savings remain a primary funding source, with savings balances decreasing to £1,368.1m (2022: £1,425.0m). The Bank is also a participant of the Bank of England's TFSME scheme with balances remaining unchanged at £205.0m (2022:£205.0m).

Defined benefit pension scheme

In the year ended 30 September 2021, the Bank closed its defined benefit pension scheme to further accrual and introduced a defined contribution scheme. At 30 September 2023, the defined benefit scheme had a deficit (the difference between scheme assets and scheme liabilities) of £4.3m (2022: £4.5m). The Group made deficit contributions to the scheme of £1.2m in 2023 (2022: £1.2m). The scheme suffered actuarial losses of £1.5m caused by investment returns being below expectation because of rising interest rates (2022: actuarial gains of £9.0m). Subsequent to the year end, the Bank made a cash payment of £3.0m into to the Scheme to take advantage of perceived investment opportunities arising from the high yields on long-term UK government bonds or gilts.

Capital and Leverage

The Bank holds capital to protect itself and depositors against unexpected losses. The amount of capital required to be held is determined as part of the Bank's capital risk appetite which assesses the material risks to which the Bank is exposed, how those risks are managed and the level of capital to be held against them.

The Bank's primary measure for assessing capital adequacy is the Common Equity Tier 1 ratio ('CET1'). This ratio assesses the amount of the highest quality of capital as a proportion of risk weighted assets. The Bank uses standardised risk weights to calculate the risk weighted exposure. As at 30 September 2023 the Bank's CET1 ratio stood at 24.5% (2022: 25.2%).

Alongside the CET1 ratio we actively monitor our Leverage Ratio. This is a capital ratio that excludes the risk weighting of assets. The Leverage Ratio at 30 September 2023 was 9.6% (2022: 9.6%). We are not captured under the Financial Policy Committee's Leverage Ratio Framework which became a binding requirement from 1 January 2022 for institutions with over £50bn of retail deposits. However, the Bank comfortably meets these requirements.

Jan Preece
Chief Financial Officer
8 December 2023

Long-term viability statement

Our Commercial Lending proposition is dependent on meeting the individual needs of our customers, tailoring our approach to accommodate their specific set of circumstances.

Hodge assessment of prospects

The resilience of our business model is relevant to any consideration of our prospects and viability. We benefit from the diversification between our specialist retail mortgages and our commercial lending businesses, which enables our services to be provided in a capital-effective way allied with our track record in attracting funding from different sources. We assess our prospects on a regular basis through our financial planning process. Our rolling five-year strategy forecasts the Bank's profitability, cash flows, capital and funding requirements and is reviewed by the Board each year.

Our business and financial planning also takes into account our obligations to depositors and the funding of our defined benefit pension scheme.

The Board believes that the market for our products will be strong for at least the next five years, this is supported by increasing customer demand. Our commercial lending proposition is dependent on meeting the individual needs of our customers, tailoring our approach to accommodate their specific set of circumstances. The digitalisation of our savings business will assist in making Hodge less dependent on its existing customer base and our commitment to ensuring that customers can deal with us through their channel of choice means that the Board is confident that the Bank will continue to retain and attract loyal depositors. Given the long-term nature of many of the businesses mortgage products, the Board has also given due regard to the possible impact of climate change on its future prospects.

Impact of War in Ukraine & Cost of living crisis

The conflict that started in Ukraine in February 2022 continues to impact the global economy and household budgets as the resulting inflation continues to put pressure on UK households' real personal disposable incomes. This is expected to continue into next year as the full effect of customers coming off fixed term mortgages has yet to be felt. Continued squeezes on disposable income could lead to customers missing mortgage payments. At the date of signing the financial statements, there remains a range of outcomes and possibilities in relation to the war in Ukraine and its effect on future inflation.

Hodge response

The Bank continues to track political developments, and discussions on these matters are commonplace in committees and in board meetings, particularly given the uncertainty and its impact on economic fundamentals. The risks associated with individual topics are given considerable thought and discussion covering how they may materialise and impact the Bank's strategy, customer base, capital and liquidity.

Consideration of risks

Consideration of the risks may be summarised as follows:

- **Credit risk** – analysis of the impact on mortgage affordability and house prices caused by adverse economic conditions. The loan book has been stressed extensively over a five-year horizon against a range of macro-economic assumptions, some severely adverse;
- **IFRS 9** – Stage 1 and Stage 2 provisions have been calculated under a variety of economic scenarios including a 100% weighting to the negative scenario to reflect the worst-case position;
- **Capital** – credit losses and net interest income impacts have been considered including those associated with the Bank of England's publicised scenarios; and
- **Liquidity** – the risks associated with adverse impacts on liquidity have been considered.

Extensive modelling and stress testing around macroeconomic outcomes have determined that the business remains viable and able to meet its risk appetite limits and regulatory obligations.

Viability statement

The Board has carried out an assessment of the longer-term viability of the Bank. The assessment covers a period of five years, as this is the period covered by the Bank's rolling five-year strategy and regulatory and internal stress testing. The time period chosen reflects the consideration that the level of uncertainty relating to the assessment increases the longer the period chosen. The pace of change of the economic, market and regulatory environments in which the Bank operates may undermine the reliability of longer forecasts. The Board has based this statement on a robust assessment of those risks that could threaten the business model, future profitability, solvency, liquidity or capital adequacy of the Bank.

> The Bank will be able to continue in operation and meet its liabilities as they fall due during the period to 30 September 2028.

In making the assessment, the Board considered a range of information concerning each of its principal risks, individually and collectively, over a range of scenarios, including but not limited to, the Bank's rolling five-year plan and the programme of regulatory and internal stress testing it undertakes, further details of which are as follows:

- The plan is reviewed by the Board in detail at least annually. The plan makes certain assumptions about the performance of the Bank and the economic, market and regulatory environments in which it operates. The planning process is underpinned by a robust stress testing framework to ensure compliance with the Bank's risk appetite.
- Alternative forecasts are also constructed against a number of stress scenarios, including a robust downside scenario as part of the Board's review of the Bank's ICAAP. This involves considering a severe stress to the UK economy, with a significant fall in both residential property prices and secondary commercial real estate values and low interest rates for a sustained period and a interest rates up scenario. The results of the ICAAP are submitted to and discussed with the PRA.
- Liquidity stress tests are conducted as part of the Bank's ILAAP. The ILAAP demonstrates that the Bank holds sufficient liquid assets to meet cash outflows during a severe-but-plausible scenario where there is a combined market-wide and firm specific stress.
- The review also considered all aspects of emerging regulation where there is sufficient clarity to inform the analysis. For example, the assessment of the Bank's capital position reflects the latest understanding of the capital buffer and leverage requirements likely to be imposed on the Bank.

Based on this assessment, the Board confirms that it has a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due during the period to 30 September 2028.

Graeme Hughes
Chairman
8 December 2023

2 Governance

Corporate Governance

The Board's agenda during the financial year 2023 was focused on overseeing and supporting executive management to deliver on Hodge's strategic objectives.

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 Bank's approach to corporate governance is based on the principles and provisions of the UK Corporate Governance Code. Although the UK Corporate Governance Code is primarily aimed at listed companies, the Bank's Board is committed to operating in line with best practice standards of corporate governance. For this reason, the Board chooses to comply with the UK Corporate Governance Code in so far as is relevant to private financial services companies.

The Board's agenda during the year was focused on overseeing and supporting executive management to deliver on the Bank's strategic objectives. In periods of significant change, leadership and good governance are more important than ever.

The Board comprises of two executive and five non-executive directors. 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.

The Bank outsources its internal audit function to Deloitte. The primary purpose of this function is 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 to present a summary of audit reports completed during the period and to provide any explanations required by the Committee.

Governance framework

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. The Board holds regular discussions with the Bank's shareholder to ensure a clear understanding of their views and requirements. A shareholder's covenant has been agreed detailing the Shareholder's expectations of the Bank.

The Chair is responsible for the leadership and operation of the Board, setting the agenda and the tone of board discussions as well as having responsibility for 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.

Graeme Hughes – Chair

Graeme joined the Board in 2019 and was appointed Chair in May 2020. Graeme has spent the vast majority of his career with the Nationwide Building Society, most recently becoming its Group Distribution Director, responsible for all sales and service activities across 720 branches and 10,000 staff. Earlier roles have seen him leading group strategy and planning, as well as human resources and external affairs.

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 the Bank of New York.

Aileen Wallace – Non-Executive Director

Aileen joined the Board in April 2020 and is Chair of the Innovation and Change Committee. She is an experienced executive turned advisor and non-executive director with more than 30 years' experience in senior financial services and digital services roles at Virgin Money (formerly CYBG Plc), Co-operative Bank, Cognizant and pre-seed Fintech. A Chartered Banker, her expertise is in business transformation, technology and customer innovation and corporate governance in highly regulated environments. Aileen is also currently a non-executive director at Target Group.

Iain Laing – Non-Executive Director

Iain joined the Board in July 2020, and is the Chair of the Board Risk Committee. He is also Chief Risk Officer of Monzo. Prior to joining Monzo, Iain had been Chief Risk Officer and a member of the executive committees of TSB Bank and Nationwide Building Society, and was Chief Credit Officer of Santander UK Retail throughout the 2007 to 2010 financial crisis.

Penny Bickerstaff – Non-Executive Director

Penny joined the Board in September 2022 and is the Senior Independent Director. She combines financial, operational and advisory experience as a former Finance Director and PwC Partner. Her background has covered professional services, retail, consumer and media, and government. She has worked closely with FTSE 100 groups as well as major UK government departments, on issues such as audit, risk, strategy, M&A, regulation, change and transformation. As a chartered accountant, she brings board experience from the accountancy profession having served on several ICAEW boards, before joining PwC.

David Landen – Chief Executive Officer

David was appointed Chief Executive Officer (CEO) in September 2020, stepping up from Chief Financial Officer (CFO) and Deputy CEO. David joined the Group 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 CFO in 2011. An accountancy graduate from Cardiff University, he is a fellow of the Association of Chartered Certified Accountants.

Jan Preece – Chief Financial Officer

Jan joined the Bank and was appointed CFO in September 2021. Jan has a 25-year career in finance having previously performed the Finance Director role for Friends Provident International (part of the Aviva Group) and prior to that several senior finance roles, including Finance Director within the General Insurance Business of Lloyds Banking Group.

Board Committees

The Board has established the following standing committees:

Audit Committee:

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

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 oversee 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. A report from the Chair of the Audit Committee can be found on page 24.

• Corporate governance (continued)

Board Risk Committee:

Iain Laing (Chair), Graeme Hughes, John Barbour, Aileen Wallace and Penny Bickerstaff.

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

The function of the Board Risk 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 eight times a year. A report from the Chair of the Board Risk Committee can be found on page 26.

Nomination and Governance Committee:

Graeme Hughes (Chair), John Barbour, Aileen Wallace and Penny Bickerstaff.

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

The function of the Committee is to recommend the appointment of directors to the Board and board committees and to ensure that the Bank has an appropriate succession plan for executive and senior management positions. It also is responsible for ensuring that the Bank's Diversity and Inclusion policy is being delivered.

The Committee meets as required. A report from the Chair of the Nomination and Governance Committee can be found on page 28.

Remuneration Committee:

Aileen Wallace (Chair), Graeme Hughes, Iain Laing and Penny Bickerstaff.

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

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 at least four times per year. A report from the Chair of the Remuneration Committee can be found on page 29.

Innovation and Change Committee:

Aileen Wallace (Chair), Graeme Hughes and Penny Bickerstaff.

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

The function of the Committee is to oversee the end-to-end digital delivery of the Bank's product and services. It monitors investment and management of risk associated with the delivery of change associated with the Bank's strategic initiatives.

The Committee meets at least four times per year. A report from Innovation and Change Committee can be found on page 33.

Board and Committee Membership and Attendance

Name	Board		Audit Committee		Board Risk Committee		Nomination and Governance Committee		Remuneration Committee		Innovation and Change Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Graeme Hughes	8	8	-	-	7	7	3	3	6	6	4	4
John Barbour	8	7	6	6	7	7	3	3	-	-	-	-
Penny Bickerstaff	7	7	4	4	6	6	3	3	4	4	3	3
Aileen Wallace	8	8	6	5	7	7	3	3	6	6	4	4
Iain Laing	8	8	6	6	7	7	-	-	6	6	-	-
David Landen	8	8	-	-	-	-	-	-	-	-	-	-
Jan Preece	8	8	-	-	-	-	-	-	-	-	-	-
Matthew Burton*	4	4	-	-	-	-	-	-	-	-	-	-

(a) Number of meetings held at which a director was entitled to attend

(b) Number of meetings attended

Notes:
*Matthew Burton resigned from the Board on 3 March 2023.

Risk Management Report

Hodge Bank's business model, focused on deposit gathering and specialist lending to later life owner-occupiers, holiday-let landlords and commercial real estate investors, is in transition. The lending portfolios are seeking to scale at sustainable margins. The savings proposition is working toward an implementation of digital technologies. The bank is implementing a series of changes to improve the efficiency, scalability and resilience of the business. The Bank has been executing these changes in a rapidly changing economic context.

The macro environment remains challenging for businesses and for customers with elevated inflation levels, rising interest rates and mounting cost of living challenges all putting significant strain on economic growth. This is further exacerbated by the hangover of supply strain issues from the ongoing war in Ukraine and the tail of COVID.

Whilst households are under significant pressure, due to rapid rises in the cost of living, the Bank continues to see resilience from its customer base and has not seen this filter through into material deterioration in the credit performance of its lending or requests for early access to deposits. Both lending and deposit-taking have been re-priced to reflect the change in the interest rate environment. The monitoring of the change programme has been a consistent focus for the Board Risk Committee and the Bank's executives.

The business model has a medium to low risk profile due to the relatively straightforward products we offer and being a financial services provider solely focused on the UK, against this backdrop the Bank sees managing risk effectively as fundamental to our strategy, long term resilience and to successfully operating day to day.

Risk Management Framework

The Bank's Risk Management Framework is an integral part of the Bank's business model to support:

- Delivering against its strategy within an appropriate risk culture;
- Building greater resilience to organisational threats;
- Protecting its customers from unfair outcomes.

Risk management is every colleagues' responsibility at all levels and roles. The Board sets the 'tone from the top' to cascade through the business.

The Bank uses a single Risk Management Framework with which all business and support areas, including those outsourced to third party providers, are managed. This ensures that a set of minimum requirements and consistency of standards and processes is used across the business.

The Bank's strategy and business model are underpinned by clearly defined risk governance, ensuring alignment with the Board's appetite for risk. The Bank operates entirely within the UK financial services market and only takes on risks, which it has the capability to understand and to manage effectively. A Risk Management Framework, supported by a three lines of defence governance model, ensures strong risk awareness, assessment, monitoring and management across all principal and emerging risks. Risks are managed within the risk appetite set by the Board and stress testing is undertaken to ensure that the capital and liquidity of the Bank would enable it to survive severe but plausible market-wide and firm specific stresses.

Through the year there have been improvements to risk management through ongoing refinement of policies, processes and procedures, and recruitment of risk resources across both first and second lines of defence, such as:

- Increasing capacity and capability in second line risk for oversight on regulatory reporting and model risk.
- Strengthening compliance with the Prudential Regulatory Authority Supervisory Statement SS2/21 on outsourcing and third party risk management
- Refinement of the Financial Crime Framework and supporting standards with focus on fraud aspects.
- Continued improvements in risk reporting to ERC and BRC along with refinement of risk appetite calibrations.
- The implementation project for Consumer Duty ensured a structured programme of work to ensure Hodge is substantively compliant with first phase requirements. Work continues on the second phase and phase one enhancements identified.

Risk Culture

The Bank has a strong culture of risk awareness and control, and actively monitors and manages the risks of its business, as well as emerging industry risks which may have an impact on those activities, through its Risk Management Framework. This culture is embedded through clear expectations of roles and responsibilities and supported by defined risk appetite and risk management policies, together with effective training for all levels of staff. The Board supports a culture of openness and transparency, encouraging issues to be raised as identified and providing the necessary resources and support to remediate. This is underpinned by an emphasis on good customer outcomes and sustainability of the business.

Three Lines of Defence Model

The Bank operates a three lines of defence model which clearly sets out responsibilities for the management and oversight of risk. The Board retains ultimate responsibility for risk management. The three lines of defence model is summarised below:

First Line of Defence – Day-to-Day Risk Management
- The first line of defence has responsibility for implementation of the Bank's strategy and for the management of risk across the organisation and is comprised of executive committees, management and staff.
Second Line of Defence – Risk Oversight
- The second line of defence is responsible for providing independent oversight and challenge of activities undertaken by the first line and provides guidance on risks relevant to the strategy. This is provided through the Risk & Compliance function, which is led by the Chief Risk Officer ('CRO') who reports to the CEO and has an independent reporting line to the Chair of the Board Risk Committee. It maintains and reports an aggregate view of risks and performance in relation to risk appetite to the Board Risk Committee. The Risk function is not customer facing and has no responsibility for business targets or performance.
Third Line of Defence – Internal Audit
- The third line of defence provides independent and objective assurance on the design and effectiveness of the Bank's governance, and activities of the first line and second line of defence. This assurance is obtained through the use of internal audit services provided by Deloitte. Internal audit reports directly to the Chair of the Audit Committee and the CEO and is independent of the first and second lines of defence.

• Risk Management (continued)

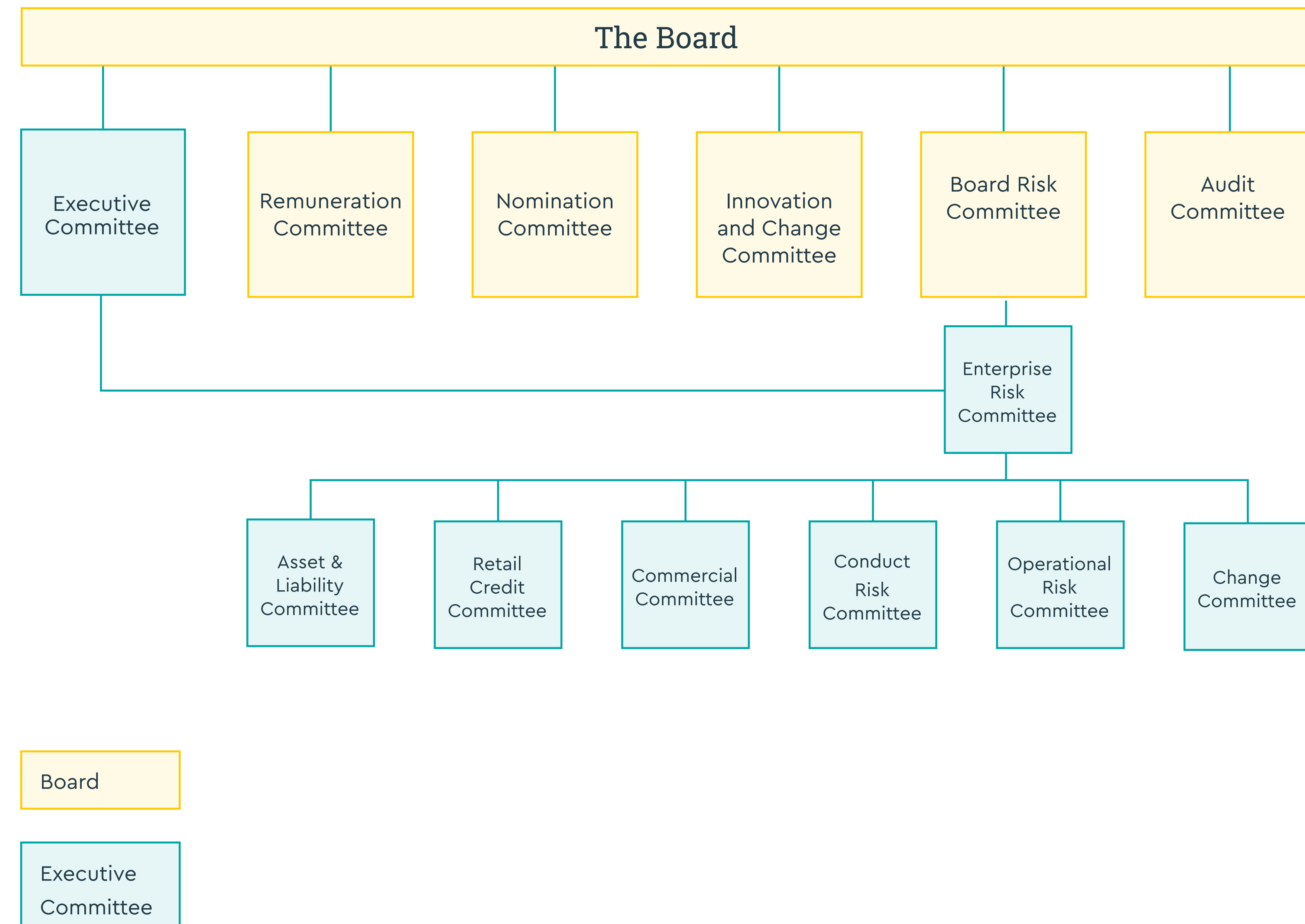
Risk Governance Structure

The Board is ultimately responsible for the overall risk governance and effective management of risk within the Bank. The Board determines the risk strategy and ensures that risk is monitored and controlled effectively.

The Board Risk Committee reviews, on behalf of the Board, the key risks inherent in the business and the control framework in place to manage such risks, reporting material findings to the Board.

There is a formal structure of Risk Management Frameworks and policies in place, setting out risk limits and triggers and minimum operating standards, which are aligned to the Board's risk appetite.

Risk governance is supported by a structure comprising of executive committees, each with escalation routes for risk matters through the Board Risk Committee and Board as shown below:



Executive Committees:

Each committee includes appropriate representation from the Executive of the business and risk specialists. The responsibilities of each of the Committees is documented in the Terms of Reference of that committee. The executive committees are aligned to the principal risk categories of the Bank and chaired as closely as possible by the respective SMF holder. Each committee has supporting working groups with a delegated mandate but accountability remains in the executive committees. A high-level summary is set out below:

Executive Committee is chaired by the Chief Executive Officer. The Committee is responsible for formulating and executing business and functional strategies that underpin the strategic plan and budget and by inference other constitutional documents including ICAAP, ILAAP and Recovery plan.

Enterprise Risk Committee is chaired by the Chief Risk Officer. The Committee is responsible for oversight and monitoring of all enterprise wide risks and for the development of the Risk Management Framework.

Operational Risk Committee is chaired by the Chief Operating Officer. The Committee is responsible for the monitoring and oversight of operational risks across the business and for the development and implementation of the Operational Risk Framework and ensuring adequacy of the control environment.

Conduct Committee is chaired by the Managing Director of Retail. The Committee is responsible for the identification, management and monitoring of the conduct risk across the business and to assist in the development and implementation of the Conduct Risk Framework and ensuring adequacy of the control environment.

Change Committee is chaired by the Chief Operating Officer. The purpose of the Change Committee is to ensure the Bank's Change Programme is aligned with the Bank's strategy and business plans and to monitor programme delivery, budget and resources. The Committee reports key risks to the Risk function and CRO.

Assets & Liabilities Committee ('ALCO') is chaired by the Chief Financial Officer. The Committee is responsible for the management of and implementation and maintenance of policies relating to capital management, liquidity management, interest rate risk and treasury credit risk. It also delegates responsibility to the Finance Committee for review and challenge of significant accounting policies and the judgements within.

Retail Credit Risk Committee is chaired by the Managing Director of Retail. The Committee is responsible for the implementation and maintenance of Retail Credit Risk policy. The scope of the Committee covers monitoring and development of all retail lending activity.

Commercial Credit Risk Committee is chaired by the Managing Director of Commercial Lending. The Committee is responsible for the implementation and maintenance of the Commercial Credit Risk policy. It is also responsible for reviewing, challenging and if appropriate, approving credit proposals for new commercial lending deals within its delegated authority.

Risk Strategy

The Bank's Risk Strategy sets out the risk management approach to support the achievement of its strategic ambitions. It sets out which risks will be avoided, mitigated or accepted and is implemented by defining tolerances to the risks it faces through its risk appetite. The Risk Strategy also assesses the Bank's level of maturity against its Risk Management Framework to identify areas of improvement for the coming year.

In summary the Bank manages risks by:

- Identifying, assessing and monitoring the risks arising from the business model.
- Setting appropriate risk appetite with defined measures and limits.
- Ensuring appropriate skills and resources are present for effective management of risks.
- Identifying and tracking treatment plans for known control weaknesses.
- Scanning the horizon for emerging risks and regulatory changes.

Risk Appetite

The Board sets a risk appetite to define the level of risk that the Bank is willing to accept or wishes to avoid in order to meet its business objectives. A risk appetite statement is in place that includes both qualitative statements and quantitative measures and addresses each of the key risk types faced by the Bank as articulated within the Risk Strategy.

The risk appetite statements are reviewed annually and linked to the Bank's strategy and supported by a suite of risk metrics, limits and triggers designed to monitor the exposure to the principal risks and together outline parameters within which the Bank operates.

The risk appetite statement is not just a static reporting tool it provides a framework against which all strategic and operational business decision making must be assessed.

• Risk Management (continued)

Top and Emerging Risks

In addition to the principal risk categories noted below, the Bank's top and emerging risks are identified through the Bank's risk management processes.

These are specific risks within the Bank's principal risk categories that are significant to the Bank throughout its strategic plan. The key risks and details of how they are mitigated are set out below:

Current threat/Emerging risk	Mitigation/Strategic response
Macro-economic/political environment The Bank is particularly exposed to changes in the macro-economic environment predominantly due to the nature of its business through its lending portfolios. This is currently experienced through the UK's cost of living crisis and is likely to remain the key driver of the uncertain and negative economic outlook for the coming year. It also has the potential to elevate fraud as people come under increasing pressure to balance household incomes. The downturn in the market is filtering through via increased arrears, provisions and ultimately credit losses. Additionally, there will be other factors that impact the business, but credit risk is the largest.	- The Bank's strategy includes sensitivities for key assumptions that would reflect the impact of these downturns. - The ICAAP and ILAAP explore more extreme scenarios and sensitivities than is currently forecast in the economic outlooks which suggests the Bank can remain resilient over the period. Along with the Recovery Plan that provides our mitigating actions if required. - Monitoring of early warning indicators is in place on regular basis along with economic commentary discussed regularly at ALCO and BRC. Portfolios are closely monitored at a business and executive level to identify any early adverse trends that will need to be reacted to. - Deep dives into lending portfolios take place through the year and are presented to executive and board level committees to review any trends or issues identified. - Monitoring and management of credit policy to reflect current and future risks is ongoing through the year. - Continued monitoring of financial crime attempts.
Market/competitive environment The events of the past few years have been pivotal in changing customers behaviours and requirements which has, and continues to have the potential to, change their financial service requirements. Disruptive technologies, new competitors (traditional and non-traditional) and a search for yield all have the ability to threaten the current business model and achievement of the strategy.	- Continual monitoring of customer needs and the competitive environment is undertaken and discussed regularly alongside strategy development. - Competitor benchmarking and networking forums allow insight into firm's potential strategic intent. - Appropriate market research and product development governance processes are conducted to ensure strategic initiatives are properly controlled. - Strategic initiatives have now been completed to simplify the business model and exit assets no longer core the Bank. - The strategy is revisited each year to assess our position in the markets, along with threats and opportunities to understand the flexibility and resilience of the business model.
Change Delivery & Execution risk The Bank has committed to a number of strategic change initiatives which are key to the achievement of our strategic goals. A delay or overload in defining and delivering the change planned could result in strategic efficiencies not being realised as expected.	- The change programme is central to execution of the Bank's strategy and business model and its operational resilience once fully implemented. - The change programme has risk management processes in place to ensure safe and controlled delivery of the initiatives required. Retrospective reviews of change delivery are regularly carried out to continually learn from the process. - During the strategy review additional focus was put on core change initiative benefits and how they support the strategy achievement and also removing change that did not contribute to the strategy. - Each initiative has a clearly articulated benefits case on how it either enhances the returns and value of the business or strengthens risk management capability.

Current threat/Emerging risk	Mitigation/Strategic response
Cyber threat The threat of cyber related attacks remains prevalent across all industries particularly as the UK continues to impose sanctions on Russia. The sophistication of the attacks continues to increase and the threat of not maintaining and improving the security of the organisation has the potential to lead to vulnerabilities. Key threats include: • compromised customer accounts; • security vulnerabilities; • ransomware attacks; and • attacks on third parties.	- The Bank continues to review, mature and invest in its cyber security control environment and compliance with the NIST framework to reflect the ever-changing nature of cyber threats. It backs up the reliance on its control environment against the impact of this risk by also holding cyber risk insurance. The cost and availability of cyber insurance in the market is posing its own threats that continue to be monitored to ensure we maintain adequate coverage. - Test scenarios have been conducted to assist in the identification of potential vulnerabilities with actions to remediate and address any weaknesses identified.
Climate Change risk Climate change and how society is responding to this remain a worldwide area of focus and continues to evolve in our understanding, outlook and responses. Financial risks from climate change arise through two primary channels; physical i.e. specific weather events and damage to assets and transition risks i.e. increased regulation to adjust to low carbon economy.	- ESG considerations are taking greater prominence in the strategic plan and risk agendas, particularly climate change risk and as such a fast-moving topic it is offering risks and opportunities which require consideration for achievement of both firm level and global targets on climate change. Government delays in policy and ambition pose an elevated risk in transition through a harsher late policy response. - The Bank has partnered with the Carbon Trust to develop its understanding of physical and transition risks to allow measurement and assessment of its exposure to financial risks from climate change. - The financial risks from climate change are being addressed specifically as part of the ICAAP but also the knowledge learnt is then informing strategic and business model decisions. - The Chief Risk Officer has been designated senior management responsibility with ensuring consideration of transitional risks (including legal and regulatory risks) arising from climate change and embedding this in the Risk Management Framework.

Pandemic risk has dropped out of the top risks for the Bank. Whilst globally disruptive from an operational perspective, not having large numbers of colleagues impacted simultaneously before the vaccination programme took effect, the Bank, like many others, coped reasonably well, adjusting quickly to new ways of working in response. However, it remains on the emerging risk register as new variations or pandemics may impact or crystalise in a different way and cause wider disruptions.

The Bank conducts on-going horizon scanning to identify new risks that could threaten achievement of the strategy and ensure they are captured in the Risk Management Framework as early as possible. The governance structure in place enables a strong awareness of current and emerging risks, which are recorded and monitored to ensure that appropriate mitigation and monitoring strategies are adopted. Mitigating actions are logged, business owners allocated and warning indicators identified to ensure effective ongoing monitoring. Oversight of emerging risks is provided by the Board Risk Committee.

• Risk Management (continued)

Principal Risks

These are the most significant risks faced by the Bank which could impact the viability of the Bank and delivery of our strategic objectives. Risk appetite limits and triggers as well as key risk indicators are in place for each principal risk and reported to the relevant executive committee. Aggregated reporting is provided to the Board Risk Committee to support it in its duties.

CREDIT RISK – the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Bank when it falls due.

Key drivers and appetite	Our approach
Credit risk emerges from commercial lending exposures, retail mortgage lending and from investments held by the Treasury function. Concentration risks within and across these portfolios are also considered. The Bank is willing to be exposed to a moderate level of risk for an acceptable return	The Bank assesses its exposure to and management of credit risk with reference to three sub-categories: **Retail credit risk** – the risk of financial loss from retail mortgages due to the customer's failure to service interest or repay capital. **Commercial credit risk** – the risk of financial loss from a commercial lending customer's failure to settle financial obligations as they fall due or movements in commercial real estate prices. **Treasury credit risk** – the risk that a debt issuer or counterparty will fail to make payments (either interest or principal) in a timely manner or the credit worthiness of counterparties deteriorate, reducing the value of investments. Within each business line there is dedicated first line risk management provided by appropriately skilled credit managers and treasury staff. Pricing of lending products includes a component of margin to cover expected credit losses. Treasury counterparties are restricted to a number of well-established and externally rated institutions. The following mitigation practices are in operation: - Approved underwriting policies and authorisation mandates are in place for each sub-category in order to direct lending decisions, ensuring that the Bank lends responsibly while taking an acceptable level of credit risk. - Rating and scoring systems in place and controls to support lending decisions with the addition of affordability stress tests. - Limitations on concentration risk across portfolios are implemented via risk appetite limits on large exposures, geographical and sectoral exposures, and loan to income ratios. - Appropriately skilled colleagues are employed by the Bank to monitor and manage credit risk within the defined parameters set by the Board. - Portfolio level stress testing and scenario analysis.

FINANCIAL RESILIENCE RISK – The risk that the Bank fails to maintain or protect its capital and liquidity resources to meet regulatory requirements, absorb volatility and losses through economic cycles and changes in market rates, and to maintain the confidence of customers, investors and regulators.

Key drivers and appetite	Our approach
Financial resilience risk arises from changes to the respective resources (i.e. capital and liquidity) and risk profiles of the Balance Sheet driven by customer behaviour or management decisions. It also arises from the external environment, including changes to market metrics such as interest rates or property prices together with changes to the regulatory regime. The Bank aims to mitigate financial resilience risk where possible and commercially viable to do so and any residual risks have financial resources allocated to support them.	The Bank assesses its exposure to and management of financial resilience risk with reference to the following sub-categories: **Capital risk** - The risk that the Bank fails to maintain sufficient capital to meet regulatory requirements, absorb volatility and losses through economic cycles, and to maintain the confidence of customers, investors and regulators. **Liquidity risk** – The risk that the Bank is unable to meet its financial obligations as they fall due or unable to maintain customer and stakeholder confidence or can only do so at an uneconomic cost. **Interest rate risk** - The risk of loss in the value of, or net income arising from, assets and liabilities due to changes in the market level of interest rates. **Market risk** – The risk that the net value of, or net income arising from, assets and liabilities is impacted because of market price or rate changes. - Treasury and Finance provide strong first line risk management expertise and have day to day responsibility for the management of financial resilience risk within defined board policies and limits. The following mitigation techniques are in operation: - Frequent monitoring and reporting of exposures, portfolio composition and changes and forecasts of key ratios. - Reporting of regulatory key metrics across capital, liquidity and interest rate risk. - Stress tests run to ensure the Bank maintains adequate levels of capital & liquidity for business purposes even under stress. - Well defined board policies and limits, monitored regularly. - Extensive contingency and recovery plans in place. - Key regulatory assessment documents embedded for ICAAP, ILAAP and Recovery Plan. - Maintenance of high-quality capital surplus. - Maintenance of a liquidity buffer of high-quality liquid assets. - Well matched maturity profile of assets and liabilities. - Composition, credit quality and maturity profile of liquidity portfolio and funding balances in line with agreed policies. - The interest rate structure of assets is matched with liabilities to create a natural hedge and supported by derivatives where appropriate. - Various interest rate stress tests are applied to the portfolio to help identify any potential weaknesses that require further remediation.

STRATEGIC RISK – The risk of significant loss or damage arising from business decisions made in setting and executing the Bank's strategic plan, and/or from an inability to adapt to external developments.

Key drivers and appetite	Our approach
Strategic risk can arise from changes to the business model and also the risk of the business model or strategy proving inappropriate due to macro-economic, political, regulatory or other impacts. The risk to delivery of the strategy is deemed to be the principal risk. At present this category includes the risks from climate change due to its impact across all risk categories and to keep it visible whilst we mature our risk management in this field.	Close management and monitoring of the strategic plan along with in-depth stress testing reported regularly through the Bank's committee structure to the Board and senior management. This is supported through additional risk reporting and monitoring of the key threats to the business on risk registers and horizon scanning to ensure the business can respond appropriately. Along with competitor analysis and economic setting commentary.

• Risk Management (continued)

CONDUCT RISK – the risk that the Bank's behaviour will result in poor/unfair outcomes for customers.

Key drivers and appetite	Our approach
Conduct risk is inherent in any business that provides products or services to customers. Failing to treat customers fairly and deliver good outcomes would have a detrimental impact on the success and sustainability of the Bank. The Bank assesses its exposure to and management of conduct risk with reference to four sub-categories: Products & Services, Price & value, Consumer understanding and Consumer support.	- Conduct risk framework along with supporting policies and procedures in place across the business with implementation validated through Training & Competency schemes, quality assurance and 2nd & 3rd line oversight. Regular committee monitoring & reporting in place. - A number of support frameworks are in place to support product governance and distribution design & delivery strategy. - Senior management are responsible for understanding the nature and magnitude of conduct risks within each business area, and for implementing appropriate controls to mitigate those risks. Facilitated by a well supported and trained front line team.

OPERATIONAL RISK – the risk of loss from control failures or external events, which result in unexpected or indirect loss to the Bank.

Key drivers and appetite	Our approach
The Bank accepts that operational risks arising from its people, processes, systems or the external environment are a natural consequence of its business operations but seeks to avoid or mitigate the risk to a minor level wherever practical. The Bank assesses its exposure to and management of operational risk with reference to a number of more granular sub-categories.	Operational policies and procedures, supported by staff training, are in place to govern the way in which these risks are managed across the business. Senior management are responsible for understanding the nature and magnitude of risks within each business area, and for implementing appropriate controls to mitigate those risks. Operational losses and near-misses are recorded and analysed to determine whether there are any systemic issues that need to be addressed by the business. Horizon scanning is conducted to identify emerging regulatory and legal developments to ensure that the business can respond appropriately. This is supported by an horizon scanning working group with representatives from across the business. Oversight on operational risk is provided by committees and governance forums. The Board is mindful that, as the digital capability of the Bank increases, the risk associated with cyber-attacks also increases. As such, particular focus continued to be given to this area throughout the year to ensure a robust cyber response.

Stress Testing and Planning

Stress testing and scenario analysis is a key tool of the Risk Management Framework which assess vulnerabilities under hypothetical or historical scenarios. The results of the stress testing identify the impact of risks that could threaten the business model, future profitability, solvency, liquidity or capital adequacy of the Bank. The Board and senior management have engaged in a number of exercises which have considered and developed stress-test scenarios covering a range of company-wide, multi-risk category stress tests, generic and idiosyncratic financial shocks, and operational and conduct risk scenario analysis in addition to the scenarios prescribed by the regulator.

Stress testing is central to the annual business planning process and to the annual review and ongoing development of the Bank's risk appetite. It is also core to the adequacy assessment processes for liquidity and capital and for assessing and improving management of the Bank's risk profile. The assessment processes for capital and liquidity are articulated through the Bank's ICAAP and ILAAP. These activities and associated documents are updated at least annually or following any significant change in the business model or risk profile.

The ICAAP evaluates the level and quality of capital required by the Bank as defined by the Capital Requirements Directives and Regulations to ensure it adequately covers all current and future risks in the business over the medium term. In addition to the assessment these risks may pose to capital, consideration is given to the contingency actions available to the Board to mitigate those risks.

The purpose of the ILAAP is to consider the Bank's liquidity risk management processes, an element of which is evaluating liquidity positions and requirements in both business-as-usual and stress situations. The ILAAP demonstrates that sufficient liquid assets are held to meet cash outflows during a severe but plausible scenario where there is a combined market-wide and firm-specific stress resulting in, among other things, a significant outflow of savings accounts. The document also outlines the contingency funding arrangements available for use in a stress.

• Risk Management (continued)

Reverse Stress Testing

The Bank also undertakes reverse stress testing which is used to explore potential vulnerabilities of the Bank's strategies and plans to extreme events that could cause the business to fail. The reverse stress tests push the severity of the stress scenario to the point at which the firm's business model becomes unviable. These exercises are designed to assess the resilience of the business to adverse competitive, economic or financial developments and ensure that robust, forward-looking capital and liquidity management processes are in place to deal with the identified risks.

The reverse stress tests complement the ICAAP and ILAAP and assist management in understanding the full continuum of the levels of stress which the business can tolerate within its current resources and risk appetite. Any plausible scenarios identified with unacceptably high risks will lead the Bank to adopt measures to prevent or mitigate those risks through a change in strategy, increased controls and early warning indicators or contingency plans.

Recovery Planning

The Bank maintains recovery plans that can be enacted in the event of internal or external triggers which threaten the liquidity or capital position of the Bank. These plans are prepared in accordance with the Bank's Recovery and Resolution Directive allowing a common approach to be taken.

The Recovery Plan describes the strategy and a 'menu of actions' that could be taken by management to allow the recovery of the Bank from a significant adverse event which would otherwise lead to failure. The Recovery Plan is informed by the outcomes of the Stress and Scenario Testing Framework which the Board and senior management use to determine the strategy and actions to support a potential recovery.

The Recovery plan outlines the processes and procedures that should be followed, along with assessing the management actions to recover from a severe but plausible financial risk event.

The plan tests the early warning and invocation triggers to ensure the Bank has enough time to react and put in place recovery or mitigation actions. It has close ties to the overall business continuity plan. It is reviewed at least annually or more frequent if a material change of strategy or business model suggests. It is also tested through desktop exercises to understand any components or aspects that may require improvement or development to enable smooth operational implementation if ever required.

The Resolution Plan provides data required by the PRA to be used to facilitate a rapid and orderly resolution in the event that the recovery of the Bank could not be achieved whilst maintaining any critical functions provided by the Bank to the economy.

Operational Resilience

The regulatory direction provided on operational resilience through discussion and consultation papers has led the Bank to strengthen its previous approach to business continuity by assessing the Bank's critical services and the supporting processes to identify potential disruptions that could crystallise under various operational scenarios i.e. cyber-attacks or head office unavailability. These detailed assessments have allowed a much greater understanding of where to devote resources to provide effective resilience for these critical services.

A programme of work has been underway through 2022/2023 to enhance the maturity level of operational resilience approach and methodology and provide some external benchmarking to allow us to continue to develop and improve our approaches. For 2023/2024 the Bank will conduct ongoing scenario tests to aid identification of potential vulnerabilities along with any required remediation programmes to ensure the vulnerabilities identified do not threaten the businesses impact tolerances for Hodge's identified important business services.

Operational resilience coupled with the financial resilience assessed through the recovery planning outlined above combines to provide a firmwide resilience framework that approaches and tests resilience of the Bank from multiple viewpoints and scenarios.

Ongoing Conflict in Ukraine

The conflict that started in Ukraine in February 2022 continues to impact the global economy. As Hodge's activities are undertaken in the United Kingdom, it is not directly impacted by this conflict; however, it has an inevitable impact on global financial markets, domestic inflation and interest rates and consequently could impact future business volumes or the ability of the Bank's customers to meet their contractual payments. The Directors will continue to monitor the situation and act accordingly, including compliance with any UK relevant legislation or sanctions.

Climate Risk Management

During 2022/23 progress was made in developing and embedding the Bank's approach to climate change risk management through inclusion in ICAAP assessments and establishing risk appetite statements and metrics. Now aligned with other risk categories in its integration with the existing enterprise-wide risk management framework. The Climate Risk policy outlines scope, roles and responsibilities, governance, and alignment to the Risk Management Framework.

The Bank is exposed to the following climate change related risks:

Physical risk – specific weather events and longer-term shifts in the climate. Examples include increasing extreme weather events leading to physical damage to the value of property and longer-term declines to property prices near floodplains. These risks could result in financial losses related to the Bank's own assets and collateral used in the Bank's lending portfolios.

Transition risk – the risks associated with adjustment towards a low-carbon economy. This can be influenced through developments in policy and regulation, the emergence of disruptive technology or business models, and shifting sentiment and societal preferences which can impact the risk or value of financial assets. These changes could result in a reassessment of asset values and increased credit exposures from other banks and lenders as the costs and opportunities arising from climate change become apparent. Transitional risk is multi faceted and also includes the potential impact on borrowers who may be exposed to certain industries impacted or have affordability pressures due to the policy and regulation changes. Currently the Bank's transition risk assessment focuses on the Energy Performance Certificates (EPC) migration of portfolios. This is deemed the most material transmission mechanism for this risk at this time.

The Bank is also cognisant of the conduct and reputational risk arising from a failure to meet changing and more demanding societal, investor and regulatory expectations and the impacts on customers outcomes from changing behaviours in response to climate change.

Approach to analysing climate risk

The Risk function partners with a third party to provide detailed climate change assessments at a collateral level for the Bank's loan portfolios. The Banks own assets held are immaterial in the wider context and have not been included at present in our assessment methodology. The data was used to undertake financial risk assessments that have been used to both inform the Board of the climate change exposure from the Bank's portfolios and to support the ICAAP assessment.

I. Climate scenarios considered

An industry standard for assessing climate change risk is the global greenhouse gas concentration. There are several scenarios to project this metric as defined by Representative Concentration Pathways (RCP) levels. The Bank has selected three different pathways to support its assessment. The Bank believes the three chosen align closely to the climate biennial exploratory (CBE) scenarios allowing us to leverage these industry releases to support our scenario development.

The three RCPs used are:

Emissions Scenario	
RCP Scenario	**Change in temperature (°C) by 2100**
RCP 4.5*	2.5 (2.0 – 3.0)
RCP 6.0	2.8 (1.7 – 3.2)
RCP 8.5	4.3 (3.2 – 5.4)

Note: The scenarios have an average pathway but with a range around them which is represented in the brackets in the table above.

*RCP 4.5 replaced RCP 2.6 used last year as it is believed that RCP2.6 is now no longer achievable and 4.5 becomes the realistic upside scenario.

The most severe RCP 8.5 assumes there will be no concerted effort at a global level to reduce greenhouse gases emissions. Under this scenario the predicted risk in global temperature rises is 3.2 – 5.4 °C by 2100.

The least severe scenario RCP 4.5 assumes early action is taken to limit greenhouse gas emissions. Under this scenario, the predicted increase in global temperature is 2.0 – 3.0 °C by 2100.

II. Climate risk events considered

The following three physical events of climate change were assessed:

- **Flood:** higher levels of average rainfall and increased severity of weather events such as storms will increase flooding.
- **Subsidence:** changes in average temperatures and increased severity of weather events such as heatwaves will increase potential subsidence via changes to ground conditions around property foundations.
- **Coastal erosion:** increased storm events and rising sea levels will increase the rate of erosion.

For each of the physical risks and climate scenarios detailed above, a prediction of the likelihood today, in 2030 and in 2060 was provided.

For the flood and subsidence, the likelihood took the form of a risk score of the probability that a flood or subsidence event would occur in the period.

For coastal erosion the future date at which the property becomes at high risk from coastal erosion was provided.

These assessments took place at an individual property address level to identify the different exposures to climate risk that even properties close to each other show.

III. Climate Transition Risks

To assess transition risks associated with properties, the current Energy Performance Certificates of each property were considered. The transition risk is the expectation of properties being required to improve to a certain level and the associated cost of achieving this or impact on value if not. For our assessment a C rating of higher is the scenario for future expectations. EPC's are not mandatory for all properties and therefore are only available for circa 50% of the Bank's properties during the 2023 assessment. Accordingly, some high-level assumptions were made to proxy for the total portfolio.

For the 50% with an EPC, the profile of the Bank for 2023 follows a similar trend to national average. The Bank has 16% of properties at EPC of C or better, 23% with EPC of D and 14% of EPC E or lower. Of the 50% of properties with EPCs, 90% have the potential to achieve at least an EPC rating of C.

IV. Assessment Methodology

For the physical risks, current valuations are adjusted to reflect the impact of each of the climate change events. These reduced valuations directly impact loan to value ratios (LTVs) and therefore the potential loss given default (LGD).

For transitional risks, the Bank's expectation is that the government will require all properties to achieve an EPC of C where possible. The cost of renovations for those properties below a C moving to a C or their highest potential was assessed utilising guidance and assumptions from the CBES scenario. If the property has an EPC of C or better, then the potential transition risk is assumed to be zero as it already meets the expectation. The impact on valuations was also assessed using publicly available reports on expected differences of like for like properties with different EPC ratings.

V. Assessment Outcomes

Flood risk - by 2030, the percentage of properties (based on volume) predicted to experience a high, very high or extreme risk of flood is expected to remain broadly flat at 7% between the least severe scenario and the most severe, but average LTVs are sub 50%. Both scenarios represent a low exposure for the Bank's loan portfolio.

Subsidence risk - by 2030 the percentage of properties with a high subsidence risk score is expected to be 5% in the most severe scenario. Average LTVs are circa 30% for this cohort.

Coastal Erosion risk- under the most severe scenario less than 1% of the portfolio (£3m mortgage exposure) result in a high probability of being impacted by coastal erosion in the next 50 years. The average LTVs of these are low circa 46%, however this risk presents differently as the property and land is lost to the sea and therefore cannot be rebuilt resulting in full loss of security. However, the impact is still immaterial

Transitional risk – the transitional costs of home improvements required to improve EPC ratings are not unreasonable, especially if spread over a period of five to ten years. These are unlikely in themselves to impact affordability levels materially. When viewed against rising energy prices the breakeven point lowers for home renovations to reduce emissions and therefore save on energy costs. Additionally, the valuation adjustments for properties with EPC rating of C or lower given our current portfolios low average LTVs does not result in a material exposure.

VI. Outcome analysis

Based on the Bank's current approach and capability, the exposure to financial risk from climate change is not deemed material based on the LTV profile and EPC profile of the portfolio. As the Bank continues to mature and learn more, this assessment will be revised.

VII. Planned enhancements during 2023

The industry continues to evolve and mature with its understanding of climate risks and capabilities to assess them. The Bank will continue to engage with regulators, networks, and peer groups to help shape and learn from best practices.

During 2024 key areas of enhancement include:

- Refinement of climate risk appetite metric calibration;
- Improvements in data capture and quality to assist in assessments;
- Further enhancements to climate risk assessment methodologies; and
- Embedding climate risk into the risk and control self-assessment (RCSA) process.

VIII. Conclusion

The Bank considers its present financial exposure to climate-related risks to be immaterial and accordingly the disclosures made within the annual report and financial statements have been prepared on a proportionate basis.

Report by John Barbour

Chair of the Audit Committee

The Audit Committee's agenda continues to include its responsibilities as the third line of defence in Hodge's Risk Management Framework.

With Hodge remaining the primary operating Company within the Hodge Group, the Board continues to approve that the primary published financials are those of the Bank.

The Audit Committee's agenda continues to include its responsibilities as the third line of defence in the Bank's Risk Management Framework; oversight of the performance and effectiveness of internal and external audit; ensuring the integrity of the financial statements of all companies within the Group; and oversight of the Bank's system of internal control.

Financial and regulatory reporting

Following the sale of Hodge Life in 2021, the focus of the Audit Committee for financial and regulatory reporting shifts to the Bank. The Committee's main responsibility in relation to the Bank's financial statements is debating and challenging the judgements made by management and questioning the assumptions and estimates on which they are based. The exercise of appropriate judgement in preparing the financial statements is critical to ensure that the Bank's financial statements are fair, balanced and understandable. The following are the significant judgements, issues and actions taken by the Committee in relation to the annual report and financial statements. Each of these matters was discussed with EY during the year.

IFRS 9 impairment and Post Model Adjustment

Area of focus

The Committee reviewed and challenged the approach to incorporating higher interest and inflation rates into the IFRS9 expected credit loss calculation for the Commercial and Portfolio Buy-to-let loan portfolios as, previously, these impacts had been captured through the use of a Post Model Adjustment (PMA). The need to capture the impacts on credit risk of higher rates and inflation on customer affordability within the Retail mortgage portfolio through a PMA was also an area of focus.

Role of the Audit Committee

In FY2022, with inflation and interest rates rising rapidly, the output of the IFRS9 model for Commercial and Portfolio Buy-to-let was adjudged to be inadequate and a PMA to accommodate these impacts on credit quality was agreed.

Following discussions with S&P on how to correctly use the model to capture the effects of inflation and rates, a proposal was put to Audit Committee to reverse the earlier PMA in its entirety, which was challenged and approved. Following a perceived further deterioration in the economic environment subsequent to the proposal on IFRS9 modelling which resulted in the reversal of the PMA, the Audit Committee was requested to review a proposal for a Commercial PMA designed to capture the refinancing risk that a number of counterparties may face in the future, something not captured in the IFRS9 model.

> The Committee approved the more pessimistic weighting of the "up", "base" and "down" scenarios to reflect the deteriorating economic outlook.

With respect to the Retail mortgage book the Audit Committee was requested to review a proposal for a PMA designed to capture the impacts on customers of deteriorating affordability from higher rates and inflation.

In addition, the committee assessed the proposals for weightings of the "up", "base" and "down" scenarios for probability of default and loss given default to be used in IFRS9 modelling for both Commercial and Retail assets. An initial weighting was proposed, challenged and approved

Following the downturn in the economic environment which led to the proposal for a Commercial PMA, a revised proposal for scenario weightings was presented to Audit Committee.

Conclusion/action taken

As mentioned, the Audit Committee approved the proposed changes to the IFRS9 process for Commercial and Portfolio Buy-to-let lending, accepting that the increased interest and inflation rates were now adequately captured within the model. The Committee also therefore approved the proposal to unwind the PMA from FY2022 in July 2023. After robust discussion to understand the distinction between the impact from the amendment to the use of the IFRS9 process to capture inflation and interest rates versus the PMA, a revised PMA was proposed to capture future refinancing risk not in the IFRS9 model, the Audit Committee approved the PMA for Commercial and Portfolio Buy-to-let. The Committee also approved the Retail mortgage PMA.

Finally, the Committee approved the more pessimistic weighting of the "up", "base" and "down" scenarios to reflect the deteriorating economic outlook prevailing subsequent to the initial, more balanced, weighting proposed earlier in the year.

Retirement Mortgages and Reversions – Accounting Methodology and Valuation

Area of focus

Following the sale of Hodge Life Assurance Company, the Bank continues to hold a legacy portfolio of retirement mortgages and a small portfolio of reversionary assets. These reversionary assets were retained in the sale of the reversion portfolio to Hodge Reversions Limited. Challenging the valuation assumptions for these asset classes thus remains a core responsibility of the Committee.

Actuarial services

Actuarial expertise required for the valuation of retirement assets continues to be provided by Milliman.

Role of the Audit Committee

The Committee reviewed a detailed assumptions paper prepared by Milliman in which a number of assumptions were changed relative to the 2022 assumptions. The changes related to an increase in expenses, a reduced roll-up assumption for Retirement Mortgages at the point the customer reaches the age of 80, updating mortality assumptions to CMI 2022 from CMI 2018, and an update to the reversion mortality scalar to 140% from 130%. The Committee challenged all changed assumptions, specifically with respect to expenses associated with the falling size of the asset pool across which fixed costs could be spread.

Conclusion/action taken

The Committee approved the unchanged assumptions as well as all proposed changes.

Valuation of Derivatives

Area of focus

The Bank has a substantial amount of derivative financial instruments relative to its balance sheet size. These hedge the risk to changes in interest rates and yield curves. These derivatives are valued at fair value as at the Balance Sheet date.

The majority of interest rate derivatives are accounted for under IAS 39 hedge accounting rules. Significant changes in rates can affect their effectiveness as a hedge, which might lead to income volatility or a different accounting treatment.

Role of the Audit Committee

The Committee obtained confirmation from management that the valuation of derivatives at the year-end are in accordance with the amounts recognised by the relevant counterparties and that the hedge effectiveness calculations had been carried out appropriately.

Conclusion/action taken

The Committee was satisfied that the fair value of the derivatives was appropriately reflected in the financial statements and that, where hedge accounting was applied, it was effective.

• Report by John Barbour (continued)

Going Concern and Long-Term Viability Statement

Area of focus

The Directors make a statement in the Annual Report concerning the going concern and long-term viability of the Bank. The Committee provides advice to the Board on the form and content of the statement, including the underlying assumptions.

Role of the Audit Committee

The Committee reviews the Board's assessment of going concern and long-term viability through consideration of the Bank's rolling five-year strategy, the Bank's assessment of capital (ICAAP) and the Bank's assessment of liquidity (ILAAP). In addition, the Committee specifically considered the impact of changes in interest rates, affordability and economic risk on the potential for elevated loan losses and the associated impact on capital. The Committee also considered the expected outcomes from the Bank's updated five-year strategy as presented by the CFO.

Conclusion/Action taken

The Committee agreed to recommend the going concern and long-term viability statement to the Board.

Fair, Balanced and Understandable Reporting

Area of focus

The Bank endeavours to ensure that its external reporting is fair, balanced and understandable. The Committee undertakes an assessment on behalf of the Board in order to provide the Board with assurance that it can make the statement recommended by the Financial Reporting Council's Corporate Governance Code.

Role of the Audit Committee

The Committee assessed, via discussion with, and challenge of, management (including the CEO and CFO), as to whether disclosures in the Bank's published Financial Statements were fair, balanced and understandable.

Conclusion/action taken

Having evaluated all the available information and the assurances provided by management, the Committee concluded and were able to recommend to the Board that the Bank's published Annual Report and Financial Statements were fair, balanced and understandable.

External Audit

External Audit continues to be carried out by EY. Robin Enstone has successfully taken over as lead partner. A formal review of the effectiveness and audit quality of EY was carried out in 2023, including an assessment of the professional scepticism and objectivity of the EY team. The Committee is responsible for assessing the objectivity and independence of EY. This responsibility was discharged through the Audit Committee meetings and during private meetings with EY.

The Committee has a policy whereby all services provided which are not covered in the audit are approved by the Committee. The Bank continues to examine non-audit fees in light of the Ethical Standard issued by the Financial Reporting Council (FRC). The payments made to EY for non-audit fees in the year ended 30 September 2023 were £NIL (2022: £30,000). This reflects a non-audit fee to audit fee ratio of 0%, the average for the last three financial years is 2.7%. The average non-audit fee for the last three financial years is below the 70% limit set by the FRC.

Internal Audit

Deloitte continues in its role as Internal Auditor and continues to demonstrate good engagement with management, executive, Audit Committee and the Board.

The Committee scrutinises and agrees Internal Audit's plans, including agreeing the areas of focus, which this year included ICAAP, Arrears and Forbearance, Consumer Duty Readiness, Risk Management Framework, Review of Financial Controls, and Prudential Capital Reporting.

The Committee tracks the implementation of the recommendations of Internal Audit, in conjunction with Deloitte, and is satisfied that these are being implemented on a timely basis.

A review of the effectiveness of the Internal Audit function was carried out by the Audit Committee with the conclusion that Deloitte provides a valuable function for The Carlyle Trust and its operating companies. The findings were discussed with Deloitte.

Internal Control

The Audit Committee has responsibility on behalf of the Board for the Bank's systems of internal control. The Audit Committee discharges this responsibility by discussing and challenging reports issued by Internal Audit. Further, through my membership of the Board Risk Committee, I am made aware of any issues raised by the second line of defence assurance team which monitors the implementation of its and Internal Audit's recommendations. Collectively these reports provide assurance that there are effective internal controls within the Bank.

The Audit Committee also discusses any control observations raised by EY. The Audit Committee continues to encourage management to reduce the volume of manual internal controls and automate as many controls as possible to reduce operational risk.

Whistleblowing

I am the Whistleblowing Champion for Hodge and have reviewed the integrity, independence and effectiveness of Hodge's whistleblowing policies and procedures and those policies and procedures intended to protect whistle-blowers from being victimised. I remain satisfied that current policies and processes are adequate.

Committee Composition and Meetings

The Committee's membership is designed to provide the depth of financial expertise and commercial acumen it needs to fulfil its responsibilities. Membership of the Committee remains the same as last year, with accounting expertise on the Committee satisfied with the presence of the SID, Penny Bickerstaff. Each Committee member has recent and relevant financial experience in accordance with the UK Corporate Governance Code. The TCT Board continues to be satisfied that the Committee has the necessary levels of knowledge and understanding of the markets in which the Bank operates.

Committee meetings were attended by the CEO, CFO, CRO, Head of Compliance, representatives of Deloitte and EY, and by other members of the business, as appropriate.

During the year private meetings were held with the Lead Audit Partner from EY, as well as the Head of Internal Audit from Deloitte, without management present.

Interaction with Regulators

As Chair of the Audit Committee, I normally meet with the members of the Bank's Regulatory team at the PRA, upon request, without management present. I anticipate semi-annual meetings over the coming year.

Committee Performance

The Committee updated its self-assessment of its performance and concluded that the need for training remains ongoing but that all members of the committee had access to various training options provided by both Deloitte and Ernst & Young.

John Barbour
Chairman of the Audit Committee
8 December 2023

Report by Iain Laing

Chair of the Board Risk Committee

We have reviewed management's progress in meeting regulatory expectations in respect to the management of climate change, operational resilience and outsourcing.

Committee role and responsibility

The Board Risk Committee is a sub-committee of the Board and has delegated authority to assist the Board in fulfilling its oversight responsibilities for risk management.

The Committee is responsible for:

- Promoting an appropriate risk culture and overseeing the development and implementation of the Enterprise Risk Management Framework (ERMF) and associated policies;
- Monitoring our current and emerging risk profile and ensuring that these are appropriately mitigated;
- Reviewing and recommending risk appetite to the Board and monitoring our risk profile within this appetite;
- Reviewing and recommending to the Board key prudential documents (ILAAP, ICAAP and the Recovery Plan).

Committee Membership

I have been the Chair of the Board Risk Committee throughout the financial year. The Committee comprises five independent non-executive directors with regular attendance from the CEO, CFO, CRO and the Retail Director and supported as required by other colleagues from across the business to assist in discussions. The Committee met seven times through the financial year.

The prescribed responsibilities as Chair of the Board Risk Committee are to safeguard the independence of, and oversee the performance of, both the Risk and Compliance functions. Throughout the year there have been regular meetings with the Chief Risk Officer, supported by his team, to ensure these functions are as effective as possible and enable them to air any issues or views.

Interaction with management

The Committee is mindful of the need to hold management directly accountable when issues have arisen and been reported by the CRO, Head of Compliance or other parties. Members of senior management attend committee meetings for deeper discussions of matters in their area of responsibility. During the year the Committee has followed up on potential areas of concern raised by the CRO and, separately, the CFO. With the support of the Risk function, potential risks and issues have been validated, appropriate actions identified, and completion of these actions is being tracked.

The Chair meets with the CRO once or twice a month to ensure close co-ordination of efforts and early identification of any issues, and this is supported by occasional workshops or meetings with management on areas of particular interest to the Committee.

The review of the Bank's strategy has been a key area of focus for the Board in the financial year, and the Board Risk Committee has supported this with a focused review of risks relevant to the strategy.

Interaction with regulators

The Committee tracked progress of closure of actions arising from the annual supervisory visit and reviewed management's response to the PRA of confirmation of action completion. We have reviewed management's progress in meeting regulatory expectations in respect to the management of climate change, operational resilience and outsourcing. The Committee followed the Bank's response to the Consumer Duty, and the FCA's expectations of firms like Hodge. This has resulted in significant development of the Bank's conduct risk management systems and controls and there will be ongoing work to ensure Consumer Duty is embedded effectively throughout Hodge.

Committee performance

The Committee has carried out a self-assessment of its performance as well as a review of its Terms of Reference. The results from the former were satisfactory with the suggested actions implemented.

• Report by Iain Laing (continued)

Activities during the year – as highlighted last year

The table below shows the areas highlighted in last year's report on which we planned to focus during this year, and the actions taken.

Area	Progress during 2022/2023
Oversight of management's response to the cost-of-living crisis	The Committee undertook regular deep dives into the performance of the Bank's Retail and Commercial credit portfolios, and tracked other impacts of the cost-of-living crisis via the CRO's regular reports.
Ensuring the embedding of effective operational, conduct and compliance risk management, following-up action plans agreed in 2021/22;	The Committee received regular reports on the progress of risk management action plans; oversaw management's response to the Consumer Duty; reviewed the Bank's 'Important Business Services' and associated impact tolerances for the performance of these services; and undertook two deep dive reviews of Complaints Management, where improvements were found to be necessary. The Committee also discussed and tracked management actions to improve the maturity of Risk and Control Self Assessments throughout the Bank.
Ensuring effective management of the risks posed by third parties and outsourced providers;	The Committee received a deep dive into 3rd Party Supplier oversight, and the Bank's compliance with Supervisory Statement SS2/21. Management were able to evidence a significant improvement in their oversight of 3rd Party services and compliance with regulatory expectations.
Ensuring retail and commercial credit management keeps pace with strategic plans	The Committee undertook a series of deep dives into Commercial Credit Resilience and Retail Credit performance, and undertook a detailed Retail Credit Risk Appetite review, including the agreement of concentration limits for Holiday Buy-to-Let.
Overseeing the performance of key credit portfolio concentrations;	The Committee undertook regular deep dives into the performance of the Bank's Retail and Commercial credit portfolios. Limits on Holiday Buy-to-Let exposure have been embedded in Hodge's risk appetite and strategy.
Continued oversight over the new products and change initiatives required by the strategy;	The Committee reviewed the activities of the Bank's Product Committee, discussed proposals for 'Professional Plus' and 'Complex Income' mortgages and agreed adjustments to Commercial Credit Deal Size limits.
Embedding and maturing the management of financial risks of climate change.	The Committee discussed Sam Woods thematic feedback on PRA supervision of climate-related financial risk, and its implications for Hodge. The Committee subsequently discussed an assessment of the weaknesses in the Bank's management of these risks, agreed an action plan to address them, and tracked subsequent delivery of these plans. The Committee discussed an assessment of the exposure of the Bank's portfolio to climate change risks, and how these levels of exposure were changing over time. The Committee agreed plans to improve these assessments over time.
Continuing development of the management information to support risk management across the business.	The Committee continued to encourage development of risk management information. The information available has improved, although it remains constrained by information management systems. Development of these systems remains an important priority for Hodge.

Significant risks and areas of focus

In addition to the activities signposted from last year discussed above, the significant matters addressed by the Committee during the year are summarised in the following table.

Area of focus	Board Risk Committee Activity
Enterprise Risk Management	The Board Risk Committee discussed an annual review of the Bank's risk management framework, including an assessment of its effectiveness, and agreed actions to improve its effectiveness. The Committee also reviewed the effectiveness of the Risk function against expectations set within the risk framework. Over the year the capabilities of the Risk Function have been seen to improve significantly.
Frameworks & policies	The Committee reviewed Risk Management Policy, IRRBB Policy, Funding and Liquidity Policy, the Data Protection and Financial Crime Frameworks, and risk frameworks for all of Hodge's principal risks (credit risk, financial resilience risk, strategic risk, operational risk and conduct risk). The Committee also undertook a comprehensive risk appetite review, providing significant challenge to the scope of risk appetite metrics and the calibration of the thresholds set.
Risk Management	The Committee received and challenged a review of the Risk function and a maturity assessment of risk management. The stability and strength of the Risk function and key first line functions were regularly reviewed by the Committee and a standing item within the CRO's report. The Committee approved the risk assurance and compliance monitoring plans for the year. The Committee oversees quarterly summaries of the second line assurance reviews.
Risk Monitoring	The Committee receives regular reports on the enterprise-wide risk profile of the business, a business-wide Financial Crime Risk Assessment and MLRO report, a Data Protection annual report. The Committee tracked the progress of the Bank's Change Programme closely, including challenges experienced with PanCredit, and the progress of the Digital Savings Program (DSP). Incidents were raised throughout the year, those of a material nature were supported by remediation plans and lessons learnt assessments. The Committee was satisfied with the actions being taken.
Financial resilience and stress testing	During the year the Committee, supported by the Risk function reviewed several iterations of the capital plan (ICAAP) to reflect developments in the Bank's strategy execution, in particular changes to Commercial Credit exposure levels. The Committee reviewed and challenged the capital and liquidity adequacy assessment processes (ICAAP and ILAAP), including assumptions and application of risk grading to Hodge exposures (e.g. slotting), and the scenarios used when testing financial resilience. The Committee reviewed and challenged the Funding Plan, the Recovery Plan document and Recovery Plan fire drill test. The Committee approved and provided recommendations to the Board for the ICAAP, ILAAP and Recovery Plan.

Looking ahead

Looking ahead, I will be encouraging the Committee to focus on the following areas during the next financial year:

- Oversight of the embedding of Consumer Duty into every aspect of the bank, and completion of the follow-up action plan defined by management;
- Ensuring the embedding of effective operational, conduct and compliance risk management, following-up the Control Debt schedule defined in 2022/23;
- Overseeing execution of the Bank's IT Change Programme to ensure that implementation risks are well managed and strategic benefits are realised;
- Continuing to track the Bank's Retail and Commercial portfolio performance through the interest-rate cycle, and ensuring retail and commercial credit management keeps pace with strategic plans for these portfolios;
- Maturing measurement and management of the financial risks of climate change; and
- Continuing development of the management information to support risk management across the business.

Iain Laing
Chair of Board Risk Committee
8 December 2023

Report by Graeme Hughes

Chair of the Nominations and Governance Committee

Equality, diversity and inclusion continues to be a primary focus for the Committee on behalf of the Board.

I am pleased to present a report on behalf of the Board which outlines the key areas we, as the Nomination and Governance Committee, have focussed on in 2023.

Operation and Governance of the Committee

The Committee is comprised of Non-Executive Directors and is responsible for overseeing the recruitment of any Non-Executive or Executive Director to the Bank, in addition to giving consideration to the leadership needs, succession plan and diversity of the senior leadership team. The Committee is also responsible for ensuring the Bank is meeting its Equality, Diversity and Inclusion objectives. The Chief Executive Officer, the Chief Financial Officer and the Chief People Officer are also in regular attendance at the Committee meetings and are invited to provide insight when appropriate.

The Committee meets at least four times a year in order to meet its principal duties which, during this year, has included:

- Reviewing for approval the process for Executive appointments within the year
- Reviewing the succession plan for members of the Executive Committee
- Reviewing the Senior Management and Certification Regime Responsibilities Map
- Reviewing the composition of the Board for consideration of renewal of terms of appointment for Non-Executive Directors
- Receiving updates on the gender pay gap at Hodge and its strategy on closing the gap, in addition to reviewing the accompanying narrative for the reporting disclosures

The Committee's Areas of Focus in 2023

Board Composition

In this year, a primary focus of the Committee has been ensuring the balance of knowledge, experience and skills of the composition of the Board continually supports the firm's strategy and the market in which it operates. Following this review, the Committee is currently leading a recruitment process for an additional Non-Executive Director to strengthen the specialist banking experience within the Board.

Consideration was also given to the tenure, independence and time commitments of all Non-Executive Directors due to the upcoming conclusion of the three-year terms of appointments for several members. Following no conflicts of interest being established within the current composition of the Board, the re-appointment of Iain Laing, John Barbour, Aileen Wallace and Graeme Hughes were confirmed following Shareholder approval via the Shareholder Covenant.

Executive Appointments

The Committee considered the resignation of Matthew Burton, Managing Director of Retail in March 2023. After thoughtful consideration to the skills, experience and knowledge required to compliment the Executive Leadership Team, the Committee approved the engagement of specialist search firm, Odgers Berndston, who supported in the recruitment to the role. I am now delighted to welcome the successful candidate, Christie Cook, who joined the Bank as Managing Director of Retail in August 2023. Christie brings a wealth of mortgages, savings and specialist banking experience from past roles, including most recently as Head of Mortgages at Nottingham Building Society, which will be pivotal in achieving the firm's strategy.

The Committee also reviewed Tim Thompson's role as Chief Information Officer, with due consideration to the size and level of responsibility of the role. In recognition of the vital role Tim plays in the Bank's strategic ambition, we were delighted to widen his role responsibilities and confirm his promotion to Chief Operating Officer in August 2023.

Succession Planning

The succession planning for Board and the Executive leadership team remains a key area of focus and priority for the Committee each year to ensure the support and development of a diverse pipeline of talent into the leadership of the firm. The Committee received an update of the composition and diversity of the succession plan in relation to the executive leaders and other key management positions. It was noted that while targeted recruitment had been successful in addressing previously established gaps in some areas, new gaps had formed in the plan due to the internal movement of some senior colleagues and attrition.

Succession planning will remain a crucial area of focus as we move forward into 2024 and the Committee will continue to hold the executive leaders to account for the success and diversity of the succession plan. To support in this activity, the Committee also received an update on the leadership development frameworks in place to continually ensure our leaders are equipped to achieve the firm's strategic ambitions and the Committee will continue to receive updates in respect of the embedding of leadership development throughout 2024.

Culture

A delegated responsibility from the Board to the Committee is to undertake frequent cultural reviews of the business to maintain honesty and integrity against our core values and further ensure a continued ability to compete in the market. Similarly to many firms in this year, the Company has had to compete in a buoyant talent market following the effects of the Covid-19 and its continuous impact on the changes in the way we all work. One of the challenges this presented was a higher attrition rate than in previous years, a challenge which many companies have faced. The Committee reviewed a thematic analysis of leaver surveys and interviews to understand if there were any underlying cultural themes that were further driving the attrition outside of market conditions. It was noted that ensuring consistent communication of the strategic direction of Hodge was an area which could be improved upon to provide clarity to colleagues and aid in retention.

The Committee also receives an annual update in respect of the colleague engagement survey. It was encouraging to note colleagues scored more positively in relation to understanding the firm's strategy following specific targeted activity in this area following the attrition review. Measurement of colleague engagement is being enhanced and the Committee will continue to receive regular updates in relation to the colleague engagement score and hold leaders to account to the action plans in relation to any areas of improvement we identify in the future.

Equality, diversity and inclusion

On behalf of the Board, the Committee is entrusted to continually ensure the Company is meeting its objectives and commitments against equality, diversity and inclusion. Equality, diversity, across all aspects, and inclusion is a primary focus for the Board. Hodge is committed to harvesting a culture of inclusivity so as to ensure everyone can bring their best self to work, have a strong sense of belonging and benefit from the different insights and experiences a diverse workforce, and diverse leadership team, can offer. This year, particular emphasis was placed on the progress against the action plan for the gender pay gap at Hodge after a disappointing level of progress on improving the gap to date. The Committee reviewed an analysis of all contributory factors continuing to feed the gender pay gap at Hodge and approved an action plan to combat the primary challenge driving the gap, which is that more men hold more senior roles and therefore, high paid roles in the Company than women.

Following receiving this update, I am pleased to confirm our commitment of achieving 45-50% of leadership roles to be held by women by 2026 as part of the HM Treasury's Women in Finance Charter is on track, with 43% of senior leadership roles held by women at the end of 2023. The Committee recognises this is a promising sign of progress in achieving gender parity.

However, ambitions of achieving a truly diverse and inclusive workforce span across all aspects of diversity, inclusive of sex, disability, age, disability, religion, neurodiversity and sexuality. The need for more focussed activity in improving parity and inclusivity across all these areas has been recognised with the formation of a newly established Equality Network. The network is made up of voluntary members from all levels and areas of the business, who are committed to being respectful allies by promoting equality, fostering relationships to give colleagues a sense of belonging and challenging barriers to inclusivity and equality at all times. I am thrilled the network have successfully launched an Allyship program within the Bank, with many colleagues undergoing allyship training and taking the pledge to be an ally. This is one step in the right direction of achieving a truly inclusive workforce and the Committee will ensure a priority for the coming year is to continue to review progress against these actions.

Graeme Hughes
Chair of the Nominations and Governance Committee

8 December 2023

Report by Aileen Wallace

Chair of the Remuneration Committee

In ensuring the Committee delivers upon its responsibilities, approach and adheres to our key principles, the broad activities below were undertaken during the year.

I am pleased to share the Directors Remuneration Report which outlines a summary of the Remuneration Policy and key decisions taken by the Remuneration Committee ("Committee") throughout 2023. The Committee set the Remuneration Policy, ensuring alignment to our purpose, values and strategy, whilst embedding regulatory compliance, with a determined view of the long-term sustainable success of Hodge.

The Committees oversees the development and implementation of the Remuneration Policy including base pay, variable pay and benefits for Executive Directors and those individuals identified as Material Risk Takers (MRTs). Additionally, the Committee has oversight of the reward for the broader colleague population.

The report includes details of the Directors' pay for the year ending 30th September 2023 and a detailed description of the Remuneration Policy which was last approved by the Committee this year under our standard annual review approach. Our approach to Remuneration Policy approval includes engagement with our Shareholder under the terms of our Shareholder Engagement Policy.

Looking back at 2023

Continuation of the macro political and financial conditions observed in 2022 presented ongoing challenges not ordinarily faced by our customers and colleagues. Hodge showed resilience, determination and rigour in navigating these challenges and our Committee remained focused on overseeing the appropriateness of remuneration solutions to protect the interests of our colleagues, customers and Hodge.

I believe that our Committee has responded admirably in order to support colleagues in what is a continually changing economic and remuneration landscape and that we have engaged appropriately in financial wellbeing solutions in response. Set out below is the membership and approach of our Committee in delivering on its delegated responsibilities from our Board and I would like to personally thank each of my colleagues for their commitment during the last 12 months.

The Remuneration Committee

Committee Membership and Attendees

Our Committee comprises exclusively of independent non-executive directors including the Chair of the Board. Members are as follows:

Member	Membership Date
Aileen Wallace	July 2021
Graeme Hughes	September 2019
Iain Laing	July 2020
Penny Bickerstaff	September 2022

The Committee is supported by the Chief Executive Officer, the Chief Financial Officer and the Chief People Officer who are invited to attend meetings and to provide input. The Chief Risk Officer is also invited to attend meetings to provide a risk opinion where appropriate. Deloitte LLP, our external remuneration advisors, attend Committee meetings when invited in order to provide independent and expert insight with market analysis and latest developments.

• Report by Aileen Wallace (continued)

The role and governance of the Remuneration Committee

The Committee is established by the Board to provide oversight for remuneration matters as delegated. The Committee's role is to consider the Remuneration Policy and its application to all employees, with particular scrutiny given to the remuneration of directors, members of the Executive Committee and Material Risk Takers. Our Policy is subject to consideration each year unless material changes are proposed, requiring in-year review. It is the Committee's view that the Remuneration Policy is operating as designed.

Our Committee oversees the implementation of measures in the Remuneration Policy to avoid any potential conflicts of interest in the design of variable pay plans. This is to ensure that the Remuneration policy embodies the values and culture of Hodge while also ensuring corporate and individual performance alignment in the interests of the Company's employees and shareholder.

The Committee is guided by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) Remuneration Code and oversees the compliance with remuneration disclosure requirements under the Capital Requirements Directive.

Our activity in 2023

The Committee met on 6 occasions during 2023 to address annual requirements, in addition to this the Committee activities included:

- Consideration of the cost of living impact on colleagues at Hodge and the subsequent approval of a £1,000 cost of living payment for all Band 1-3 eligible employees which was paid in July 2023
- A review of the core and flexible benefits offering to ensure the total reward package remained competitive within the market and motivating for the retention of colleagues
- Assessment of the gender pay gap, associated reporting and the robustness of the associated action plan to address the gap to support Hodge's commitment to inclusion and diversity. The key objectives identified in the action plan include providing sponsorship and mentoring opportunities for colleagues across the business, ensuring a programme exists to help deepen awareness of and provide allyship – an important area owned by our executive which will be monitored as we move forward into the coming year.

Our Remuneration Policy and Review

The remuneration policy at Hodge is reviewed annually by the Chief People Officer, the Chief Risk Officer and the Executive Committee before being submitted to the Committee for approval. This section of the report outlines the approach taken when reviewing and approving the policy with the key principles which underpin our approach to total reward at Hodge.

When considering the various elements of remuneration, the Committee factors the needs of the employees, the regulatory requirements and the needs of the organisation. The Remuneration Policy is designed to fairly reward all employees for their level of responsibility, knowledge, skills and performance while also maintaining cost effectiveness for Hodge and remaining compliant with regulation.

When reviewing the remuneration policy, the Committee also gives consideration to its design to ensure it continues to meet our key reward objectives. These are:

- To align pay with the strategic objectives of Hodge and its values
- To support the provision of a flexible package which is sufficiently competitive to enable the recruitment and retention of people who are aligned to our purpose and motivated to deliver first-class customer experience
- To set out the structures and controls in place to ensure our remuneration is effective, fair and meets regulatory and legal requirements.

In the year prior to this report, Deloitte LLP supported the Committee in a comprehensive review of the Remuneration Policy following a newly designed Annual Reward Plan (Variable Reward) and a revised core benefit offering for all employees of the Company. Therefore, in this year, the Remuneration Policy review focussed on an overall quality review against Hodge practices and regulatory requirements such as Consumer Duty.

The Remuneration Policy applies to all employees and directors, including non-executive directors, across the Bank.

The main elements of executive director remuneration

The main elements of remuneration in place for the Executive Directors of the bank include:

Component	Purpose	Execution and Application
Basic Salary	To be at a level which is sufficiently competitive to recruit and retain people of the necessary calibre, who have the required skills and experience to meet the demands and complexity of the role.	Executive salaries are normally reviewed annually, with any increases typically taking effect from 1 November. A number of factors are taken into consideration when reviewing salaries, including but not limited to: - The scope and size of the role - Equal pay principles - The experience, skills and level of responsibility of the role executive manager - Company strategy and performance - Market benchmarking - The annual pay review increase awarded to the wider employees of the Bank The Company uses the same approach in setting the basic salary for all employees, including executives and executive directors.
Benefits (excluding pension)	To assist with the recruitment and retention of talented employees and to provide meaningful and generous protection benefits for the wellbeing of all colleagues. To also provide flexible and family-friendly benefits that help our colleagues remain engaged and resilient at work and help support an appropriate work-life balance.	Executives and executive directors are in receipt of core and flexible benefits which have been benchmarked in line with the wider financial services market. These may include: - Private Medical Insurance - Permanent Health Insurance (Income Protection) - Life cover - Health screening - Company car or car allowance
Pension	To provide opportunity for all colleagues to gain an income and financial security following retirement within a long term cost effective approach for Hodge. A defined contribution pension plan is in place to seek to deliver retirement outcomes.	All employees are eligible to participate in the pension plan. If an employee's contribution exceeds the annual or lifetime allowance, they may be permitted to opt into a compensatory cash allowance. This arrangement is reviewed annually by the Committee. A closed pension scheme exists at Hodge, having closed in March 2021, with this being overseen by relevant Trustees. The CEO is a Trustee of this closed fund, responsible with other Trustees in reviewing investment performance and return in order to deliver on future retirement outcomes. Executive directors partaking in the pension plan are in receipt of either a pension contribution or compensatory cash alternative of up to 15% of their basic salary.
Variable pay (discretionary bonus)	The Bank recognises the value of its people working together to achieve its strategic aims and therefore operates a variable pay scheme based on Company-wide performance. The reward plan also promotes the attraction and retention of highly skilled, experienced and capable employees, ensuring alignment with the achievement of our strategic objectives.	The Annual Reward Plan is a scheme which applies to all eligible employees, including executive directors and is assessed against a balanced scorecard award for all payments. The key performance areas and performance measures are reviewed annually to ensure continual alignment with regulatory guidance and the Company's strategic objectives. The Committee has absolute discretion to reduce any variable pay award if it is deemed the acceptable standards of performance were not met or if there is any evidence of regulatory failure. The Committee also has absolute discretion in adjusting, withholding, or recovering awards under the malus and clawback arrangements for all members of the Executive Leadership Team and Material Risk Takers, including Executive Directors. The maximum award for executive directors for exceptional performance across all of the key performance areas would be at a maximum initial amount of £116,235, with a further total deferred payment of £77,490.

• Report by Aileen Wallace (continued)

The performance measures of the Annual Reward Plan

A weighted balanced scorecard is assessed to determine the performance of the Bank and subsequent variable pay award to all employees on an annual basis. The key performance measures detailed in the scorecard are scrutinised, challenged and approved annually by the Committee to ensure the performance areas reflect stretching targets to promote the sustainability and success of the Bank. The measures include assessment against financial targets, risk, customer, people and delivery of strategic change.

Risk Assessment

The risk assessment process is managed by our risk function independently. Following completion of this process, our Chief Risk Officer presents the Committee with a Report including areas where consideration of performance or adjustment is necessary in relation to reward outcomes. The report from our Chief Risk Officer also considers current performance and prior year performance in the context of objectives necessary to provide rigour to decisions on variable remuneration deferral. Our Chair of the Board Risk Committee provides independent assessment in relation to our risk and control function in order to deliver consistent oversight and application of reward or deferral decisions.

The Committee reviews new proposed measures prior to the beginning of a new financial year to ensure that these remain fully appropriate and are continually aligned to the strategic aims of the Bank, including in instances where measures have successfully achieved the original purpose

Executive Directors Remuneration

All remuneration in the 2023 performance year has been awarded in line with our Remuneration Policy which was approved by the Committee this year.

The table below shows the single total figure table of remuneration for our Executive Directors for the year ending 30th September 2023 being our first year of voluntary disclosure. Our voluntary disclosure beyond that required of a Level 3 Firm provides increased transparency of our senior pay aligned to our Hodge culture and values and our demonstration of wider regulatory compliance and best practice.

A review of the annual reward plan balanced scorecard for the financial year ending 30th September 2023 took place in December 2023 in conjunction with a risk opinion, provided by the Chief Risk Officer, to determine the variable reward payment for all colleagues, including Executive Directors. The balanced scorecard provides the Committee with a scoring matrix to ensure fair reward against the business performance and success of meeting its strategic objectives. In this financial year, the Committee determined the variable reward payments following review of the scoring matrix and agreement the Executive Director's had successfully provided strong leadership to enable the delivery of the performance against the scorecard. Additionally, the Committee considered individual performance against the performance management framework and made adjustments to enhance the reward in the case of exceptional performance where relevant.

	Fixed				Variable	Total
	Base Salary (2) £000	**Taxable Benefit £000**	**Pension Allowance (3) £000**	**Total Fixed £000**	**Annual Reward Plan £000**	**Total Remuneration £000**
David Landen, Chief Executive Officer	322	1	45	368	124	492
Jan Preece, Chief Financial Officer	247	-	35	282	106	388
Matthew Burton, Managing Director of Retail (1)	150	1	21	172	-	172
Total	**719**	**2**	**101**	**822**	**230**	**1,052**

(1) The remuneration shown for Matthew Burton pertains until his leaving date on 3 March 2023 with no further payments made.

(2) Base salary refers to the actual salary earned in the year

(3) Pension allowance includes both contributions to the Company's pension scheme and cash payments in lieu of contributions

Malus, Clawback and Deferral of Variable Pay

The Remuneration Committee has the discretion to reduce or withhold any deferred element of variable payments if it becomes apparent that the basis on which the variable pay award was made requires review and necessary action. Our Chief Risk Officer report (risk adjustment) is provided prior to the payment of any deferred award for the Remuneration Committee to give consideration if a reduction to the sum of the award (including down to zero) is appropriate.

The Committee also has absolute discretion in applying malus (when a variable pay award is reduced or cancelled prior to any payment being made) or clawback (when an individual may be required to pay back part or all of the sum of previous variable pay awards) in certain circumstances.

Deferred Payments

As Hodge has chosen not to disapply a deferral scheme for variable pay, the Executive Directors still employed at the Bank have met deferral threshold in 2023 and therefore, their variable remuneration will be deferred in the instalments as percentages set out below. All deferred payments are awarded in cash and are subject to malus and clawback provisions.

2023 Performance Period £000	**2022**	**2023**	**2024**	**2025**
David Landen, Chief Executive Officer	-	74	25	25
Jan Preece, Chief Financial Officer	-	64	21	21
2022 Performance Period £000				
David Landen, Chief Executive Officer	44	15	15	-
Jan Preece, Chief Financial Officer	32	11	11	-
Total	**76**	**164**	**72**	**46**

• Report by Aileen Wallace (continued)

Remuneration for 2024

The base salary for Executive Directors will be reviewed, with any increases to be applied in November 2023, in accordance with the approach outlined in the Remuneration Policy. Wider benefits will continue to be benchmarked and reviewed annually to ensure the Bank maintains a competitive total reward package.

The Annual Reward Plan and key performance areas will be reviewed in line with the Company's strategic priorities. The success against the scorecard following the outturn of the year and any payments awarded under the variable pay scheme will be confirmed in the 2024 remuneration report.

Non-Executive Directors

The arrangements for setting and reviewing Non-Executive Directors remuneration differs to those outlined above. The CEO is responsible for reviewing and recommending to the Board the remuneration of the Non-Executive Directors. The Remuneration Committee does not have influence in setting their remuneration. Instead, the recommendations are noted at Remuneration Committee following approval of the remuneration package by the Shareholder, under the Shareholder Engagement Policy.

Component	Purpose	Execution and Application
Non-Executive Director Fees	Non-Executive Director basic fees are set to be sufficiently competitive to attract individuals of the necessary calibre, who have the required skills and experience to meet the demands and complexity of the role. The fees are also set at a level which reflects the conditions of the talent market.	Fees are reviewed annually by the CEO following a benchmarking activity to review market positioning. Any increases to fees are typically effective from 1st April. The fees of Non-Executive Directors are benchmarked against comparable organisations within the financial services sector. Fees paid to Non-Executive Directors are approved through the parent Company of the Bank through the Shareholder Engagement Policy. The Chair undertakes an assessment of the individual performance of each Non-Executive Director and overall effectiveness and performance of the Board at the end of each financial year. The Senior Independent Director also undertakes an assessment of the Chair's overall performance and effectiveness annually.

Details of Non-Executive Remuneration

	Basic Fee £000	Committee Chair £000	Total Fees £000
Graeme Hughes (1)	137	5	142
Penny Bickerstaff (2)	84	-	84
Aileen Wallace (3)	58	10	68
Iain Laing (4)	58	10	68
John Barbour (5)	58	10	68
Total	**395**	**35**	**430**

(1) Chair of the Board from 1/5/2020 and Chair of Nomination and Governance Committee from 1/5/2020
(2) Senior Independent Director from 22/9/2022
(3) Non-Executive Director from 1/4/2020, Chair of Innovation and Change Committee from 1/9/2020 and Chair of Remuneration Committee from 1/1/2022
(4) Non-Executive Director from 1/7/2020 and Chair of Board Risk Committee from 1/7/2020
(5) Non-Executive Director from 16/3/2017 and Chair of Audit Committee from 1/8/2017

The fees for Non-Executive Directors were reviewed and increased in April 2023 in accordance with the Remuneration Policy. The fees are made up of basic fees for role of Non-Executive Director, Senior Independent Director or Chair of the Board and variable additional fees for holding a Committee Chair role.

Looking Ahead

Looking ahead to 2024, the Committee will continue to ensure we have the appropriate reward structures in place aligned to our culture and to deliver on our objectives to retain the talent we will need to deliver on our strategy and purpose.

All eligible colleagues received a base pay increase in November of 5%. Having conducted thorough external benchmarking and having assessed our performance under our Executive leadership, we are satisfied that the Executive Directors pay increase was reasonable and ensured the total reward package was competitive within the market and motivating while remaining within the parameters of our remuneration policy.

I very much hope that this year's Remuneration Report is helpful and informative.

Aileen Wallace
Chair of the Remuneration Committee

8 December 2023

Report by Aileen Wallace

Chair of the Innovation and Change Committee

I am pleased to be able to report that the Committee has observed sustained progress in all of the key areas of focus.

On behalf of the Board and as Chair of the Innovation & Change Committee, I am pleased to present our annual report.

Delivering Strategic Capabilities

Looking back at the last 12 months, and by our own admission, a year that we would call transitional, the goal for our organisation and the success of our Committee could be summarised by one clear activity – the articulation of organisational capabilities, enabled by technology, shaped into a strategic roadmap for execution. One would think that shaping the capability expectations of the organisation into a blueprint then a delivery roadmap would be straightforward. However, doing so required recognition that the capabilities of "Building the Bank" run in parallel, but were very different in nature to those required to "Run the Bank".

> this year has been about building for the future whilst simultaneously delivering in-situ.

Our Committee spent time discussing and iterating this with our Executive team and gained great value from the depth of the discussions held.

Building the Bank

In line with our 5 year strategy and creation of Hodge for the future, we refreshed our planning approach and prioritised our Committee oversight into the following areas:

- Creation of business value outcome blueprints for both "Build the Bank" and "Run the Bank";
- Re-structuring of our Committee content to ensure dedicated engagement on both blueprints and their performance status;
- Delivery of strategic financial performance – strong governance on capability led business cases that will deliver return on investment;
- Continuing our evolution of Hodge's data delivery given its critical importance to both blueprints;
- Enabling the transformation of existing delivery practices into more agile recognised approaches.

As a Committee, we believe the adoption of agile ways of working will be a key success factor in helping us deliver on our Purpose. This year, we began our journey with initial agile approaches which we will evolve over time, recognising that the combination of operating using such techniques, together with robust and real-time data and digital efficiency solutions, brings us closer to our customer and organisational strategic goals.

I am pleased to be able to report that the Committee has made considerable progress in all of these areas and in recognising the efforts of management in introducing new ways of working, maturing the change management capability and the positive impact deployed from the executive governance office.

Two distinct areas have necessitated enhanced oversight from the Committee during the year:

- The Committee has undertaken a lessons learned review across our Digital Savings Platform programme. Learning lessons of the challenges of delivering a programme of this scale and in the nuances of working together with extended 3rd Party Providers has been deeply insightful. Moving to an agile mindset and ways of working has been one of the most important observations and has driven how we have scoped ongoing components of our approach to "Building the Bank" and in our final progression of the Digital Savings Platform delivery. Formally reviewing our performance and reflecting on this as a team we believe is a USP, holding ourselves to account in the strategic pursuit of our Purpose;
- In much the same vein, whilst we have improved our business case driven mindset and our financial governance of delivering return on investment, further work is required. Together with our agile ways of working, we clearly understand that segmenting delivery activities into micro value drops which impact quickly and deepen incrementally are the best route towards delivering the final value outcome desired. Our strategic capability in delivering Credit Assessment is currently following this approach and showing clear effective results.

Whilst our Committee activities are driven to oversee that our strategy is underpinned by excellent execution, we do look above and beyond at the external market, the challenges and opportunities for our customers and in how we best provide protection and remain resilient to threats. Enhancing the frequency of our monitoring and assessing our approach to threat management, particularly related to cyber, has continued this year and some may feel that as Hodge and also the wider industry looks to providing digital capabilities desired by customers, this will very likely remain a key focus for the foreseeable future.

In summary, this year has been about building for the future whilst simultaneously delivering in-situ. We have performed well in this pursuit by ensuring we have the strategic blueprints, organisational capabilities and operating teams working together supported by strong governance. I look forward to our next 12 months.

A Wallace

Aileen Wallace
Chair of the Innovation and Change Committee

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 September 2023. Certain disclosures are given in the Chairman's Statement, Strategic Report and the financial statements and are incorporated here by cross-reference. Specifically, these incorporate the following disclosures:

Strategy - page 4

Financial performance review - page 11

Risk management policies - page 17

Derivative financial instruments - note 22

Directors and Directors' interests

The Directors who held office during the year were as follows:

David Landen (CEO)

Jan Preece (CFO)

Graeme Hughes* (Chairman)

Aileen Wallace* (Non-Executive Director)

Iain Laing* (Non-Executive Director)

Penny Bickerstaff* (Non-Executive Director)

John Barbour* (Non-Executive Director)

Matthew Burton (Deputy CEO)

– resigned 3 March 2023

No contract was entered into by the Bank in which a director had a material interest.

* All non-executive directors are deemed to be independent by the Board. None of the 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 a material interest.

Political contributions

The Bank made no political contributions during either year.

Post balance sheet events

Details of post balance sheet events are given in Note 32 to the financial statements.

Results and dividends

The loss for the year after taxation from continuing activities amounted to £0.2m (2022: profit of £4.8m).

No dividends have been declared or paid during the year.

Qualifying third-party indemnity provisions

The Bank 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 Director's Report.

Re-appointment of auditors

A resolution for the re-appointment of Ernst & Young LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting of the Company's parent, The Carlyle Trust Limited.

Going concern

The Directors have considered the appropriateness of the going concern basis of preparation of the financial statements taking into account the Bank's current and projected performance as well as consideration of a range of alternative projections to gauge how these would impact the Banks capital and funding positions. As part of this assessment the Board considered:

- The impact on Bank's profits from an expected reduction in income from retail and commercial lending combined with increased credit impairment charges;
- The sufficiency of the Bank's capital base, which is expected to be sufficient to weather even a severe low interest rate environment; and
- The adequacy of the Bank's liquidity

The Bank's forecasts and projections include scenario testing undertaken in accordance with the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process, which are required by the Prudential Regulation Authority to demonstrate appropriate levels of capital and liquidity respectively under stressed conditions.

The Directors confirm that they are satisfied that the Bank will continue in business for a period to 31 December 2024. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

David Landen
Chief Executive Officer
8 December 2023

Statement of Directors' Responsibilities

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 year. 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- 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.

Each of the Directors who is a director at the date of the approval of this Annual Report confirms to the best of their knowledge:

- The Bank's financial statements prepared in accordance with FRS 101, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank.
- The Strategic Report includes a fair view of the development and performance of the business and the position of the Bank together with the description of the principal risks and uncertainties that it faces.
- The Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Bank's position and performance, business model and strategy.
- 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.

David Landen
Chief Executive Officer
8 December 2023

3 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 30 September 2023 which comprise the Income Statement, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and the related notes 1 to 33 (except for note 28 which is unaudited), 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 30 September 2023 and of its loss 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. 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the company's financial close process, we confirmed our understanding of management's going concern assessment process, and confirmed their assessment covered all key factors;
- We evaluated management's going concern assessment, which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity, and funding positions. We also verified that the company's risk management practices were considered, including credit risk, market risk and operational risks;
- We agreed key assumptions and data in management's going concern assessment to underlying supporting documentation;
- We assessed the results of management's stress testing, including consideration of principal and emerging risks relating to funding, capital, and liquidity;
- We reviewed the future profit forecasts, including assessing the reasonableness of assumptions, and historical forecasting accuracy;
- We reviewed correspondence with the regulators for any matters that may impact the going concern assessment; and
- We evaluated the adequacy of the Directors' disclosure in relation to going concern in the Directors' Report and notes to the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 31 December 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	- **The risk of incorrect measurement of the IFRS 9 expected credit loss ('ECL') provision for loans and advances to customers** (commercial lending and portfolio buy-to-let). - **The risk of incorrect valuation of derivatives.**
Materiality	- Overall materiality of £2.7m which represents 1.5% of equity.

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, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

Stakeholders are increasingly interested in how climate change will impact Julian Hodge Bank. The company has determined that the most significant future impacts from climate change on its operations will be from specific weather events and increased regulation to adjust to a low carbon economy. These are explained on pages 19 and 23 in the principal risks and uncertainties. They have also explained their climate commitments on page 6. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the company's business and any consequential material impact on its financial statements.

The company has explained in the Risk Management Report how they have reflected the impact of climate change in their financial statements. Significant judgements and estimates relating to climate change are included in note 1. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of FRS 101.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on page 23 and the significant judgements and estimates disclosed in note 1 and whether these have been appropriately reflected in the financial statements.

Whilst the company has stated its commitment to aspirations to achieve net zero, the company is currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts cannot be fully incorporated in these financial statements.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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
The risk of incorrect measurement of the IFRS 9 expected credit loss ('ECL') provision for commercial loans and advances to customers (commercial lending and portfolio buy-to-let) ECL:£5.3 m; 2022: £7.7 m). Refer to the accounting policy for measurement of ECL and Notes 14 and 27 to the financial statements. The assessment of the IFRS 9 ECL provision is inherently judgemental. The risk incorrect measurement of ECL manifests itself across the following areas: - Staging of loans and advances; - Economic scenarios and related weightings; - The use of models to calculate ECL; - Collateral valuations in respect of the individual properties against which mortgages are secured; and - Post-model adjustments ('PMAs').	We performed a walkthrough to understand the IFRS 9 ECL process, and performed control testing over the setting of scorecards and risk grades, which drive staging. We inspected the scorecard rating for a sample of agreements to validate this was in line with the approved scorecard model. We assessed the loan portfolios for receivables aging, credit scores, payment status, and known litigation or issues with the counterparty, to determine whether significant increases in credit risk had been appropriately identified. We engaged EY Economists to assess and challenge the economic assumptions and scenario weightings set by management, and benchmark to those used by other market participants, including the updates to the scenarios and their weightings. We engaged our IFRS 9 Modelling team to test updates to the ECL model, and perform benchmarking of ECL coverage against peers. We involved property valuation specialists to evaluate the reasonableness of the property valuations for stage 3 loans. We evaluated the rationale for the variables chosen by management in determining the customers affected by refinancing risk in calculating the PMA, and performed analyses on these variables to understand their sensitivity to change.	Based on the work we performed, we concluded; Exposures are appropriately identified as stage 1, 2 and 3. The assumptions within the economic scenarios applied within the ECL models are reasonable. The revised weightings applied, following our challenge, are appropriate and reflect economic conditions at the balance sheet date. The models and data therein are appropriate to calculate the ECL in line with IFRS 9. The collateral valuations within the stage 3 provision calculations are within a reasonable range. The refinancing risk PMA mitigates the lack of explicit inclusion of interest rates within the models and is materially appropriate
The risk of incorrect valuation of derivatives (£48.8m asset (2022: £64.4m asset). Refer to the accounting policy for financial instruments and Note 22 to the financial statements. The company uses derivative financial instruments to manage interest rate risk. The valuation of these instruments is determined through the application of valuation techniques that involve exercise of judgement and use of assumptions and estimates. Due to the significance of the financial instruments and the related estimation uncertainty, this is considered a key audit matter.	We performed a walkthrough to understand the derivatives valuation process, including the design of the controls. We took a substantive approach for the testing of derivative valuation. We engaged derivative valuation specialists to assess the valuation of a sample of derivative financial instruments. This independent valuation is a product of discount curves data obtained from various market sources, adjusted for specific risk factors and contractual cashflows. We compared our independent valuation to management's valuation and considered whether management's value was within an acceptable range.	The valuation of derivatives was determined to be within an acceptable range.

In the prior year, our auditor's report included a key audit matter in relation to inappropriate property/ collateral valuations being applied in the calculation of the IFRS 9 ECL provision. In the current year, this has been incorporated into the key audit matter relating to the IFRS 9 ECL.

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 £2.7 million (2022: £2.7 million), which is 1.5% (2022: 1.5%) of equity. We believe that equity is an appropriate basis as the key stakeholders (including the 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 initial materiality 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% (2022: 75%) of our planning materiality, namely £2.0m (2022: £2.0m). We have set performance materiality at this percentage because our prior year 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 (2022: £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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 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 34, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that related to the reporting framework (FRS 101 and the Companies Act 2006), license conditions and supervisory requirements under the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) and the relevant direct and indirect tax compliance regulation in the United Kingdom.
- We understood how the company is complying with those frameworks by making inquiries of management, those charged with governance and those responsible for legal and compliance matters. We corroborated our inquiries through review of meeting minutes of the Board and the Board committees and internal audit reports to assess whether there was any contradictory evidence.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We identified the risk of material fraud through management override of controls by assessing revenue, specifically topside manual adjustments to revenue, to be subject to fraud risk. Our audit procedures included inspection of a sample of journals to verify the transactions were appropriate and supported by source documentation.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making inquiry about the policies that have been established to prevent non-compliance with laws and regulations, inquiring about the company's methods of enforcing and monitoring the compliance with such policies, reviewing complaints log, and inspecting significant correspondence with the FCA and PRA.
- The company operates in the banking and capital markets industry which is a specialised area. As such, the Senior Statutory Auditor considered the experience and competence of the engagement team to ensure that the team had appropriate competence and capabilities, which included the use of specialists where appropriate.

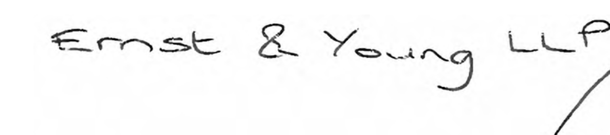
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 8 years, covering the years ending 31 October 2016 to 30 September 2023.
- The 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 member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.



Robin Enstone
(Senior statutory auditor)

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

Bristol

9 December 2023

4 Financial Statements

Income Statement

For the year ended 30 September 2023

	Notes	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
Interest receivable and similar income	4	67.3	50.5
Interest payable and similar charges	5	(27.9)	(21.1)
Net interest income		**39.4**	**29.4**
Fees and commissions receivable		2.5	2.6
Fees and commissions payable		(0.1)	(0.1)
Net fee and commission income		**2.4**	**2.5**
Investment income		4.6	6.7
Other operating income		0.2	-
Net operating income		**46.6**	**38.6**
Administrative expenses	6	(35.3)	(34.2)
Depreciation and amortisation	15/16	(2.9)	(2.5)
Impairment losses on loans and advances to customers	14	(1.6)	-
Bad debt recovery		-	0.4
Operating profit		**6.8**	**2.3**
Other fair value (losses)/gains	7	(7.0)	4.3
(Loss)/profit before taxation	**8**	**(0.2)**	**6.6**
Tax charge on (loss)/profit before taxation	9	-	(1.8)
(Loss)/profit for the financial year		**(0.2)**	**4.8**

Statement of Other Comprehensive Income

For the year ended 30 September 2023

	Notes	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
(Loss)/profit for the financial year		**(0.2)**	**4.8**
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit pension plan	24	(1.7)	9.0
Deferred tax thereon	18	0.4	(2.2)
Movement of pension scheme reimbursement asset (2022: liability)	19/23	0.4	(0.2)
Deferred tax thereon	18	(0.1)	-
Total other comprehensive (loss)/income		**(1.0)**	**6.6**
Total comprehensive (loss)/income for the year		**(1.2)**	**11.4**

The results for the year ended 30 September 2023 relate entirely to continuing operations.

The notes on pages 42 to 72 form part of the financial statements of the Bank.

Balance Sheet

As at 30 September 2023

	Notes	30 September 2023 £m	30 September 2022 £m
Assets			
Cash and balances held at central banks		93.7	118.1
Loans and advances to credit institutions	10	11.2	0.2
Derivative financial instruments	22	58.5	75.8
Government bonds	11	61.7	111.2
Debt securities	12	82.0	116.2
Loans and advances to customers	13	1,488.5	1,404.6
Intangible assets	15	12.7	9.7
Property, plant & equipment	16	1.2	1.5
Investment properties	17	2.6	9.2
Deferred tax assets	18	5.6	6.3
Other assets	19	5.4	8.0
Total assets		**1,823.1**	**1,860.8**

	Notes	30 September 2023 £m	30 September 2022 £m
Liabilities			
Deposits from banks	20	240.7	221.0
Deposits from customers	21	1,368.1	1,425.0
Derivative financial instruments	22	9.7	11.4
Other liabilities	23	16.5	13.9
Pension liabilities	24	4.3	4.5
Total liabilities		**1,639.3**	**1,675.8**
Share capital and reserves		-	
Share capital	25	130.0	130.0
Other reserves		53.8	55.0
Total equity		**183.8**	**185.0**
Total equity and liabilities		**1,823.1**	**1,860.8**

These financial statements of the Bank were approved by the Board of Directors on 8 December 2023 and were signed on its behalf by:

David Landen
Director

Statement of Changes in Equity

For the year ended 30 September 2023

	Called up share capital £m	Retained earnings £m	Pension reserve £m	Total £m
2023				
At beginning of the financial year	130.0	58.3	(3.3)	185.0
Loss for the financial year	-	0.1	(0.3)	(0.2)
Other comprehensive loss	-	-	(1.0)	(1.0)
Pension additional contribution	-	(1.8)	1.8	-
At end of the financial year	**130.0**	**56.6**	**(2.8)**	**183.8**

	Called up share capital £m	Retained earnings £m	Pension reserve £m	Total £m
2022				
At beginning of the financial year	105.0	54.3	(10.7)	148.6
Issue of share capital	25.0	-	-	25.0
Profit for the financial year	-	5.2	(0.4)	4.8
Other comprehensive income	-	-	6.6	6.6
Pension additional contribution	-	(1.2)	1.2	-
At end of the financial year	**130.0**	**58.3**	**(3.3)**	**185.0**

Notes to the Financial Statements

For the year ended 30 September 2023

1. Accounting policies

Basis of preparation

The financial statements of the Bank are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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

In preparing these financial statements, the Bank applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006, applicable to companies reporting under IFRS (Schedule 2 of The Large and Medium-sized Companies and Banks (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 Bank 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 only group of undertakings for which group accounts are drawn up and of which the Bank is a member. The accounts of The Carlyle Trust Limited can be obtained from: The Company Secretary, Julian Hodge Bank Limited, One Central Square, Cardiff, CF10 1FS.

In these financial statements, the Bank 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 year;
- Disclosures in respect of transactions with members of a group;
- Disclosures in respect of the compensation of key management personnel and related parties.

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

Going concern

The financial statements have been prepared on a going concern basis. The Board have considered the appropriateness of the going concern basis of preparation of the financial statements taking into account the Bank's current and projected performance as well as consideration of a range of alternative projections to gauge how these would impact the Bank's capital and funding positions. As part of this assessment the Board considered:

- The impact on Bank's profits from an expected reduction in income from retail and commercial lending combined with increased credit impairment charges;
- The sufficiency of the Bank's capital base, which is expected to be sufficient to weather even a severe low interest rate environment; and,
- The adequacy of the Bank's liquidity.

The Bank's forecasts and projections include scenario testing undertaken in accordance with the Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process, which are required by the Prudential Regulation Authority to demonstrate appropriate levels of capital and liquidity respectively under stressed conditions.

The Directors confirm that they are satisfied that the Bank will continue in business for a period to 31 December 2024. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

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

Climate Risk:

The Bank has assessed the impact of climate risk on the financial statements. As set out on page 23, the Bank has considered the impact of both physical and transition risks from climate change as an emerging risk. The potential areas this could impact are loans and advances to customers and investment properties. As part of this assessment, three scenarios were considered: flood, subsidence and coastal erosion and the estimated time horizon for the impact is considered to be between 2030 and 2060. Under each scenario, the Bank assessed the financial impact on the valuation of collateral held, which supports the carrying value of loans and advances to customers and the fair value of investment properties. The Bank considered the underlying loan to value and energy performance certificate profiles of the portfolio as part of this assessment. Based on the Bank's current assessment, the exposure to financial risk from climate change is not considered to be material based on the Loan to Value profile and the profile of the Energy Performance Certificates. In addition, the Bank considers climate risk to have limited impact in the immediate term. The longer-term risk will be mitigated through the Bank's business strategy and financial planning. Government and societal responses to climate change risks are still developing and are interdependent upon each other and consequently, financial statements cannot capture all possible future outcomes as these are not yet known.

Standards and interpretations effective for the Company in these financial statements:

The Company has considered a number of amendments to published International Financial Reporting Standards and interpretations effective for the year ended 30 September 2023. They are either not relevant to the Bank or do not have a significant impact on the Bank's financial statements

Standards and interpretations effective for the Company in future periods:

None of the standards issued by the IASB but not yet effective are expected to have a material impact on the Bank's financial statements in future periods.

Summary of Significant Accounting Policies

Measurement convention

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

Interest receivable and interest payable

Interest income and expense are recognised in the Income Statement for all instruments measured at amortised cost using the effective interest rate method. The Bank estimates future cash flows considering all contractual terms of the financial instrument. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The net incremental transactional income/costs are amortised over the period to the contractual maturity date for Commercial loans and based on the expected life of each loan for Retail and Buy-to-Let portfolios. An allowance is made for prepayments for the Retail portfolios, but no adjustment is made for the Commercial and Portfolio Buy-to-Let portfolios.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance. For credit-impaired financial assets i.e. Stage 3, a credit-adjusted effective interest rate is calculated using estimated future cash flows including loss allowance. The Bank does not currently hold any purchased or originated credit-impaired financial assets.

If the status of the asset subsequently recovers, the amount by which the provision has increased due to suspended interest is recognised as a reversal of impairment loss allowance rather than interest income. The reversal of impairment loss allowance will not be recognised until any recovery is completed.

Revenue Recognition

Investment income

Investment income consists of realised gains on financial assets and liabilities held at fair value through profit and loss ('FVTPL') and represents the difference between the proceeds received, net of transaction costs, and the original cost. Any unrealised gains previously recognised in other fair value gains are reversed at the point the investment income is recognised.

Fees and commissions

Fee and commission income primarily relate to fees for originating and servicing mortgages on behalf of third parties. Fee income is recognised when performance obligations attached to the fee or commission have been satisfied.

Financial instruments

Recognition

Financial assets and liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on the date in which they are settled.

Financial assets

The Bank has classified its financial assets as follows:

- Amortised cost: Cash and balances held with central banks, Retail, Portfolio Buy-to-Let and Commercial loans, Loans and advances to credit institutions, Government bonds, Debt securities and Other assets. These assets are held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the loans are solely payments of principal and interest on the principal amount outstanding.
- FVTPL: Retirement mortgages are classified as FVTPL due to the existence of an embedded derivative in the form of a 'No negative equity guarantee' ('NNEG') which forms part of the terms and conditions applicable to this product.
- FVTPL: Derivative assets.

To classify financial assets the Bank performs two assessments to evaluate the business model in which financial assets are managed and their cash flow characteristics.

The 'business model assessment' is performed at a portfolio level and determines whether the Bank's objective is to generate cash flows from collecting contractual cash flows, or by both collecting contractual cash flows and selling financial assets.

The assessment of cash flow characteristics determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding ('SPPI'). The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition. For the purposes of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin.

A financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated as being held at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are SPPI.

The Bank does not hold any financial instruments that are classified and measured at fair value through other comprehensive income, accordingly all financial assets not classified as measured at amortised cost are classified as FVTPL.

On initial recognition, the Bank may irrevocably designate a financial asset as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

The Bank has classified its financial liabilities as follows:

- Amortised cost: Deposits from banks, Deposits from customers and Other liabilities.

De-recognition of financial assets and financial liabilities

(i) Financial assets

Financial assets are de-recognised when:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows or has assumed an obligation to pay the received cash flows in full without material delay; and either

- The Bank has transferred substantially all the risks and rewards of the asset; or

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

Where an existing financial asset is replaced by another to the same customer 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 asset and the recognition of a new asset.

(ii) Financial liabilities

Financial liabilities are de-recognised when the obligation is discharged, cancelled or has expired.

Fair value of financial instruments

On initial recognition, the best evidence of the fair value of a financial instrument is normally transaction price (i.e. the fair value of the consideration given or received). If the Bank determines that the fair value on initial recognition differs from the transaction price, the Bank accounts for such differences as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in the Income Statement on initial recognition (i.e. day 1 profit or loss);
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability). Subsequently, the deferred gain or loss will be released to the Income Statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Bank uses a fair value hierarchy that categorises financial instruments into three different levels as detailed in note 26. Levels are reviewed at each reporting date and this determines whether transfers between levels are required.

Retirement mortgages

On initial recognition, the fair value of retirement mortgages is calculated by discounting the future expected cash flows at swap rates together with an allowance for illiquidity. The illiquidity spread is informed by examining the pricing of new originations amongst other market participants, creating a market consistent discount rate for the asset.

On subsequent measurement, the value of retirement mortgages is calculated by projecting the cash flows expected to be generated by the portfolio on redemption, allowing for credit losses caused by the no-negative equity guarantee using a variant of the Black Scholes option pricing method. These cash flows are then discounted at the swap yield plus a margin to reflect the illiquidity of retirement mortgage assets, as described above. An allowance for possible early redemption of the retirement mortgages has been determined by reference to historical rates of lapse within the portfolio.

Embedded derivatives

The NNEG is an embedded derivative. The Company does not separate the NNEG embedded derivative from the host instrument. The fair value of retirement mortgages takes into account an explicit provision in respect of the NNEG. Further details are disclosed in note 26(d).

Measurement of Expected Credit Loss (ECL)

Impairment of financial assets is calculated using a forward looking ECL model. The Bank records an allowance for ECLs ('loss allowance') for all financial assets not held at FVTPL.

Measurement of ECLs depends on the 'stage' of the financial asset, based on changes in credit risk occurring since initial recognition, as described below:

- **Stage 1:** when a financial asset is first recognised it is assigned to Stage 1 and a 12-month ECL is recognised. If there is no significant increase in credit risk from initial recognition the financial asset remains in Stage 1.
- **Stage 2:** if there is a significant increase in credit risk from initial recognition a financial asset it is moved to Stage 2 and a lifetime ECL is recognised.
- **Stage 3:** when there is objective evidence of impairment and the financial asset is considered to be in default, it is moved to Stage 3 and a lifetime ECL is recognised.

A 12-month ECL is defined as the portion of lifetime ECL that will result if a default occurs in the 12-months after the reporting date, weighted by the probability of that default occurring.

A lifetime ECL is defined as ECLs that result from all possible default events over the expected behavioural life of a financial instrument.

For loan commitments, where the loan commitment relates to the undrawn component of a facility, it is assigned to the same stage as the drawn component of the facility. For pipeline loans, the loan commitment is assigned to Stage 1.

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, an assessment is made to consider whether there has been a significant increase in the credit risk of the financial instrument.

Significant increase in credit risk

The Bank applies a series of quantitative, qualitative and backstop criteria to determine if there has been a significant increase in credit risk:

- Quantitative criteria: this is based on a doubling of the probability of default plus 45bps since origination for the Commercial and Portfolio Buy-to-Let exposures and a deterioration in a customer's credit score of greater than or equal to 160bps for Retail mortgages. The quantitative criteria for which our Commercial, Portfolio Buy-to-Let and Retail mortgages are assessed are annually reviewed by our credit risk teams.
- Qualitative criteria: this includes the observation of specific events such as short-term forbearance, payment cancellation, historical arrears, or extension to customer terms.
- Backstop criteria: IFRS 9 includes a backstop that 30-days past due is an indicator of a significant increase in credit risk. The Bank considers 30-days past due to be an appropriate backstop measure and does not rebut this presumption.

Definition of default and credit-impaired assets

The Bank's definition of default is fully aligned with the definition of credit-impaired. The Bank applies both a qualitative and quantitative criterion to determine if an account meets the definition of default. These criteria include:

- When the borrower is more than 90-days past due; and
- Qualitative factors to comply with the internal rating systems risk grading approach adopted by the Bank.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Presentation of loss allowances in the Balance Sheet

Loss allowances for financial assets measured at amortised cost are presented as a deduction from the gross carrying amount of the financial asset.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. The indicators used to determine the prospect of recovery are where an administrator or liquidator has been appointed and the proceeds of disposal of secured assets are insufficient to cover the outstanding debt.

Post model adjustments

At 30 September 2023, the Bank has recognised a post model adjustment in the financial statements to reflect the higher interest rate environment. The adjustments to the Retail, Portfolio BTL and Commercial provisions reflect the lag in the current economic climate filtering through into lower credit scores / credit ratings for our customers which impact the probability of default used within the ECL provision calculations. Further information is provided in note 14.

Hedge accounting

The Bank has elected to continue to apply the hedge accounting requirements of IAS 39. All derivatives entered into by the Bank are for the purposes of providing an economic hedge. Where the criteria set out in IAS 39 are met, the Bank 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 and losses. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Income Statement.

Derivatives are primarily introduced into the portfolio at inception and therefore this prevents a large gain or loss on the hedged item as the derivative is introduced into the fair value macro hedge portfolio. Any gain or loss is amortised over the period to the date of maturity of the derivative. If a derivative no longer meets the criteria for hedge accounting, the cumulative fair value hedging adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the underlying hedged item is sold or repaid, the unamortised fair value adjustment is recognised in the Income Statement.

Intangible assets

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

Intangible assets have finite lives and 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.

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

- Fixtures, fittings and equipment 3 - 10 years.

Investment properties – reversionary interests in properties

Reversionary interests in properties are included in the financial statements initially at cost and subsequently at fair value, with any change therein recognised in the Income Statement within other fair value gains and losses on investments.

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 quarterly Nationwide Regional House Price Index, adjusted down by an 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 derecognised 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 or losses on derecognition are recognised in the Income Statement in the year of disposal within investment income.

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. Where group relief is received or surrendered from or to a group company, the corresponding liability or asset is settled in full.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the

financial statements of the Bank.

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 based on the latest five-year strategic plan.

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.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset and where the deferred tax relate to income taxes levied by the same taxation authority and there is an intention to settle on a net basis.

Corporation tax is charged directly to the Income Statement.

Employee benefits

i) Pensions

The Bank has two pension schemes, a defined benefit scheme and a defined contribution scheme.

Defined Benefit Pension

The Bank operated a defined benefit pension scheme which is now closed to further accrual. The Bank 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 Bank.

The Bank'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 Bank's accounts at the Balance Sheet date.

Defined Contribution Scheme

The Bank introduced a defined contribution scheme in 2021, replacing the defined benefit scheme. A defined contribution scheme is one into which the Bank and the employee pay fixed contributions, without any obligation to pay further contributions. Payments into the defined contribution scheme are charged to the Income Statement as they become payable in accordance with the rules of the scheme.

ii) Reimbursement asset/ liability on pension deficit

The Bank has recognised a reimbursement asset (2022: liability) to its parent company 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 ('TCT') (note 24). The movement in the reimbursement asset / liability each year is recognised in the Statement of Other Comprehensive Income except to the extent that the reimbursement relates to a charge or a gain in the Bank's Income Statement. The defined benefit pension scheme liabilities are split between TCT and the Bank based on the split of scheme members by employer. The defined benefit pension scheme assets have been split in proportion to the scheme's liabilities at 30 September 2020, being the position prior to the disposal of Hodge Life Assurance Company Limited. Any payments made into the scheme from this date are allocated to the assets of the employer making the payment. The reimbursement asset / liability represents the value of TCT's defined benefit pension scheme's assets less its share of the scheme's liabilities.

2. Judgement in applying accounting policies and critical accounting estimates

The Bank has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements of the Bank. In addition, estimates and assumptions are made that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The areas where judgement and estimates are made are as follows:

An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates and assumptions

Fair values of financial instruments

The Bank 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 (c).

The availability of observable market prices and model inputs reduces the need for management judgement and also reduces the uncertainty associated with determining fair values. The 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.

Impairment losses on loans and advances to customers

IFRS 9 has a single impairment model that applies to all financial instruments in its scope. Under this model, an entity must recognise either a 12-month or lifetime expected credit loss. ECLs are the present value of all cash shortfalls over the expected life of the financial instrument. The key assumptions used, and the related sensitives, are outlined in note 27.

Value of reversionary investment properties

There is significant judgement applied in setting the assumptions used in calculating the fair value of reversionary interests in property. Further information on the following assumptions is provided in note 17.

- Property prices
- Mortality or entry into long term care
- Expense assumption
- Discount rate.

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 24.

Value of retirement mortgages including the value of the NNEG

There is judgement applied in setting the assumptions used in calculating the fair value of retirement mortgages and the liability arising from the no-negative equity guarantee. Further information on the following assumptions is provided in note 26(d).

- Mortality or entry into long term care
- Lapses
- Expense assumption
- Discount rate
- Property prices.

3. Segmental information

The Board is the Bank's chief operating decision-maker (CODM). Management has determined the operating segments based on information reviewed by the Board for the purposes of allocating resources and assessing performance.

From 1 October 2022, administrative expenses have not been recharged to each operating segment.

Year ended 30 September 2023	Commercial £m	Retail £m	Portfolio Buy-to-Let £m	Other £m	Total £m
Interest receivable and similar income	12.9	45.3	2.9	6.2	67.3
Interest (payable)/receivable and similar charges	(7.6)	(31.9)	(1.5)	13.1	(27.9)
Fees and commissions receivable	-	0.8	-	1.7	2.5
Fees and commissions payable	-	-	-	(0.1)	(0.1)
Investment income	-	4.6	-	-	4.6
Other operating income	-	-	-	0.2	0.2
Administrative expenses	(2.9)	(10.4)	-	(22.0)	(35.3)
Depreciation and amortisation	-	(2.0)	-	(0.9)	(2.9)
Impairment gains/(losses) on loans and advances to customers	(0.8)	(0.2)	(0.6)	-	(1.6)
Operating profit/(loss)	**1.6**	**6.2**	**0.8**	**(1.8)**	**6.8**
Other fair value losses	-	(5.6)	-	(1.4)	(7.0)
Taxation	-	-	-	-	-
(Loss)/profit for the financial year	**1.6**	**0.6**	**0.8**	**(3.2)**	**(0.2)**

Year ended 30 September 2022	Commercial £m	Retail £m	Portfolio Buy-to-Let £m	Other £m	Total £m
Interest receivable and similar income	11.5	33.2	2.8	3.0	50.5
Interest (payable)/receivable and similar charges	(4.8)	(19.3)	(1.7)	4.7	(21.1)
Fees and commissions receivable	0.1	1.9	-	0.6	2.6
Fees and commissions payable	-	-	-	(0.1)	(0.1)
Investment income	-	6.7	-	-	6.7
Administrative expenses	(6.1)	(22.1)	(1.7)	(4.3)	(34.2)
Depreciation and amortisation	-	(1.7)	-	(0.8)	(2.5)
Impairment gains/(losses) on loans and advances to customers	0.6	(0.2)	(0.4)	-	-
Bad debt recovery	0.4	-	-	-	0.4
Operating profit/(loss)	**1.7**	**(1.5)**	**(1.0)**	**3.1**	**2.3**
Other fair value gains	-	(6.7)	-	11.0	4.3
Taxation	-	-	-	(1.8)	(1.8)
(Loss)/profit for the financial year	**1.7**	**(8.2)**	**(1.0)**	**12.3**	**4.8**

Total assets by business segments	2023 £m	2022 £m
Commercial	170.4	182.2
Retail	1,284.3	1,198.6
Portfolio Buy-to-Let	74.7	76.5
Other	293.7	403.5
	1,823.1	**1,860.8**

4. Interest receivable and similar income

	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
Interest income calculated using EIR method		
Loans and advances to customers	61.1	46.9
Loans and advances to credit institutions	3.7	1.6
Interest on government bonds & debt securities	2.5	2.0
	67.3	**50.5**

5. Interest payable and similar charges

	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
On customer accounts	30.3	16.7
On defined benefit pension scheme (note 24)	0.2	0.3
On term funding scheme	8.0	1.9
Net interest (receivable)/payable on derivative financial instruments	(11.2)	2.2
Other interest payable	0.6	-
	27.9	**21.1**

6. Administrative expenses

	Year ended 30 September 2023	Year ended 30 September 2022
Staff costs		
Wages and salaries	18.8	17.7
Social security	1.9	2.0
Pension costs – defined contribution scheme	2.0	1.8
	22.7	**21.5**
Other administrative expenses	12.6	12.7
	35.3	**34.2**

Directors and employees

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

	Year ended 30 September 2023	Year ended 30 September 2022
Provision of finance and banking	334	354
	334	**354**

Staff costs include remuneration in respect of Directors as follows:

	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
Fees	0.4	0.4
Aggregate emoluments as executives	1.0	1.0
	1.4	**1.4**

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

	Year ended 30 September 2023 £000	Year ended 30 September 2022 £000
Aggregate emoluments	447	418
	447	**418**

The pension accrued for the highest paid director was £NIL (2022: £2,609).

No directors accrued benefits in the defined benefit scheme (2022: None).

7. Other fair value (losses)/gains

	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
Movement in fair value of derivatives (note 22)	(1.9)	8.5
Movement in fair value of equity release and retirement mortgages	(0.5)	(1.2)
Reversal of unrealised gains on disposal of investment properties	(4.6)	(6.8)
Movement in fair value of investment properties (note 17)	(0.5)	1.3
Movement in fair value of derivatives held within an effective macro hedge relationship	46.0	61.1
Movement in fair value of hedged items attributable to hedged risk	(45.5)	(58.6)
	(7.0)	**4.3**

8. (Loss)/profit on ordinary activities before taxation

	Year ended 30 September 2023 £000	Year ended 30 September 2022 £000
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Remuneration of the auditor and its associates		
Audit of the financial statements of the Bank		
- Current year	394	371
- Prior year	-	30
Non audit services	-	30
Amortisation (note 15)	2,309	2,010
Depreciation (note 16)	571	451

9. Tax charge on (loss)/profit

	Year ended 30 September 2022		Year ended 30 September 2021	
	£m	£m	£m	£m
Analysis of charge in the financial period				
UK corporation tax				
Current tax on income for the year	(1.0)		(1.0)	
Prior period adjustment	-		(0.2)	
Total current tax		**(1.0)**		**(1.2)**
Deferred tax				
Origination/reversal of timing differences:				
Current year	1.0		2.9	
Prior period adjustment	-		0.1	
Total deferred tax (note 18)		**1.0**		**3.0**
Tax charge on (loss)/profit		**-**		**1.8**

The total tax charge for the year is in line with the blended rate of corporation tax in the UK of 22% (2022: higher than 19%). The differences are explained below.

	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
Total tax reconciliation		
(Loss)/profit on ordinary activities before tax	(0.2)	6.6
Current tax at 22.00% (2022: 19.00%)	**0.0**	**1.3**
Expenses not taxable for tax purposes	-	-
Effect of deferred tax unwinding at the current tax rate	0.1	0.6
Effect of tax rate change on opening balance	-	-
Adjustments in respect of previous years	(0.1)	(0.1)
Total tax charge	**-**	**1.8**

In the prior period the UK government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The closing deferred tax assets and liabilities have been calculated at 25%.

	Year ended 30 September 2023 £m	Year ended 30 September 2022 £m
Tax relating to other comprehensive income		
Temporary difference in relation to the defined benefit pension scheme	(0.4)	2.2
Temporary difference in relation to the pension reimbursement asset	0.1	-
Tax (credit)/ charge relating to other comprehensive income	**(0.3)**	**2.2**

10. Loans and advances to credit institutions

	2023 £m	2022 £m
Repayable on demand	11.2	0.2
Total asset	**11.2**	**0.2**

There are no provisions held in respect of loans and advances to credit institutions (2022: £nil).

11. Government bonds

	2023 £m	2022 £m
Government bonds – at amortised cost	63.0	114.5
Fair value adjustment for hedged risk	(1.3)	(3.3)
	61.7	**111.2**

The movement in government bonds is summarised as follows:

	2023 £m	2022 £m
At start of year	111.2	29.8
Additions	35.0	118.9
Redemptions and interest received	(85.0)	(34.0)
Gain/(loss) from hedge accounting – Income	2.0	(3.3)
Premium unwind	(1.5)	(0.2)
At end of financial year	**61.7**	**111.2**

12. Debt securities

	2023 £m	2022 £m
Debt securities – at amortised cost	84.3	119.8
Fair value adjustment for hedged risk	(2.3)	(3.6)
	82.0	**116.2**

The movement in debt securities is summarised as follows:

	2023 £m	2022 £m
At start of year	116.2	42.3
Additions	-	83.5
Redemptions and interest received	(35.7)	(6.6)
Gain/(loss) from hedge accounting - Income	1.3	(3.6)
Discount unwind	0.2	0.6
At end of financial year	**82.0**	**116.2**

13. Loans and advances to customers

	2023 £m	2022 £m
Loans and advances – classified at amortised cost		
Commercial	170.4	182.2
Retail	1,234.9	1,140.0
Portfolio Buy-to-Let	74.7	76.5
	1,480.0	**1,398.7**
Fair value adjustment for hedged risk	(40.9)	(52.7)
Loans and advances (retirement mortgages) – classified as FVTPL - see note 26 (d)	49.4	58.6
	1,488.5	**1,404.6**

Of this amount, at 30 September 2023, £354.8m (2022: £334.4m) has been pledged as collateral under the TFSME. Collateral that has been pledged is restricted.

	2023 £m	2022 £m
Loans and advances to customers at amortised cost		
Gross balances	1,483.1	1,403.6
Less: Provision for impairment	(6.0)	(8.6)
Add: Net loan fee deferral	2.9	3.7
Net balance	**1,480.0**	**1,398.7**

14. Impairment provisions on loans and advances to customers

IFRS 9	Stage 1 £m	Stage 2 £m	Stage 3 £m	Post Model Adjustment £m	Total £m
2023					
At start of year	1.7	1.3	4.8	0.8	8.6
Utilised in year	-	-	(4.2)	-	(4.2)
Income Statement					
Impairment (gains)/losses	(0.4)	1.8	0.6	(0.4)	1.6
At 30 September 2023	**1.3**	**3.1**	**1.2**	**0.4**	**6.0**

IFRS 9	Stage 1 £m	Stage 2 £m	Stage 3 £m	Post Model Adjustment £m	Total £m
2022					
At start of year	1.3	2.0	5.1	-	8.4
Income Statement					
Impairment (gains)/losses	0.4	(0.7)	(0.5)	0.8	-
Interest reduction for credit-impaired financial assets	-	-	0.2	-	0.2
At 30 September 2022	**1.7**	**1.3**	**4.8**	**0.8**	**8.6**

The impact of modifications to contractual cash flows that has not resulted in derecognition is immaterial in the year. For further details on loans and advances to customers refer to note 27 on financial risk management.

• Impairment provisions on loans and advances to customers (continued)

Post model adjustments

At 30 September 2023, the Bank has recognised a post model adjustment in the financial statements to reflect the higher interest rate environment and specifically, refinancing risk. The adjustments to the Retail, Portfolio BTL and Commercial provisions reflect the lag in the current economic climate filtering through into lower credit scores /credit ratings for our customers which impact the probability of default used within the ECL provision calculations. The anticipated fall in commercial and residential property prices for Commercial and Portfolio BTL has been reflected within the underlying ECL models for these portfolios. The following table provides a breakdown of the post model adjustment:

Post Model Adjustments	2023 £m	2022 £m
Retail – inflation and higher interest rates	0.2	0.1
Retail – 10% reduction in residential property prices	-	0.1
Portfolio Buy-to-Let – inflation and higher interest rates	0.1	0.2
Commercial – inflation and higher interest rates	0.1	0.4
	0.4	**0.8**

The post model adjustment for inflation (in 2022) and higher interest rates has been determined by identifying customers that are deemed to be most at risk of default in the next 12 months, by considering the customers' credit scores, indebtedness and income. For the customers identified as highest risk, the PD has been increased by decreasing the customers' credit scores by 160pts for Retail customers and decreasing the credit ratings by two grades for both Commercial and Portfolio Buy-to-Let. This has also resulted in some customers moving from Stage 1 to Stage 2 and Stage 2 to Stage 3 where a lifetime PD is used within the ECL calculation. The post model adjustment provision will be utilised once the lag in the current economic climate has filtered through to the customers' credit scores, credit ratings and property prices.

15. Intangible assets

	Computer software	
	2023 £m	2022 £m
Cost:		
At start of year	16.3	12.0
Additions	5.3	4.3
At end of financial year	**21.6**	**16.3**
Amortisation:		
At start of year	(6.6)	(4.6)
Amortisation	(2.3)	(2.0)
At end of financial year	**(8.9)**	**(6.6)**
Net book value:		
At end of financial year	**12.7**	**9.7**

£2.3m (2022: £1.1m) 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.

16. Property, plant and equipment

	Fixtures, fittings and equipment	
	2023 £m	2022 £m
Cost:		
At start of year	3.3	2.9
Additions	0.3	0.4
Disposals	(0.5)	-
At 30 September	**3.1**	**3.3**
Depreciation:		
At start of year	(1.8)	(1.3)
Depreciation	(0.6)	(0.5)
Disposals	0.5	-
At 30 September	**(1.9)**	**(1.8)**
Net book value:		
At 30 September	**1.2**	**1.5**

17. Investment properties

	Reversionary Interests £m
At start of year	9.2
Disposals	(6.1)
Fair value adjustments	(0.5)
At 30 September 2023	**2.6**

The historical cost of the reversionary interest in properties is £1.0m at 30 September 2023 (2022: £2.5m). 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. This table is adjusted from 1 January 2000 for mortality improvements based on the CMI 2022 mortality projection model. In line with the CMI's decision to place a degree of weight on the mortality experience data from 2022 for the purpose of projecting future mortality improvements, for the year ended 30 September 2023 the mortality improvement assumptions were updated to use the CMI_2022 model for mortality improvements.

The mortality tables are then further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor. Mortality experience for 2020 and 2021 was somewhat higher than the assumed rate. This is not unexpected given the increase in mortality rates in England and Wales during 2020 and 2021 due to the COVID-19 pandemic. However, the 2022 experience study has shown that the actual deaths for 2022 were notably higher than expected for the year. This may be seen as more of an indication of future mortality; suggesting that mortality and early redemptions may remain higher than previous expectations. As a result, the mortality scalar for the fair value model for reversions was increased from 130% to 140% for the year ended 30 September 2023. Early redemptions are expected to be very infrequent, and therefore the voluntary redemptions rate is included in the mortality assumption.

Expenses

Assumptions for future policy expense levels are based on the Bank's recent expense analysis. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.45% as at 30 September 2023 (2022: 4.85%). This rate is equal to the market implied rate of RPI inflation (appropriate for the average duration of the reversion portfolio) plus an allowance for expenses increasing faster than the market expectation of prices.

Discount rate

The discount rate applied to the reversion cash flows comprises two parts: a risk-free yield curve plus a spread referred to as the illiquidity spread. The risk-free yield curve is based on the PRA's Solvency II curve methodology, which uses SONIA swap rates. An internal tool developed by Milliman is used to derive the expected PRA curve for use in each month's valuation; this is then validated against the actual PRA curve when it is published. The average discount rate for the portfolio (assumed to be the 5-year point on the yield curve based on the expected average duration) at 30 September 2023 was 6.75% (2022: 7.2%) - including an illiquidity spread of 2.17% (2022: 2.17%).

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 Regional House Price Index. This is then adjusted down by a 10% haircut to reflect the expectation that property prices underperform the house price index due to the older age of the policyholders and a disincentive to maintain the property when it is subject to a reversion. For properties that have been subject to a physical or drive-by valuation, the 10% haircut will not be applied as these valuations will already reflect the condition of the property. 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 Bank has estimated the net decrease in profit before tax for the year arising from a 10% decrease in property prices to be £0.3m (2022: £0.9m).

Following the sale last year of the active reversionary portfolio to Hodge Reversions Limited, the Bank is now only exposed to property price risk as the remaining properties are all held for sale.

18. Deferred tax

	2023 £m	2022 £m
At start of year	6.3	11.5
Charge to the Income Statement – current year	(1.0)	(2.9)
Charge to the Income Statement – prior year	-	(0.1)
Charge to the Statement of Other Comprehensive Income – reimbursement asset (2022:liability)	(0.1)	-
Credit/(charge) to the Statement of Other Comprehensive Income – defined benefit pension scheme	0.4	(2.2)
At end of financial year	**5.6**	**6.3**

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

	2023 £m	2022 £m
Accelerated capital allowances	(0.3)	(0.4)
Other timing differences	2.0	3.6
Timing differences on reimbursement asset	(0.1)	-
Defined benefit pension scheme	1.6	1.2
Tax losses	2.4	1.9
At end of financial year	**5.6**	**6.3**

19. Other assets

	2023 £m	2022 £m
Prepayments and accrued income	3.1	3.4
Pension reimbursement asset	0.2	-
Group relief debtor	1.0	1.0
Other assets	1.1	3.6
At end of financial year	**5.4**	**8.0**

20. Deposits from banks

	2023 £m	2022 £m
Term Funding Scheme	205.0	205.0
Collateral held on behalf of swap counterparties	35.7	16.0
	240.7	**221.0**

21. Deposits from customers

	2023 £m	2022 £m
Deposits from customers	1,361.9	1,413.9
Amounts owed to parent and fellow subsidiaries	7.2	11.3
Fair value adjustment for hedged risk	(1.0)	(0.2)
	1,368.1	**1,425.0**

The amounts owed to parent and fellow subsidiaries are deposit accounts which accrue a market rate of interest.

22. Derivative financial instruments

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

	Contract/notional amount 2023 £m	Fair value 2023 £m
Derivative assets		
Interest rate swaps held at fair value	85.7	9.7
Derivatives held in fair value hedges	662.8	48.8
Total recognised derivative assets	**748.5**	**58.5**
Derivative liabilities:		
Interest rate swaps held at fair value	(85.7)	(9.7)
Total recognised derivative position	**662.8**	**48.8**

	Contract/notional amount 2022 £m	Fair value 2022 £m
Derivative assets		
Interest rate swaps held at fair value	138.2	11.1
Derivatives held in fair value hedges	507.1	64.7
Total recognised derivative assets	**645.3**	**75.8**
Derivative liabilities		
Interest rate swaps held at fair value	(85.7)	(11.4)
	559.6	**64.4**

At 30 September 2023, the fixed interest rates vary from 0.0% to 4.9% (2022: 0.0% to 4.0%), the floating rates are SONIA. Gains and losses recognised on interest rate swap contracts are credited to the Income Statement.

Hedge Accounting

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 retail mortgages, Fixed rate debt securities, Fixed rate government bonds and Fixed rate commercial loans.

The amounts relating to items designated as hedged items were as follows:

	2023 Book Value £m	2023 Hedged Items £m	2023 Hedged Fair Value £m	2022 Book Value £m	2022 Hedged Items £m	2022 Hedged Fair Value £m
Hedged Assets						
Government bonds	61.7	30.8	(2.9)	111.2	32.4	(5.3)
Debt securities	82.0	25.2	(2.4)	116.2	29.9	(3.7)
Loans advances to customers	1,480.0	537.1	(41.2)	1,398.7	439.6	(52.9)
Deposits from customers	(1,368.1)	(67.0)	1.0	-	-	-
	255.6	**526.1**	**(45.5)**	**1,626.1**	**501.9**	**(61.9)**

• Derivative financial instruments (continued)

At 30 September 2023, the hedge ineffectiveness on the hedged asset portfolio amounted to £3.4m (2022: £2.7m). A hedge ineffectiveness gain of £0.5m has been recognised within the Income Statement in the year ended 30 September 2023 (2022: £2.5m).

At 30 September 2023, the hedge ineffectiveness on the hedged liability portfolio amounted to £NIL (2022: £2.7m). A hedge ineffectiveness gain of £NIL has been recognised within the Income Statement in the year ended 30 September 2023.

The immaterial hedge liability portfolio was ineffective at 30 September 2022 and therefore the hedge accounting for this portfolio was discontinued from the date that the portfolio was last effective. The cumulative unamortised fair value for hedges that have been discontinued at 30 September 2023 amounts to £NIL (2022:£0.2m.)

Possible sources of ineffectiveness include differences between the expected and actual volumes of prepayments, difference in the discounting between the hedged item and the hedging instrument and derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

Fair Value

The Bank also holds a portfolio of derivatives held at fair value which are held for the purposes of managing the interest rate risk on the Group's reversionary asset portfolio.

	2023 £m	2022 £m
Movement in fair value of interest rate swaps	(1.9)	8.5
	(1.9)	**8.5**

The Bank agreed to exit a number of interest rate swaps during the year which were held at fair value of £8.6m (2021: £45.0m), £Nil (2021: £0.3m) profit or loss was incurred on disposal.

Offsetting

In accordance with IAS32 Financial Instruments; the Bank 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:

	Amounts subject to netting arrangements		
	Gross amounts £m	Amounts offset £m	Net amounts reported on Balance Sheet £m
2023			
Derivative financial assets	58.5	-	58.5
Impact on total assets	**58.5**	**-**	**58.5**
Derivative financial liabilities	(9.7)	-	(9.7)
Impact on total liabilities	**(9.7)**	**-**	**(9.7)**
2022			
Derivative financial assets	76.1	(0.3)	75.8
Impact on total assets	**76.1**	**(0.3)**	**75.8**
Derivative financial liabilities	(11.7)	0.3	(11.4)
Impact on total liabilities	**(11.7)**	**0.3**	**(11.4)**

23. Other liabilities

	2023 £m	2022 £m
Due within one year:		
Amounts owed in relation to mortgages administered for third parties	4.2	4.9
Other creditors	0.6	0.5
Other taxation and social security	0.6	0.3
Pension reimbursement liability	-	0.2
Accruals	6.8	4.6
Amounts owed to fellow subsidiaries	4.3	3.4
	16.5	**13.9**

The amounts owed to fellow subsidiaries are repayable on demand and accrue no interest.

24. Pension scheme

The Carlyle Trust Limited group operated a defined benefit pension scheme for certain directors and employees, The Carlyle (1972) Pension and Life Assurance Scheme. The scheme was closed to future accrual with effect from April 2021.

The assets of the scheme are administered by the Trustees and are held in a fund that is separate and independent of other group funds. The scheme was established with effect from 1972 and 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 Bank 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 Bank has not changed its processes used to manage its risks from previous periods.

The weighted average duration of the defined pension obligation is 22 years (2022: 23 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 calculations are based upon an assessment of the scheme's liabilities as at 30 September 2023. These have been based upon the results of the 1 April 2022 formal triennial valuation projected forward with allowance for benefit accrual and expected investment return. The next triennial valuation is being caried out as at 1 April 2025.

The Bank's total expense for the year amounted to £0.3m (2022: £0.4m). The Bank has agreed that it will aim to eliminate the pension scheme deficit within the next 6 years and additional contributions of £1.8m (2022: £1.2m) were paid into the scheme in the year ended 30 September 2023. An additional contribution of £3.0m was paid into the scheme in October 2023.

The IAS 19 valuation as at 30 September 2023 has been produced by a qualified independent actuary and is based on the results of the valuation as at 1 April 2022.

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:

	2023 £m	2022 £m
Fair value of plan assets	24.0	25.5
Present value of defined benefit obligations	(28.3)	(30.0)
Deficit	**(4.3)**	**(4.5)**

Movements in fair value of plan assets

	2023 £m	2022 £m
Market value of assets at the beginning of the year	25.5	37.9
Interest income	1.3	0.8
Actuarial loss	(3.7)	(12.9)
Employer contributions	1.8	1.2
Benefits paid	(0.9)	(1.5)
Market value of assets at the end of the year	**24.0**	**25.5**

Movements in present value of defined benefit obligations

	2023 £m	2022 £m
Present value of scheme liabilities at the beginning of the year	30.0	52.1
Interest cost	1.5	1.1
Actuarial (gain)/loss on defined benefit obligation of which:		
due to experience	0.4	1.5
due to demographic assumptions	(0.4)	-
due to financial assumptions	(2.0)	(23.2)
Benefits paid	(1.2)	(1.5)
Present value of scheme liabilities at end of the year	**28.3**	**30.0**

• Pension scheme (continued)

Expense recognised in the Income Statement

	2023 £m	2022 £m
Net interest expense – other finance costs	0.2	0.3
Other admin costs	0.1	0.1
	0.3	**0.4**

The total amount recognised in the Statement of Other Comprehensive Income in respect of actuarial gains and losses is a loss of £1.7m (2022: gain of £9.0m) before tax.

Cumulative losses reported in the Statement of Other Comprehensive Income since the date of transition to FRS 101 are losses of £4.6m (2022: losses of £3.3m) after deferred tax.

Plan assets

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

	Fair Value	
	2023 £m	2022 £m
Quoted equity investments	4.1	4.6
Diversified growth funds	5.0	6.1
Private investments	3.8	4.6
Bonds	3.8	3.8
LDI	6.5	6.1
Cash	0.8	0.3
Total market value of assets	**24.0**	**25.5**

The actual return on assets was a loss of £2.4m (2022: loss £12.1m).

Future contributions

The Bank expects to contribute approximately £3.0m to its defined benefit plan in the next financial year.

Major assumptions

The major assumptions underpinning the defined benefit obligation are:

	2023 %	2022 %
Rate of increase for pensions in payment – RPI capped at 5.0% per annum	3.5	3.8
Discount rate applied to scheme liabilities	5.4	5.1
RPI inflation assumption	3.7	4.0

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:

	2023	2022
Current pensioners age 65 – male	86.3	86.8
Current pensioners age 65 – female	88.7	89.2
Future pensioners age 65 (current age 45) - males	87.2	87.8
Future pensioners age 65 (current age 45) - females	89.8	90.3

Sensitivities

The Bank 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 £m	Change in deficit £m
Discount rate	0.1%	0.5
Rate of inflation (RPI or CPI)	0.1%	0.2
Life expectancy	1 year	0.6

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 year.

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.

• Pension scheme (continued)

History of the scheme Balance Sheet position

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Fair value of plan assets	24.0	25.5	37.9	30.3	27.3
Present value of funded defined benefit obligations	(28.3)	(30.0)	(52.1)	(51.3)	(43.9)
Deficit	**(4.3)**	**(4.5)**	**(14.2)**	**(21.0)**	**(16.6)**

History of experience gains and losses

	2023	2022	2021	2020	2019
Difference between the expected and actual return on scheme assets:					
Amount	**£(3.7)m**	**£(12.9)m**	£2.7m	£(0.4)m	£0.6m
Percentage of year-end scheme assets	**(15.4)%**	**(50.6)%**	7.1%	(1.3)%	2.2%
Experience gains and losses on scheme liabilities:					
Amount	**£0.4m**	£1.5m	£(0.3)m	£0.0	£(1.9)m
Percentage of year-end present value of scheme liabilities	**1.4%**	5.0%	(0.6)%	0.0%	(4.4)%
Total amount recognised in statement of comprehensive income:					
(Loss)/gain before tax	**£(1.7)m**	**£9.0m**	£2.6m	£(4.4)m	£(3.3)m
Percentage of year-end present value of scheme liabilities	**(6.0)%**	**30.0%**	5.0%	(8.5)%	(7.5)%

25. Called up share capital

	2023 £m	2022 £m
Authorised, allotted, called-up and fully paid:		
130,000,000 (2022:130,000,000) ordinary shares of £1 each	130.0	130.0
	130.0	**130.0**

26. 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 the disclosures to Balance Sheet totals.

As at 30 September 2023	At amortised cost £m	FVTPL £m	Total £m
Assets			
Cash and balances held at central banks	93.7	-	93.7
Loans and advances to credit institutions	11.2	-	11.2
Derivative financial instruments	-	58.5	58.5
Government bonds	61.7	-	61.7
Debt securities	82.0	-	82.0
Loans and advances to customers	1,439.1	49.4	1,488.5
Other assets	5.4	-	5.4
Total financial assets	**1,693.1**	**107.9**	**1,801.0**
Total non-financial assets	19.5	2.6	22.1
Total assets	**1,712.6**	**110.5**	**1,823.1**
Liabilities			
Deposits from banks	240.7	-	240.7
Deposits from customers	1,368.1	-	1,368.1
Derivative financial instruments	-	9.7	9.7
Other liabilities	16.5	-	16.5
Total financial liabilities	**1,625.3**	**9.7**	**1,635.0**
Total non-financial liabilities	4.3	-	4.3
Share capital and other reserves	183.8	-	183.8
Total reserves and liabilities	**1,813.4**	**9.7**	**1,823.1**

As at 30 September 2022	At amortised cost £m	FVTPL £m	Total £m
Assets			
Cash and balances held at central banks	118.1	-	118.1
Loans and advances to credit institutions	0.2	-	0.2
Derivative financial instruments	-	75.8	75.8
Government bonds	111.2	-	111.2
Debt securities	116.2	-	116.2
Loans and advances to customers	1,346.0	58.6	1,404.6
Other assets	8.0	-	8.0
Total financial assets	**1,699.7**	**134.4**	**1,834.1**
Total non-financial assets	17.5	9.2	26.7
Total assets	**1,717.2**	**143.6**	**1,860.8**
Liabilities			
Deposit from banks	221.0	-	221.0
Deposit from customers	1,425.0	-	1,425.0
Derivative financial instruments	-	11.4	11.4
Other liabilities	13.9	-	13.9
Total financial liabilities	**1,659.9**	**11.4**	**1,671.3**
Total non-financial liabilities	4.5	-	4.5
Share capital and other reserves	185.0	-	185.0
Total reserves and liabilities	**1,849.4**	**11.4**	**1,860.8**

• 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 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 Bank'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 Bank 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 Bank determines fair value using other valuation techniques. For the majority of financial assets and liabilities carried at amortised cost, the fair value approximates to their carrying values. In respect of loans and advances to customers, the fair value is not materially different to their carrying value.

The following table presents the Bank'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 30 September 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Loans and advances to customers	-	-	49.4	49.4
Derivative financial instruments	-	58.5	-	58.5
Total financial assets at FVTPL	**-**	**58.5**	**49.4**	**107.9**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	9.7	-	9.7
Total financial liabilities at FVTPL	**-**	**9.7**	**-**	**9.7**

As at 30 September 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Loans and advances to customers	-	-	58.6	58.6
Derivative financial instruments	-	75.8	-	75.8
Total financial assets at FVTPL	**-**	**75.8**	**58.6**	**134.4**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	11.4	-	11.4
Total financial liabilities at FVTPL	**-**	**11.4**	**-**	**11.4**

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

Derivative financial instruments:

Derivative products (interest rate swaps) use a valuation technique with observable market inputs, 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.

d) Level 3 assets and liabilities measured at fair value

Loans and advances to customers – retirement mortgages:

Loans and advances to customers include £49.4m (2022: £58.6m) of assets which have been classed as FVTPL and represent retirement mortgages.

	Fair Value		Book Value	
	2023 £m	2022 £m	2023 £m	2022 £m
Loans and advances (retirement mortgages) – classified as FVTPL	49.4	58.6	50.0	58.9
	49.4	**58.6**	**50.0**	**58.9**

Reconciliation of the opening and closing recorded amount of Level 3 loans secured by equity release and retirement mortgages:

	2023 £m	2022 £m
At start of year	58.6	78.7
Fair value losses in the Income Statement	(0.5)	(1.2)
Loans advanced	-	0.2
Transfer to amortised cost	-	(1.2)
Redemptions	(8.7)	(17.9)
At end of financial year	**49.4**	**58.6**

The 4.5-year point on the risk-free yield curve plus illiquidity spread used for discounting the future retirement mortgage cash flows is 4.65% plus a 2.44% illiquidity spread. The 4.5-year point reflects the current duration of the retirement mortgage portfolio.

For the year ended 30 September 2022, the 9-year point on the risk-free yield curve plus illiquidity spread used for discounting the future retirement mortgage cash flows was 4.43% plus a 2.44% illiquidity spread. The 9-year point reflected the current duration of the retirement mortgage portfolio at 30 September 2022.

d) Level 3 assets and liabilities measured at fair value (continued)

Retirement mortgages – principal assumptions

Principal assumptions in the calculation of retirement mortgages include:

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. This table is adjusted from 1 January 2000 for mortality improvements based on the CMI 2022 mortality projection model. In line with the CMI's decision to place a degree of weight on the mortality experience data from 2022 for the purpose of projecting future mortality improvements, for the 2023 year-end the mortality improvement assumptions were updated to use the CMI_2022 model for mortality improvements.

The mortality tables are then further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor. As the fair value for retirement mortgages is materially insensitive to the choice of mortality scalar and there is not sufficient data on retirement mortgages to carry out a credible analysis for year-end 2023, the year-end 2022 mortality scalar assumption have been retained.

Lapses

The fair value for retirement mortgages is materially insensitive to the choice of early redemption assumption. Due to limited market information, this assumption is derived from the Bank's own experience on this product.

Expenses

Assumptions for future policy expense levels are based on the Bank's recent experience analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.45% as at 30 September 2023 (2022: 4.85%). This rate is equal to the market implied rate of RPI inflation (appropriate for the average duration of the retirement mortgage portfolio) plus an allowance for expenses increasing faster than the market expectation of prices.

Interest rate

The interest rate used to value the retirement mortgage portfolio comprises two parts: a risk-free yield curve plus a spread referred to as the illiquidity spread. The risk-free yield curve is based on the PRA's Solvency II curve methodology, which uses SONIA swap rates. An internal tool developed by Milliman is used to derive a proxy for the PRA curve; this is then validated against the actual PRA curve when it is published. The average discount rate for the portfolio (assumed to be the 4.5-year point (2022:9-year point) on the yield curve based on the average duration of our business) at 30 September 2023 was 7.09% (2022: 6.87%) - including an illiquidity spread of 2.44% (2022: 2.44%).

No-negative equity guarantee

The fair value of loans secured by retirement mortgages takes into account an explicit provision in respect of the no-negative equity guarantee, 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.

The current property price is based on the last survey valuation adjusted by the Nationwide Regional House Price Index with an annual underperformance assumption. The future property price is based on a Future HPI assumption with an annual underperformance assumption.

The property growth (net of underperformance) and volatility assumed at 30 September 2023 was 3.35% (2022:3.57%) and 15.0% (2022:15.0%) respectively.

The value of the no-negative equity guarantee as at 30 September 2023 is £0.01m (2022:£0.1m).

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 Bank has estimated the net decrease in profit before tax for the year arising from changes to these inputs as follows:

	Interest rates +100 BP £m	Maintenance expenses +10% £m	Property inflation -100bps £m	Increase in illiquidity premium +1% £m
30 September 2023	**(0.1)**	**(0.1)**	**(0.1)**	**(2.1)**
30 September 2022	(0.2)	(0.2)	(0.1)	(4.5)

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.
These sensitivities are chosen as they are all key components of the fair value calculation. 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 left of the page.

e) Maturity profile of financial assets and liabilities

The table below analyses the carrying value of financial assets and liabilities into relevant maturity grouping 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 Bank uses past performance of each asset and liability class along with management judgement to forecast likely cash flow requirements.

As at 30 September 2023	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Total £m
Assets						
Cash and balances held at central banks	93.7	-	-	-	-	93.7
Loans and advances to credit institutions	11.2	-	-	-	-	11.2
Derivative financial instruments	-	-	0.2	47.8	10.5	58.5
Government bonds	19.8	14.6	-	10.4	16.9	61.7
Debt securities	48.1	3.6	-	30.3	-	82.0
Loans and advances to customers	14.9	8.2	11.6	132.6	1,321.2	1,488.5
Other assets	5.4	-	-	-	-	5.4
Total financial assets	**193.1**	**26.4**	**11.8**	**221.1**	**1,348.6**	**1,801.0**
Liabilities						
Deposits from banks	35.7	-	15.0	190.0	-	240.7
Deposits from customers	213.2	-	533.6	621.3	-	1,368.1
Derivative financial instruments	-	-	0.5	2.8	6.4	9.7
Other liabilities	16.5	-	-	-	-	16.5
Total financial liabilities	**265.4**	**-**	**549.1**	**814.1**	**6.4**	**1,635.0**
Loan commitments liabilities	**33.4**	**3.2**	**6.4**	**3.3**	**-**	**46.3**

• Financial instruments (continued)

e) Maturity profile of financial assets and liabilities (continued)

As at 30 September 2022	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Total £m
Assets						
Cash and balances held at central banks	118.1	-	-	-	-	118.1
Loans and advances to credit institutions	0.2	-	-	-	-	0.2
Derivative financial instruments	(0.2)	-	-	61.9	14.1	75.8
Government bonds	24.2	14.5	44.1	-	28.4	111.2
Debt securities	3.2	4.9	26.6	80.6	0.9	116.2
Loans and advances to customers	12.4	19.9	5.0	164.2	1,203.1	1,404.6
Other assets	8.0	-	-	-	-	8.0
Total financial assets	**165.9**	**39.3**	**75.7**	**306.7**	**1,246.5**	**1,834.1**
Liabilities						
Deposits from banks	16.0	-	-	205.0	-	221.0
Deposits from customers	259.5	121.8	375.3	668.3	0.1	1,425.0
Derivative financial instruments	-	-	-	3.0	8.4	11.4
Other liabilities	13.9	-	-	-	-	13.9
Total financial liabilities	**289.4**	**121.8**	**375.3**	**876.3**	**8.5**	**1,671.3**
Loan commitments liabilities	**70.2**	**0.4**	**3.0**	**12.6**	**-**	**86.2**

f) Maturity profile of financial liabilities-contractual undiscounted cash flows

The table below analyses the Bank'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 30 September 2023	Book value £m	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Total £m
Financial liabilities							
Deposits from banks	240.7	35.7	-	15.7	208.7	-	260.1
Deposits from customers	1,368.1	213.6	-	547.0	678.4	-	1,439.0
Derivative financial instruments	9.7	-	-	0.2	2.1	10.1	12.4
Other liabilities	16.5	16.5	-	-	-	-	16.5
Total financial liabilities	**1,635.0**	**265.8**	**-**	**562.9**	**889.2**	**10.1**	**1,728.0**

As at 30 September 2022	Book value £m	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Total £m
Financial liabilities							
Deposits from banks	221.0	16.0	-	-	218.3	-	234.3
Deposits from customers	1,425.0	259.6	122.3	379.7	686.9	0.1	1,448.6
Derivative financial instruments	11.4	-	-	-	2.5	10.9	13.4
Other liabilities	13.9	13.9	-	-	-	-	13.9
Total financial liabilities	**1,671.3**	**289.5**	**122.3**	**379.7**	**907.7**	**11.0**	**1,710.2**

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 settled on a net basis.

g) Foreign currencies

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

27. 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 Enterprise Risk Committee which reports to the Board Risk 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. The 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, operational risk and pension risk. These are discussed in more detail in sections (a) to (g) below. In addition, whilst not a principal risk category, we also consider the risk arising from the current high inflation and high interest rate environment.

(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 30 September is the carrying value recognised on the Balance Sheet as disclosed in the table in note 26(a), along with the loan commitments as disclosed in the table in note 26(e).

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 retirement 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, government bonds 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 Bank intends to hold its treasury assets to maturity and is therefore not directly affected by market risk.

For both Commercial lending and Retail 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 retail property books.

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 Retail lending credit risk, Commercial lending credit risk, Portfolio Buy-to-Let credit risk and credit risk in relation to treasury financial instruments is described in the relevant sections below.

Expected Credit Loss Provisioning

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD is the likelihood of a borrower defaulting on its financial obligation either in the next 12-months or over the remaining lifetime of the obligation.

The calculation of PD is specific to each portfolio as set out below:

Portfolio	Methodology for determining the PD
Retail mortgages	Calculated at an individual account level using the customer's credit score. The PD is derived from UK mortgage account performance data and overlaid with economic forecast assumptions to obtain a forward-looking PD.
Commercial and Portfolio Buy-to-Let	Calculated by making an assessment at an individual account level using a scorecard approach to determine the credit rating of the individual exposure which is linked to historical default rates of comparable entities. A credit cycle overlay model of a credit rating agency is used to calculate the forward-looking PD. The economic assumptions used within this model are obtained from multiple external sources.
Debt securities and government bonds	Calculated at an individual security level using the external credit agency's rating of the security which is linked to the historical default rates of comparable securities.

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Key Economic Scenario Assumptions

The key economic assumptions used to determine the forward-looking PD are as follows:

	Y1 %	Y2 %	Y3 %	Y4 %	Y5 %
UK GDP Growth					
Upside	0.69	1.46	1.88	1.85	1.85
Baseline	0.25	1.03	1.53	1.65	1.70
Downside	(0.08)	0.69	1.30	1.50	1.57
Scenario weighted forecasts	0.14	0.92	1.46	1.60	1.66
UK Unemployment Rate					
Upside	4.06	3.81	3.60	3.42	3.35
Baseline	4.59	4.57	4.39	4.21	4.12
Downside	5.08	5.16	5.09	4.98	4.97
Scenario weighted forecasts	4.76	4.76	4.63	4.48	4.43
% Change in S&P 500 Index[1]	14.00				
% Change in Energy Index	(25.82)	0.09	0.09	n/a	n/a
% Change in Non-Energy Index	(9.57)	(2.67)	(2.67)	n/a	n/a
% Change in Proportion of Downgrades[1]	12.10				

1 - These are the historical annual changes and therefore these are only input for Y1 and then updated annually.

The PD models produce an estimate of the point-in-time PD reflecting the current and expected position in the current credit cycle.

The models are designed to produce ECL estimates under three distinct scenarios, reflecting expectations of general economic conditions.

The scenario weightings and the three distinct scenarios used to reflect the expectations of the wider economy that feed into the PD models for the year ended 30 September 2023 are:

Scenario	Scenario assumptions	Weighting
Upside	- The possible lifting of curbs upon Russian gas and oil exports to Europe remains the most significant upside risk to the forecast. This would support a quicker drop back in inflation to the Bank of England's 2% target and diminish cost of living pressures on households - Back to work policies announced in the Spring Budget could see the labour force grow more quickly than projected, buoying growth in the medium to long term. - Consumer demand has been relatively resilient against a backdrop of high inflation. Lower precautionary saving than projected could see continued outperformance. - Producer input prices fell by 3.3% in the year to July 2023. A swift pass through to consumer process could see inflation ease back to the Bank of England's 2% target sooner than projected.	10.0%
Central	- No Covid-19 related restrictions are reimposed. - Continued conflict in Ukraine. Current sanctions remain, but no new sanctions are introduced. - The global oil price stays broadly flat in the short term. - CPI inflation eases to 4.5% by 2023Q4. - The Bank of England's 2% target is not reached until 2025Q2. - The unemployment rate is projected to rise to a peak of 4.6% in 2024. - Real household disposable income grows by just 0.4% this year and 0.3% in 2024. - High tax rates and lingering above target inflation constrains the strengthening in growth to 1.4% in 2025. - There is a small increase in GDP this year and nothing in the way of a concerted recovery until 2025.	45.0%
Downside	- European wholesale gas prices have edged up in recent weeks, though remain well down on the August 2022 peak, Cold weather in the coming winter and stronger demand globally could see prices continue to rise. This would add to inflationary pressures in the UK and hurt consumer spending. - The second-round effects on domestic process and wages linked to the sharp increase in energy and food over the past two years take longer to unwind than expected. This would see inflation remain higher for longer. - Several midsized banks in the US have failed in recent months in part due to a rapid outflow of deposits seeking better returns in a high-rate environment. UK banks are far better capitalised than they were going into the global financial crises. However, if banking contagion occurs, we could see a tightening of credit conditions, weighing on economic expansion. - In China prices fell in July, reflecting weak consumer confidence and faltering demand in the post Covid lockdown period, If a period of slower growth emerges, this would weigh on the global and UK economies.	45.0%

The scenario weightings and the three distinct scenarios used to reflect the expectations of the wider economy that feed into the PD models for the year ended 30 September 2022 are:

Scenario	Scenario assumptions	Weighting
Upside	- Sanctions lift: an end to conflict in Ukraine and the lifting of curbs on Russian gas exports to Europe represents the most significant upside benefit to the forecast. - Productivity: the Government's Capital Allowance Super Deduction could spur stronger growth in business investment over the next year than in the base case. - Fiscal Policy: the UK government is under pressure to increase support for household finances as the cost-of-living crisis worsens. This could see a less severe contraction in real personal disposable incomes and stronger outlook for consumer spending and GDP.	30.0%
Central	- No COVID-19 related restrictions are reimposed. - Continued conflict in Ukraine. Current sanctions remain. The global oil price peaks at $100 - $110 a barrel on a quarterly average basis. - 30% increase in the Ofgem energy price cap in January, and 15% in April. - The unemployment rate is expected to rise gradually to a peak of 5.7% in 2024. - CPI peaks at 14% in 2023 Q1. Bank Rate rises to at least 3% in the spring. - In the long-term GDP is roughly 7% lower than in our pre-pandemic base case.	40.0%
Downside	- Russian oil and gas: at least a dozen European countries have been affected by cuts to gas supplies from Russia. Further cuts would send European wholesale prices higher. - Smaller labour force: long-term sickness and retirement have reduced the size of the labour force relative to before the pandemic. If the fall in the participation rate persists, GDP growth could underperform the base case. - Domestic wage pressures: persisting externally generated price inflation, specifically from rising global commodity prices could lead to domestically generated price and wage pressures becoming entrenched. - COVID-19 related restrictions elsewhere: the potential widening of lockdown restrictions in China is of particular concern.	30.0%

- EAD is based on the amounts the Bank expects to be owed at the time of default.
- There are no significant judgements in determining the exposure at default.

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

- LGD represents the Bank's expectation of the extent of loss on defaulted exposures.

The calculation of LGD is specific to each loan portfolio as set out below:

Portfolio	Methodology for determining the LGD
Retail mortgages	Calculated by using the Black Scholes model to reflect that the portfolio is secured against the underlying property as this will calculate the theoretical value of the total loss, should all policies default.
Commercial and Portfolio Buy-to-Let	Calculated by using an external credit rating agency's ECL model which provides an unbiased estimate of the LGD by blending different probabilities of the economic states occurring (positive, neutral and negative).
Debt securities and government bonds	Calculated on an individual security level using a credit rating agency's published average nominal recovery rate.

A sensitivity analysis has been performed to review the worst-case scenario and the impact on the LGD.

Credit risk: Retail exposures

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

	2023	
	£m	%
Fully secured by a first charge on residential property	1,285.1	100.0
	1,285.1	**100.0**
Fair value adjustments	(0.8)	
	1,284.3	

	2022	
	£m	%
Fully secured by a first charge on residential property	1,198.9	100.0
	1,198.9	**100.0**
Fair value adjustments	(0.3)	
	1,198.6	

The cumulative change in fair values due to credit risk amounts to losses of £0.1m (2022: £0.1m) and the change in the year is a gain of £nil (2022: gain of £nil).

Retail: risk concentrations

Loan to Value ('LTV') is one of the main factors used to determine the credit quality of loans secured on residential property along with credit scores. All residential loans and receivables have an LTV of less than 75% when advanced.

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

Retail: performance

The gross exposure on loans and advances to retail customers held at amortised cost and its exposure to credit risk in line with the internal modelling of the Bank for the year ending 30 September 2023 is disclosed below:

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Satisfactory	1,137.9	(0.1)
Stage 2	Watchlist	86.0	(0.1)
Stage 3	Default	7.4	(0.2)
Post Model Adjustment			(0.1)
		1,231.3	**(0.5)**
Plus: Loan fee deferral		4.1	
Provisions for impairment		(0.5)	
Total		**1,234.9**	

A deterioration in a customer's credit score since inception of greater than or equal to 160 bps results in a loan being moved to Stage 2. Any loan that is 90-days past due is classified as being in default and therefore is allocated to Stage 3.

The gross exposure on loans and advances to retail customers held at amortised cost and its exposure to credit risk in line with the internal modelling of the Bank for the year ending 30 September 2022 is disclosed below:

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Satisfactory	1,076.7	(0.1)
Stage 2	Watchlist	56.6	(0.1)
Stage 3	Default	2.2	(0.1)
Post Model Adjustment			(0.2)
		1,135.5	**(0.5)**
Plus: Loan fee deferral		5.0	
Provisions for impairment		(0.5)	
Total		**1,140.0**	

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

The movement between stages based on the gross exposure on loans disclosed below:

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 4 £m
At 30 September 2022	1,076.7	56.6	2.2	1,135.5
Advances	190.0	10.2	-	200.2
Stage transfers	(28.5)	22.8	5.7	-
Repayment and settlement	(100.3)	(3.6)	(0.5)	(104.4)
At 30 September 2023	**1,137.9**	**86.0**	**7.4**	**1,231.3**

Arrears

Performance risk is measured by those accounts in arrears. The total loan balances in arrears at 30 September 2023 amounted to £37.8m (2022: £5.5m).

Past due but not impaired

As at 30 September 2023 there were no retail exposures that were past due but not impaired (2022: £nil).

Forbearance

At 30 September 2023, there were 7 loans in forbearance (2022: None).

Sensitivity

A 100% weighting for a negative scenario produces an additional ECL provision for Stage 1, 2 and 3 of £0.2m (2022: £nil).

The maximum post model adjustment for the lag in the current economic climate filtering through to lower credit scores for retail customers that are deemed to be the highest risk of default in the next 12 months from the impact of higher interest rates amounts to £1.5m (2022:£1m).

Credit risk: Commercial lending

Commercial: analysis of risk concentration

Loans secured on commercial property are as follows:

	2023		2022	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
Commercial mortgage	29.7	48.2	29.9	46.5
Development finance	8.0	10.9	12.9	14.7
Investment loans	130.5	251.8	135.8	245.6
Renewable energy	7.0	-	11.7	-
	175.2	**310.9**	**190.3**	**306.8**
Less: Loan fee deferral	(1.1)		(1.0)	
Provisions for impairment	(3.7)		(7.1)	
	170.4	**310.9**	**182.2**	**306.8**

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

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 of the underlying asset is provided below:

	2023		2022	
	£m	%	£m	%
Wales	33.9	19.3	35.6	18.7
London – England	68.4	39.1	88.4	46.4
South East & East of England	13.0	7.4	7.4	3.9
Midlands – England	19.7	11.2	20.9	11.0
South West of England	31.8	18.2	33.7	17.7
North West & North East of England	6.1	3.5	1.7	0.9
Scotland	2.3	1.3	2.6	1.4
	175.2	**100.0**	**190.3**	**100.0**

The average LTV in respect of Commercial loans is estimated to be 61.2% (2022: 63.3%). 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.

£0.5m (2022: £5.5m) of exposures have an LTV of greater than 100%. Of these, £0.5m (2022: £5.5m) are already classified as in default.

The largest exposure to one counterparty is £14.4m (2022: £15.2m) or 8% (2022: 8.0%) of gross balances.

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

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 gross balance of the Commercial loan portfolio is classified as follows:

	2023 £m	2023 %	2022 £m	2022 %
Stage 1	128.7	73.5	142.7	75.0
Stage 2 – significant increase in credit risk	44.7	25.5	31.8	16.7
Stage 3 – default	1.8	1.0	15.8	8.3
	175.2	**100.0**	**190.3**	**100.0**

The movement between stages based on the gross exposure on loans disclosed below:

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 4 £m
At 30 September 2022	142.7	31.8	15.8	190.3
Advances and interest	44.4	1.0	0.7	46.1
Stage transfers	(23.8)	23.0	0.8	-
Repayment and settlement	(34.6)	(11.1)	(15.5)	(61.2)
At 30 September 2023	**128.7**	**44.7**	**1.8**	**175.2**

Exposure by credit rating

The gross exposure on Commercial loans and their exposure to credit risk in line with internal risk grades and the corresponding external credit rating agency's credit risk rating at 30 September 2023 is disclosed below:

Risk grade	Description	Stage	S&P Rating	Gross Loan Balance £m	ECL Provision £m
2.1	Minimal Risk	Stage 1	BBB+ to BBB-	1.0	-
2.2	Low risk	Stage 1 or 2	BB+ to BB	18.6	(0.1)
3.1	Fair risk	Stage 1 or 2	BB to BB-	53.6	(0.2)
3.2	Moderate risk	Stage 1 or 2	B+ to B-	55.5	(0.5)
4.1	Watch	Stage 1 or 2	B- to CCC	24.4	(0.7)
4.2	Enhanced watch	Stage 1 or 2	CCC	3.7	(0.1)
5	Substandard	Stage 2	CCC to CCC-	16.6	(0.9)
6	Default	Stage 3	CCC-	1.3	(0.6)
7	Loss	Stage 3	CCC-	0.5	(0.5)
	Post Model Adjustment				(0.1)
Total				**175.2**	**(3.7)**

The gross exposure on Commercial loans and their exposure to credit risk in line with internal risk grades and the corresponding external credit rating agencies credit risk rating at 30 September 2022 is disclosed below:

Risk grade	Description	Stage	S&P Rating	Gross Loan Balance £m	ECL Provision £m
1	Negligible risk	Stage 1	AAA to A-	0.1	-
2.2	Low risk	Stage 1 or 2	BB+ to BB	17.8	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	63.7	(0.7)
3.2	Moderate risk	Stage 1 or 2	B+ to B-	54.1	(0.3)
4.1	Watch	Stage 1 or 2	B- to CCC	32.0	(0.5)
4.2	Enhanced watch	Stage 1 or 2	CCC	3.8	(0.2)
5	Substandard	Stage 2	CCC to CCC-	3.0	(0.1)
6	Default	Stage 3	CCC-	9.8	-
7	Loss	Stage 3	CCC-	6.0	(4.9)
	Post Model Adjustment				(0.4)
Total				**190.3**	**(7.1)**

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Arrears

As at 30 September 2023 there were Commercial loans arrears of £1.3m (2022: £17.2m).

Past due but not impaired

As at 30 September 2023 and 30 September 2022 there were no Commercial loan balances that were past due but not impaired.

Forbearance

During the year, there was one instance of forbearance on a loan of £9.9m which persisted until the loan was exited in December 2022 (2022: £9.9m).

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and Stage 2 of £0.1m (2022:£1.1m).

The maximum post model adjustment for the lag in the current economic climate filtering through to lower credit ratings for commercial customers that are deemed to be the highest risk of default in the next 12 months from the impact of higher interest rates amounts to £0.1m (2022:£1.4m).

Credit risk: Portfolio Buy-to-Let ('PBTL')

PBTL: analysis of risk concentration

Loans secured on PBTL property are as follows:

	2023		2022	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
PBTL lending	76.5	76.7	77.8	115.7
	76.5	**76.7**	**77.8**	**115.7**

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

The Bank's PBTL loan portfolio comprises the following:

	2023		2022	
	£m	%	£m	%
Loans secured on PBTL property	76.5	100.0	77.8	100.0
	76.5	**100.0**	**77.8**	**100.0**
Less: Loan fee deferral	-		(0.1)	
Provisions for impairment	(1.8)		(1.2)	
	74.7		**76.5**	

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

	2023		2022	
	£m	%	£m	%
Wales	3.7	4.9	3.8	4.9
London – England	46.3	60.5	47.5	61.0
South East & East of England	13.4	17.5	13.5	17.4
Midlands – England	7.6	9.9	7.5	9.6
North West - England	1.3	1.7	1.3	1.7
South West of England	4.2	5.5	4.2	5.4
	76.5	**100**	**77.8**	**100.0**

The average LTV in respect of PBTL loans is 65.4% (2022:65.8%). 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. No exposures have an LTV of greater than 100%.

The largest exposure to one counterparty is £11.0m (2022:£11.0m) or 14.4% (2022:14.1%) of gross balances.

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

PBTL: 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 gross value of the PBTL portfolio is classified as follows:

	2023		2022	
	£m	%	£m	%
Stage 1	37.1	48.5	71.3	91.6
Stage 2 – significant increase in credit risk	39.4	51.5	6.5	8.4
	76.5	**100.0**	**77.8**	**100.0**

The movement between stages based on the gross exposure on loans disclosed below:

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 4 £m
At 30 September 2022	71.3	6.5	-	77.8
Stage transfers	(32.8)	32.8	-	-
Advances	0.1	0.1	-	0.2
Repayment and settlement	(1.5)	-	-	(1.5)
At 30 September 2023	**37.1**	**39.4**	**-**	**76.5**

PBTL: lending provisions Exposure by credit rating

The gross exposure on PBTL financial assets and its exposure to credit risk in line with an external credit rating agency's credit risk rating is disclosed below:

30 September 2023

Risk grade	Description	Stage	Credit Rating	Gross Loan Balance £m	ECL Provision £m
2.2	Low risk	Stage 1	BB+ to BB	9.9	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	15.8	(0.2)
3.2	Moderate risk	Stage 1 or 2	B+ to B-	16.1	(0.2)
4.1	Watch	Stage 1 or 2	B- to CCC	3.9	(0.2)
4.2	Enhanced watch	Stage 1 or 2	CCC	24.3	(0.7)
5	Substandard	Stage 2	CCC to CCC-	6.5	(0.4)
	Post Model Adjustment				(0.1)
Total				**76.5**	**(1.8)**

30 September 2022

Risk grade	Description	Stage	Credit Rating	Gross Loan Balance £m	ECL Provision £m
2.2	Low risk	Stage 1	BB+ to BB	9.9	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	13.2	-
3.2	Moderate risk	Stage 1 or 2	B+ to B-	37.2	(0.3)
4.1	Watch	Stage 1 or 2	B- to CCC	11.0	(0.3)
4.2	Enhanced watch	Stage 1 or 2	CCC	4.3	(0.2)
5	Substandard	Stage 2	CCC to CCC-	2.2	(0.2)
	Post Model Adjustment				(0.2)
Total				**77.8**	**(1.2)**

Arrears

As at 30 September 2023 there were no PBTL loans in arrears (2022: £2.2m).

Past due but not impaired

As at 30 September 2023 there were no PBTL loans that were past due but not impaired (2022: None). .

Forbearance

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

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and 2 of £0.0m (2022:£0.1m).

The maximum post model adjustment for the lag in the current economic climate filtering through to lower credit ratings for Portfolio Buy-to-Let customers that are deemed to be the highest risk of default in the next 12 months from the impact of higher interest rates amounts to £0.1m (2022: £2.5m).

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Credit risk: Treasury assets

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

	2023 £m	2022 £m
Cash and balances held at central banks	93.7	118.1
Loans and advances to credit institutions	11.2	0.2
Government bonds	61.7	111.2
Debt securities	82.0	116.2
	248.6	**345.7**
Provision for impairment	-	-
	248.6	**345.7**

None of these exposures are 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:

	2023 £m	2022 £m
AAA to AA-	248.6	345.5
A+ to A-	-	0.2
	248.6	**345.7**

Concentration of credit risk

The geographical exposure is as follows:

	2023 £m	2022 £m
UK	178.8	254.6
Other	69.8	91.1
	248.6	**345.7**

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

• Financial risk management objectives and policies (continued)

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 notes 26 (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 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 26 (d) shows an estimate of the interest rate sensitivity gap as at 30 September 2023. 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 Bank are interest rate swap contracts of varying maturities and start dates.

The Bank'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.

d) 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 Bank. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Bank cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Bank 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.

e) 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 Bank's retirement mortgages and reversionary interests held at FVTPL 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 Bank mitigates house price risk by monitoring maximum loan to value at inception of the loan and reversionary interests.

Geographical analysis of retirement mortgages

The Bank provides loans secured on property across England, Scotland and Wales. An analysis of retail property by geographical location is provided below.

	2023		2022	
	£m	%	£m	%
Wales	2.2	4.5	3.0	5.1
East Anglia	2.2	4.5	2.3	3.9
East Midlands	1.7	3.4	2.5	4.3
Greater London	2.2	4.5	3.4	5.8
Yorkshire & Humberside	5.2	10.5	4.4	7.5
North West	9.4	19.0	6.0	10.2
Scotland	10.4	21.0	11.0	18.8
Outer Metropolitan	5.7	11.5	3.5	6.0
Outer South East	0.1	0.2	8.5	14.5
South West	2.5	5.1	6.5	11.1
West Midlands	4.2	8.5	4.7	8.0
North	3.6	7.3	2.8	4.8
	49.4	**100.0**	**58.6**	**100.0**

f) 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 Board Risk Committee.

The Bank holds a provision of £nil as at 30 September 2023 (2022: £nil).

g) Pension risk

The Bank is exposed to pension risk through its defined benefit scheme. Further information is provided in note 24.

h) Macroeconomic environment risk

Macroeconomic environment risk is the risk of economic loss from the current high inflation and high interest rate environment. The Executive Risk Committee has overall responsibility for implementing and monitoring risks that this could cause. The Committee is responsible for managing risk decisions and monitoring risk levels which it reports to the Board Risk Committee.

28. Capital risk management (unaudited)

The Bank conducts an Internal Capital Adequacy Assessment Process ('ICAAP'), at least annually, which is approved by the Board. This is used to assess the Bank'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 considers all of the Bank'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 Bank's Total Capital Requirements ('TCR').

The Bank'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 TCR to address those risks not covered under Pillar 1.

The Board is ultimately responsible for capital management and monitors the capital position of the Bank at each board meeting through the receipt of management information which sets out the Bank's current and forecast capital position, based on the methodology adopted within its ICAAP. This means that the Bank will:

i) Maintain a level of capital at least equal to the minimum amount set by the PRA in the TCR, and;

ii) Hold all its capital in the form of Common Equity Tier 1 and Tier 2 capital.

	2023 Unaudited	2022 Unaudited
Common Equity Tier 1 capital	172.9	177.4
Total risk weighted assets	704.7	705.0
Common Equity Tier 1 capital ratio	**24.5%**	**25.2%**
Total own funds	172.9	177.4
Total risk weighted assets	704.7	705.0
Total capital ratio	**24.5%**	**25.2%**

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 6 to the accounts.
- Annual turnover (Net Interest Income) and profit before tax: as disclosed in the Income Statement.
- Corporation Tax paid: 2023: £62,000 (2022: £nil).

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

The Bank's objectives when managing capital are:

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

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

29. Financial commitments

	2023 £m	2022 £m
Loan Commitments		
Expiring in less than one year	43.0	73.6
Expiring in more than one year	3.3	12.6
	46.3	**86.2**

Capital commitments

The Bank had contracted capital commitments amounting to £nil at 30 September 2023 (2022: £nil).

30. Related parties

The Bank 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 30 September 2023 and 30 September 2022:

	2023 £m	2022 £m
Amounts due/(owed) from parent and fellow subsidiaries		
Reimbursement asset/(liability) due to The Carlyle Trust Limited	0.2	(0.2)
SWAP collateral liability due to Hodge Reversions Limited	(3.4)	(3.4)
Group relief debtor	1.0	1.0
Total	**(2.2)**	**(2.6)**
Jane Hodge Foundation – shareholder of The Carlyle Trust Limited	(2.0)	(2.0)
Deposits owed to parent and fellow subsidiaries		
Sterling House Limited	(0.5)	(0.1)
Wingwest (Fountain Lane) Limited	(0.2)	(0.1)
The Carlyle Trust Limited – parent	(2.6)	(10.0)
Carlyle Property Development Company Limited	(0.4)	(0.3)
Hodge Limited	(0.2)	(0.3)
Hodge Reversions Limited	(3.3)	(0.5)
Total	**(7.2)**	**(11.3)**

31 . Maturity analysis of assets and liabilities

The table below provides an analysis of assets and liabilities according to when they are anticipated to be recovered or settled. and liabilities according to when they are anticipated to be recovered or settled.

At 30 September 2023	Due within 12 months £m	Due after 12 months £m	Total £m
Assets			
Cash and balances held at central banks	93.7	-	93.7
Loans and advances to credit institutions	11.2	-	11.2
Derivative financial instruments	0.2	58.3	58.5
Government bonds	34.4	27.3	61.7
Debt securities	51.7	30.3	82.0
Loans and advances to customers	34.7	1,453.8	1,488.5
Intangible assets	2.3	10.4	12.7
Property, plant & equipment	0.6	0.6	1.2
Investment properties	2.6	-	2.6
Deferred tax assets	1.5	4.1	5.6
Other assets	5.4	-	5.4
Total assets	**238.3**	**1,584.8**	**1,823.1**
Liabilities			
Deposits from banks	50.7	190.0	240.7
Deposits from customers	746.8	621.3	1,368.1
Derivative financial instruments	0.5	9.2	9.7
Other liabilities	16.5	-	16.5
Pension liabilities	3.0	1.3	4.3
Total liabilities	**817.5**	**821.8**	**1,639.3**

At 30 September 2022	Due within 12 months £m	Due after 12 months £m	Total £m
Assets			
Cash and balances held at central banks	118.1	-	118.1
Loans and advances to credit institutions	0.2	-	0.2
Derivative financial instruments	(0.2)	76.0	75.8
Government bonds	82.8	28.4	111.2
Debt securities	34.7	81.5	116.2
Loans and advances to customers	37.3	1,367.3	1,404.6
Intangible assets	2.0	7.7	9.7
Property, plant & equipment	0.5	1.0	1.5
Investment properties	9.2	-	9.2
Deferred tax assets	1.7	4.6	6.3
Other assets	8.0	-	8.0
Total assets	**294.3**	**1,566.5**	**1,860.8**
Liabilities			
Deposits from banks	16.0	205.0	221.0
Deposits from customers	756.6	668.4	1,425.0
Derivative financial instruments	-	11.4	11.4
Other liabilities	13.9	-	13.9
Pension liabilities	1.6	2.9	4.5
Total liabilities	**788.1**	**887.7**	**1,675.8**

32. Post balance sheet events (non adjusting)

In early October 2023 the Company entered into a strategic forward flow partnership with Blue Motor Finance (Blue), an established operator in the used vehicle Motor Finance market. Blue originate Hire Purchase (HP) assets secured on a motor vehicle via its UK based network of car dealerships and brokers. On a daily basis for an initial two-year period, the Company will purchase the ancillary rights to a portion of the HP assets originated. Origination volumes purchased by the Company are expected to be in the region of £240m over the two-year period.

Through these purchases the Company will obtain the security interest on the underlying vehicle asset via a Declaration of Trust and pay Blue an origination fee for originating the assets. Blue will continue to service the agreements throughout the life of the HP term and receive a servicing fee for such. The underlying HP receivables will be recognised on the Balance Sheet of the Company and represent a new reporting segment for the Bank.

33. Contingent assets and liabilities

There are no contingent assets or liabilities at 30 September 2023 (2022: None).

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