HODGE

Annual report and financial statements

30 September 2024

Registered number 00743437

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1 Strategic Report

Chairman's Statement

Our strategy remains to be a leading Specialist Lender in the markets where we believe that we are best able to bring our expertise, experience, capability and creativity to the fore.

Our Vision reflects who we are, where we come from and where we want to be in the delivery of this strategy – to be the most trusted bank in the UK, where we can have the most positive impact on our many different stakeholders.

> Being seen as a reliable and trustworthy partner to residential and real estate brokers brings new customers to the Bank.

It is becoming usual practice to begin this report on the progress during the year by expressing concerns about the macro-economic environment, reflective of a challenging geo-political situation, and unfortunately this year is no different.

It has been well documented that 2024 sees the greatest number of voters going to the polls in many democracies across the world, with the financial markets looking for stability and a degree of certainty of outcome. Alongside this, the ongoing conflicts in Ukraine and the Middle East add to the economic pressures and so markets remain cautious, as do Central Banks across the world.

The downward trend in inflation in the UK has seen the first steps by the Bank of England to reduce the base rate but, reflective of the broader environment above, the expectation of small, steady decreases is the consensus amongst most commentators.

The reduction in the rate of inflation, whilst very welcome, nevertheless has done little to alleviate the cost of living pressures on many households and we remain focused on ensuring that we are there to support our customers in whatever way we can.

Our strategy remains to be a leading Specialist Lender in the markets where we believe that we are best able to bring our expertise, experience, capability and creativity to the fore. In the residential space, we continue to prioritise later life customers and people with diverse incomes.

> We remain focused on ensuring that we are there to support our customers in whatever way we can.

Whilst Real Estate markets remain slow to recover, we are refocussing on the key markets of Development Finance and Investment lending.

The partnership with Blue Motor Finance ('Blue'), which commenced in October 2023, to assist in the provision of motor finance to UK consumers has been hugely encouraging since launch, and we are keen to see how this type of relationship could strengthen our strategic aims into the future.

In delivering this overall lending strategy, the priority is on using our capital flexibly to optimise the return to our shareholder and so we are not driven by chasing market share or lending into uneconomic markets.

Underpinning this approach to lending is our savings strategy, where we aim to be the trusted home for savers, delivered simply and easily, across a broader range of easy access and term products. The first stages of the delivery of our online savings platform, Dy Arian, has been very successful in bringing record levels of savings to the Bank this year.

As a specialist lender of our size, direct relationships with our mortgage and savings customers are essential to our growth, being seen as a reliable and trustworthy partner to residential and real estate brokers brings new customers to the Bank, the alignment with Blue to be a funding partner enabled us to enter new markets in a cost effective and timely manner, and the trust and confidence of our shareholder in delivering sustainable returns and dividends over the five year plan underpins the whole strategic plan.

The other key stakeholders of course are our colleagues across the business, where we believe having an inclusive, engaged and highly efficient culture is essential to the delivery of our strategy. To achieve this, we need to continue to provide our colleagues with the tools they need to support our customers' needs, to facilitate them using their expertise and experience so as to make the difference to our customers and partners alike.

The priority areas are on automation of simple processes, improved data capability and development of Customer relationship management that will support colleagues to see the whole relationship with our customers.

Our ongoing commitment to creating a truly inclusive environment for our colleagues saw good progress made during the year. As members of the Women in Finance Charter, we now have 42% of our senior management represented by women against our target of 45%, this increases to 50% by October 2026.

Many of our colleagues have been encouraged to become involved in a range of activities to increase awareness and understanding of a wide range of challenging subjects such as mental health, parenthood, menopause and long term health issues. The Bank also sponsored the Cardiff Pride 2024 event with a number of our colleagues taking part from across the business.

• Chairman's Statement (continued)

> We must also use our flexibility, light-footedness and creativity to search out new opportunities to use our expertise.

As a specialist lender, risk culture and governance is an essential component of our approach – it underpins all aspects of decision making across the Bank from how we recruit and train our colleagues to how we organise ourselves and which markets we decide to lend to. The progress made by our risk experts across the whole business, led by the Executive and supported by the Board, has been extremely effective once again this year. This touches many aspects of what we do, from the quality of our lending books through to the proactive introduction and management of the Consumer Duty regulation.

This year has seen excellent progress in the delivery of our ESG plan but, as ever, there is more to do. In addition to the plans to improve our workplace inclusivity, our strategy also includes the positive impact we can have on our communities through initiatives such as the Hodge Purpose Pot, as well as continuing to look for both direct and indirect ways of improving our impact on our environment. More specifically, we will align our approach to better governance with the "B Corp framework", the globally recognised leader in this space, and similarly with the Science Based Targets initiative (SBTi) in the Climate Change arena.

Looking to the future, the focus is now very much on delivery of the strategy and underlying plan over the next five years. The financial goal is the delivery of strong and sustainable returns, using our capital efficiently and supported by robust liquidity at all times. The controlled growth of a more diversified balance sheet across our lending markets will see less of a dependence on residential mortgages as both Real estate and motor finance grow.

Cost control and efficiency remains a priority, with process improvements alongside the right sizing of the streamlined organisational design meaning the costs are planned to be maintained around current levels as the Balance Sheet grows. This will deliver a cost / income ratio appropriate for a Bank of our size and shape.

We must also use our flexibility, light-footedness and creativity to search out new opportunities to use our expertise, whether this is in existing markets or in identifying new possibilities where customer needs are not being met by the traditional lenders.

As previously mentioned, the relationship with Blue has been encouraging, both in terms of the lending to date as well our ability to build capability and insight in the motor finance sector. We will continue to build on this and so look at what the strategic opportunities might be, initially as a trusted partner in this space, over the coming years.

With this in mind, I was pleased to welcome Graham Wheeler to the Board as a Non-Executive Director from June this year. Graham brings a wealth of motor finance experience to the Board, and he has already added considerable value to our understanding and insight. He will be a major contributor to our discussions around the future direction of our motor finance business and I am delighted to have him as part of the team.

Finally, I would like to thank our colleagues at Hodge for everything they continue to do to deliver our vision and goals and for their dedication, professionalism and good humour – as a Board, we greatly value what you do.

Graeme Hughes
Chairman

12 December 2024

Chief Executive Officer's Statement

2024 has been another significant year for Hodge, delivering against some critical strategic priorities, against a backdrop of a continued challenging external environment.

2024 has been another significant year for Hodge, delivering against some critical strategic priorities, against a backdrop of a continued challenging external environment. Whilst the economy has seen an improvement with inflation easing and the first base rate cut agreed in August taking some much needed pressure off households, this recovery undoubtedly remains uncertain.

We have responded to these on-going challenges while continuing to support our customers, our people and suppliers as well as delivering against a number of strategic priorities that set up the foundations for our future growth and improved profitability.

Performance

The Bank made an underlying adjusted operating loss (defined as the operating profit of the Bank less the financial impacts of the legacy reversion portfolio which is now in the later stages of run-off) of £0.1m (2023 profit £2.2m).

This result is reflective of the significant transformation programme to simplify the business and thus enabling the continued loan book growth (2024 14.2% vs 2023 6.0%) which is currently offset by the increased provisions associated with the growing motor book alongside increased costs impacting operating profit. Net interest income has remained flat during the year whilst underlying credit performance remains robust, as Retail and Real Estate impairment charges remain stable.

Our lending portfolio, which passed the £1.5bn milestone in the year, has been funded by our savings customers, the Bank continues to enhance the way it is funded by diversifying its funding options through introducing new products and broadening our customer base.

> "The Bank continues to enhance the way it is funded by diversifying its funding options through introducing new products and broadening our customer base.

Considered Growth

Retail

Our specialist mortgage business continues to go from strength to strength, during the year we have again met our targets for the year with new originations of £195.2m (2023: £190m).

During the year we consciously pulled back from the Holiday Buy to Let market. This was as a result of the prospect of significant regulatory change due to proposed capital rule amendments in Basel 3.1, coupled with legislative headwinds driven by a rise in the tourist market, which makes it harder for people living in those areas to buy or rent affordable housing. There was a positive outcome to the regulatory capital regime announced later in the year meaning we will be more active in 2025 and beyond.

During August we revamped our mortgage range including launching our Hodge Resi proposition to sit alongside our later life range, this provides more flexibility for all types of borrowers designed for those who, given more complexity in their income, find it difficult to get a mortgage from mainstream banks.

Real Estate Finance

A challenging interest rate environment and the resultant slowdown in borrower appetite has meant a challenging backdrop for us to support our clients in development and investment finance. We have seen new business volumes increase year on year (£51.2m million vs £45.2m in 2023) and as the interest rate environment and inflation ease we stand ready to support clients with their ambitions with our tailored approach, delivered through our relationship led, real estate experts.

Motor

Last year I was pleased to announce the strategic partnership with Blue Motor Finance and I am delighted to say that the partnership has started well with Hodge funding in excess of £100m of car loans. We look forward to continuing to build on and deepen our Partnership with Blue Motor Finance in future years.

Savings

The significant investment in our underlying savings platform culminated in the launch of our new savings platform in February. Named "Dy Arian" the Welsh for Your money, the system means that Hodge has a fully modern technology platform on which we can continue to deliver great products and service to our current and new savings customers. Since its launch our loyal and valued customers have trusted us with over £300m of savings on the new platform. Alongside the launch we have been carefully migrating from our old system to the new platform with five migrations successfully completed.

Customers

Without our customers Hodge would not be here and I would like to thank each and everyone of you who trust Hodge to support you in your aspirations. I am proud of the great service we have provided, recognised with a 4.7 TrustPilot rating (with ratings primarily provided by our Savings customers) and a refreshed service mark accreditation from the Institute for Customer Service, the only Bank to have that accreditation, and rated as a leader for service across any industry. This is testament to our customer first approach supported by our dedicated teams who are there when our customers need us.

Colleagues

I would like to take this opportunity to thank all my colleagues who continue to work tirelessly every day to provide the best service to our customers and intermediary partners and to continue our transformation to a Bank with the best of both modern digital capabilities coupled with a personal, relationship approach.

We also continue to invest in our leaders of tomorrow with a leadership program where 13 of our senior leaders have taken some time away from their day to day running of the business to focus on what is required to take the next step in their careers with Hodge. It is vital we continue to build a talented team of leaders ready to step up and support Hodge in delivery of our plans.

Management

There were some changes to our executive during the year with Kevin Beevers leaving Hodge after 10 successful years with us. I would like to thank Kevin for his contribution to Hodge over those 10 years and wish him well for the future. Replacing Kevin, Andy Mallin joined us to lead our real estate finance business on an interim basis. Andy has a wealth of experience at a number of high street and specialist banks.

I am also delighted that Charlie Ellaway has been promoted to our Chief People Officer, Charlie brings a great passion for our people and shares our drive to be a fully inclusive, progressive bank, helping to lead our inclusivity network. Charlie is a great example of an internal candidate stepping up and she will lead our colleague strategy and provide great support to me and the team.

The future outlook

With the economic outlook improving and a significant amount of the necessary transformation completed, Hodge is extremely well placed to deliver for our customers and achieve greater profitability in 2025 and beyond. A huge thanks to everyone who has contributed to all we have achieved in 2024 and we turn the page and enter a new exciting chapter of Hodge.

David Landen
Chief Executive Officer
12 December 2024

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 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

The Bank's specialist retail mortgage business is focused on supporting customers with complex income requirements, to own their own home, using our trusted expertise to assess their income 'up to' and 'into' retirement.

> We continue to engage, value and respond to feedback from the broker community and customers, to ensure we're meeting customer needs in an ever changing market.

We also support customers seeking to invest in Holiday Buy to Let properties. We work in close partnership with our trusted and targeted network of intermediaries, who provide best advice to our customers.

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 customers seeking to extend their mortgage into retirement, a growing market that we are committed to serving.

Following extensive customer research in 2024, we expanded the offering of our Professional mortgage to other customers with complex income and rebranded the proposition as Hodge Resi. This will be swiftly followed with the launch of Hodge Resi Retire, which is an extension of the current 50+ mortgage. This will enable us to serve customers with complex income lending into retirement better and with no change to overall risk appetite.

In 2024 we also continued to build on the service delivery improvements and criteria enhancements we made in prior years; placing our customers at the heart of everything we do and providing flexibility in a notoriously rigid market. We continue to engage, value and respond to feedback from the broker community and customers, to ensure we're meeting customer needs in an ever changing market. Working closely with our strategic partners enables us to offer fair value products and ensures customers have good outcomes.

We have also strengthened our expertise with appointments in key roles which has enhanced our capability to serve and respond to the market. This continues to pay dividends in the feedback we receive from brokers.

Real Estate Finance

The Bank has operated in the Real Estate Finance sector for many years and built a reputation for offering a flexible, reliable funding solution to our customers by taking an individual risk-based approach, working closely with them to understand and meet their needs.

We are delighted to announce that in 2025 we are re-launching our customer-led, solutions-based approach which our heritage, capability, reputation and appetite have always truly embodied.

Our highly experienced, expert Relationship Management team will be supported by a refreshed Business Development team facing into the market together to deliver tailored Real Estate Funding Solutions without the fuss and product inflexibility of our mainstream competitors across both Development and Investment Finance segments. We will also aim to deliver a new unique, expedited 8-week Approval to Closure proposition for customers with opportunities with short completion windows.

We are, and will remain, relatively small within the sector but we aim to punch well above our weight and re-build the long-term relationships and first class reputation we are proudly known for.

Motor

In October 2023 the Bank entered into a strategic forward flow partnership with an established player in the used vehicle Motor Finance market – Blue Motor Finance (Blue). Blue originate Hire Purchase (HP) assets secured on a motor vehicle via its UK based network of car dealerships and brokers.

The partnership involves the Bank acquiring the rights to the cashflows from the underlying HP agreements allowing for the recognition of Motor receivables within Loans and Advances to Customers on the Balance Sheet of the Bank.

We look forward to continuing this partnership over years to come and will seek to deepen our participation in the Motor Finance sector if the right partnership opportunity arises.

Savings

Customer savings are essential to our funding base. Throughout 2024 we have continued our commitment to support more customers through our online channels and have continually monitored our savings rate to ensure we're delivery fair value for our customers and efficient cost of funds.

The continued investment in digital capabilities, simplifying processes and leveraging technology to quicken our service continues 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, through the successful launch of our Dy Arian savings platform .

We have made a significant investment in our technology infrastructure, through the successful launch of our Dy Arian savings platform, 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 have provided 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 manage over £1.5bn 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 and ensure good outcomes for them.

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.

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 can bring their whole selves to work, feel rewarded and ultimately thrive.

- **Learning and Development:** We have continued to invest in the development of skills and capabilities of our colleagues. This year we have invested in the development of our leaders, in aid of equipping confident and competent managers to support and lead our colleagues in delivering for our customers. Our leaders have completed a ten-month leadership development program in partnership with Levati, which focussed on 360 feedback, experiential learning and development and peer to peer accountability. We also launched our internal mentoring scheme this year, inviting all of our colleagues to take part in the scheme as either a mentor or a mentee to develop skills and capabilities cross functionally and through exposure to different leaders.

  Working in conjunction with the IMLA (Intermediary Mortgage Lenders Association) and AMI (Association of Mortgage Intermediaries) a number of colleagues have also benefited from external mentoring from Senior Management Team members from across the UK mortgage lender and broker market.
- **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 financial well-being awareness, in addition to providing more in-depth information on our flexible benefits available to colleagues at Hodge designed to promote their physical, mental or financial wellbeing.
- **Flexibility:** We have continued to provide flexible working options to our colleagues through hybrid working and through completing enhancements in the office to provide a more hybrid friendly working environment. With colleagues at the heart of our enhancements, we ensured more collaborative spaces, provided more booths for quiet working and customer calls, and increased the number of standing desks.
- **Inclusivity:** We remain committed to ensuring continued and focussed activities on being a truly inclusive employer. Throughout the year, our Inclusion Network has led initiatives and focussed activity on educating colleagues on a range of topics including religion and faith, health, sexuality, unconscious bias and much more. We also sponsored the Cardiff Pride 2024 Event and launched our 'Share Your Stories' campaign internally, inviting colleagues to share their own stories to promote education, invite conversation on 'taboo' subjects and break down misconceptions while also promoting inclusivity both internally and externally.

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

- **Consulting Colleagues:** This year, a review of the organisational design was undertaken to ensure that we were optimally set up to provide a strong experience for our customers in our structures and our colleagues capabilities. This review resulted in a restructuring of our customer facing teams and a headcount reduction. We consulted with our colleagues on the organisational design and the teams' structure, particularly within our Real Estate and Retail functions to ensure we achieved the right design for our colleagues and our customers.

Corporate Social Responsibility

During the year we introduced the "Hodge Purpose Pot" which enables a colleague to apply for up to £500 to support charities and causes that are close to their hearts. As we move forward, we will continue to become even more diverse, working with charities against gender bias and those supporting equality and inclusion.

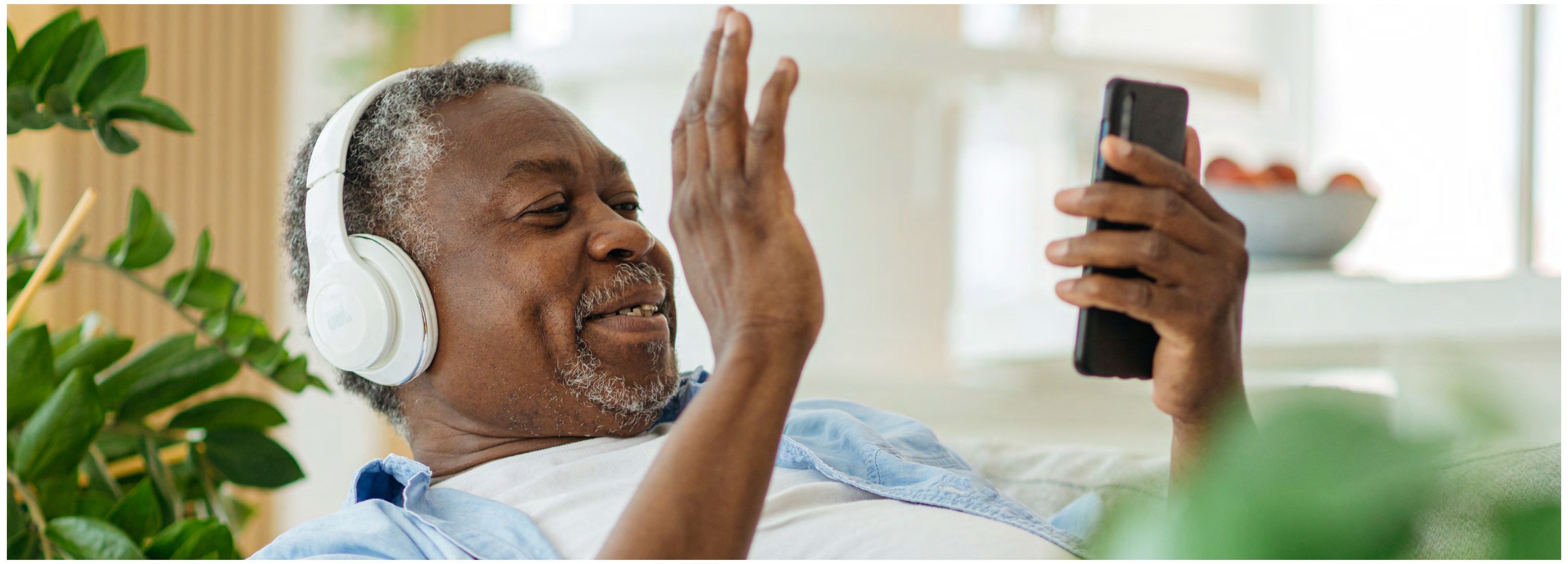
Stakeholder Engagement – S172 Statement

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
- 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. Over the course of the financial year the Board reviews matters relating to financial and operational performance, business strategy, key risks, stakeholder-related matters, compliance, conduct, legal and regulatory matters. 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

The customer is at the heart of every decision made within Hodge. Feedback from customers is paramount to ensuring we offer the right products to the right customer at the right time. Surveys and Trustpilot capture feedback which is analysed to determine trends and suggest improvements to ensure we maintain the highest quality of service and experience for our customers. We are independently recognised as part of the UK Customer Service Institute for our commitment to customer service and continue to invest heavily in new technology to improve the customer journey and experience and bring about further efficiencies to constantly improve our high value offering.

A key achievement this year has been the launch of Dy Arian, a new savings platform, enabling us to enhance our customer offering and provide a frictionless customer experience. The Bank works closely with its broker community to ensure the products we design are needed, add value for customers and ensure good customer outcomes. We capture feedback through a variety of surveys and capture reviews through Trustpilot as an independent measure of our service and customer experience.

Hodge continues to review its offering, leveraging our trusted expertise to ensure that we provide fair value and that our customers have good outcomes. The investment in our digital capabilities for savings customers is delivering great service. This investment has brought efficiency and scalability to our operations, whilst delivering first class experiences to our customers. Our criteria enhancements and operational efficiencies in mortgages have enabled us to leverage our trusted expertise to improve the customer experience and empowered our underwriters to make common sense, holistic credit decisions within current overall risk appetite.

In 2024 our website was re-platformed to enable us to serve our customers better with a more intuitive experience. This will continue to be enhanced throughout 2025, with a particular focus on providing even more support to our existing customers.

Our Suppliers

Hodge's suppliers are a fundamental part of the successful operation of the Bank's business and delivery of its objectives. Hodge has continued to enhance its due diligence process resulting in greater information to assess each contract presented for approval. The Board has approved many new relationships considering their strategic value to Hodge and ensuring compliance with relevant regulations and legislation such as SS2/21. The Board also approved the updated Outsourcing Policy, which sets out how we manage those relationships where we hold accountability for the actions undertaken by a third party.

Throughout 2024 several key procurement and supplier management initiatives were brought before the Board, including new strategic partnerships, contract renewals and continuing the enhancement of the Bank's supplier management framework. In reviewing these initiatives, the Board considers the strategic importance of each relationship, particularly focusing on the Bank's sustainability objectives, customer outcomes, risk management and continued compliance with changing regulatory requirements. In line with the Bank's broader strategic goals, a particular focus this year has been on increasing the resilience and diversity of the supply base, embedding environmental, social and governance (ESG) principles into its procurement practices and driving cost efficiencies through embracing digital solutions.

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 2024, the Shareholder was consulted in relation to the five-year strategic plan, the remuneration of the Executive Committee and Non-Executive Directors, and changes to committee structures notably splitting the Audit Committee between the Bank and The Carlyle Trust Limited (as the ultimate shareholder) which followed a corporate governance review during the year.

The Environment

The Bank continues to evolve its environment, social and governance (ESG) focus, including climate related risks within Hodge's risk management processes, overseen by the Bank's Board Risk Committee. Hodge has partnered with Watershed, a leading sustainability platform for emissions measurement, reduction and reporting, to support its measurement and assessment of its exposure to financial risks from climate change. The Bank is continuing to embed ESG within the strategy to support a transition to a low carbon future and help support our customers in reducing theirs and our climate impacts. The Bank assesses both the physical and transitional risks associated with climate change and complies with the Task Force for Climate-related financial disclosure requirements and relevant regulations set by the Prudential Regulatory Authority ("PRA").

The Bank has also partnered with sustainable provider, Propflo, to go further in supporting our customers in making more sustainable decisions when undertaking home improvements. Propflo offers our customers the option of a property report to help them understand where they can make the most impactful changes to their homes and find sustainable businesses to complete that work. We are also part of a working group from our office building, One Central Square, to look at how we can bring further energy savings and efficiencies to our working 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 Watershed (2023: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 2024 and June 2023. The assessments below include Scope 3 – purchased goods and services, although this is not a requirement of the SECR initiative. Following the move to Watershed for our emissions assessment there was a change to the underlying assessment particularly in regard to the emissions factors used. The 2023 assessment was undertaken using USEEIO, which is still widely used but is a US only model, whereas Watershed's 2024 assessment is based on CEDA emissions factors, which is multi region. Both models are recognised by the GHG protocol standard itself but CEDA does result in a higher emissions assessment. Further detail on these approaches is included below.
The Bank is compliant with the Streamlined Energy and Carbon Reporting standard ("SECR").

Scope	GHG Emissions Source	2024	2023
Scope 1 (tCO_2e)	Fuel (Buildings)	219	49.4
	Refrigerants	19	-
		238	**49.4**
Scope 2 (tCO_2e)	Electricity	22	19.9
		22	**19.9**
Scope 3 (tCO_2e)	Business travel	89	72.0
	Employee working	167	321.7
	Other	2	-
		258	**393.7**
Directly controllable emissions		**518**	**463.0**
Scope 3 (tCO_2e)	Purchased goods and services	2,389	683.4
Total location based GHG emissions (tCO_2e)		**2,907**	**1,146.4**
Average number of employees[1]		321	336
GHG per employee (tCO_2e)		9.1	3.4
GHG use per £m income (tCO_2e)[2]		31.6	17.0

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

The increase in directly controllable emissions in 2024 is considered to be the result the change in assessment methodology which leads to higher emissions factor for gas usage. This new assessment is the Bank's baseline for emissions reductions going forward and will be used to put realistic carbon reduction remediations in place. A key aspect of this in the coming year will be validating our Scope 3 suppliers emissions outputs which is believed will materially reduce the Purchase goods and services emissions above.

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 Finance Officer's Report

Despite the challenging economic conditions, the Bank was able to deliver a robust underlying financial performance over the year.

Despite the challenging economic conditions, the Bank was able to deliver a robust underlying financial performance over the year. As savers sought higher interest rates the Bank was able to successfully maintain its net interest income whilst cost control remained a key focus during the year. The decline in Operating profit stems from a reduction in the profit received from the sale of properties within the Bank's legacy reversion portfolio (with sale profit recognised within Investment and other operating income). A small number of properties remain within this portfolio following the sale of the majority of the portfolio to Hodge Reversions Limited in April 2022.

An increase in impairment losses also contributed to the decline in Operating profit and can be attributed to the Motor portfolio which was new to the Bank in the financial year.

On an underlying basis, the Bank made an underlying adjusted operating loss (defined as the operating profit of the Bank less the financial impacts of the legacy reversion portfolio which is now in the later stages of run-off) of £0.1m (2023 profit £2.2m).

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

Income statement

	2024 £m	2023 £m
Interest receivable	92.1	67.3
Interest payable	(52.4)	(27.9)
Net interest income	**39.7**	**39.4**
Net fees and commissions receivable	1.7	2.4
Investment and other operating income	0.5	4.8
Net operating income	**41.9**	**46.6**
Administration expenses	(36.4)	(35.3)
Depreciation and amortisation	(2.9)	(2.9)
Impairment gains	(2.2)	(1.6)
Operating profit	**0.4**	**6.8**
Losses arising from the derecognition of financial assets managed at amortised cost	(1.0)	-
Other fair value (losses)/gains	(1.5)	(7.0)
(Loss)/profit before taxation	**(2.1)**	**(0.2)**

Financial ratios	2024	2023
Net interest income	**£39.7m**	**£39.4m**
Average total assets	£1,915.5m	£1,842.0m
Net interest margin[1]	2.1%	2.1%
Cost to income ratio[2]	**86.9%**	**75.8%**

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 and margin

The increase in average total assets helped support the modest growth seen in Net interest income - £0.3m or 0.8% (2023: £10m or 34%). The diversification of the Balance Sheet into Motor in October 2023 contributed £3.6m of net interest income earned from this new source of lending in the financial year. The net interest income margin on the Motor receivables has also helped the Bank maintain its Net Interest Income Margin in the year despite a softening of interest margins in the Real Estate portfolio.

Net interest income from lending operations during FY24 totalled £26.7m (FY23: £20.1m).

The overall growth in Interest Income achieved from the Bank's lending operations helped to offset the reduction in net interest income that the Bank received from its interest rate swaps that contributed towards £13.0m of Net Interest Income in FY24 (FY23: 19.3m). The net result of these movements saw Net interest income margin remain flat in the year at 2.1% (FY23: 2.1%).

• Chief Finance Officer's Report (continued)

Cost to income ratio

The cost to income ratio increased from 75.8% to 86.9% during the financial year. Whilst Net Interest Income remained relatively flat, administration expenses marginally increased as the Bank continued to invest in its strategic roadmap which included the delivery of the digital savings platform and the offboarding of a mortgage servicing third party. The ongoing delivery of the Bank's strategic plan will ensure we continue to focus on improving the ratio in future years.

Administrative expenses

Administrative expenses increased by £1.1m (2023: £1.1m increase) or 3.1% (2023: 3%). Despite average headcount falling from 334 to 321 during the year, staff costs accounted for £0.4m of this increase. All colleagues were awarded a 5% pay increase in November 2023. Staff costs include a £0.5m provision to cover the cost of a restructuring programme that took place over the financial year end. The programme is intended to re-shape the cost base, reducing headcount by c.10% to ensure the customer impacting areas of the Bank are appropriately structured and sized to support strategic plans.

Expected credit losses ("ECL")

	(Charge)/credit for year 2024 £m	ECL provision at 2023 £m
Retail	0.2	(0.5)
Real Estate	0.7	(4.1)
Motor	(3.1)	(3.1)
Total	**(2.2)**	**(7.7)**

The Expected Credit Loss (ECL) charge increased to £2.2m in the year (FY23: £1.6m) as result of the addition of Motor to the Bank's lending operations. Motor generated an ECL charge of £3.1m which largely relates to Stage 1 assets that are up to date at the Balance Sheet date.

The Real Estate portfolio generated a net provision release of £0.7m as the Bank successfully exited a number of impaired loans allowing for a release of the associated provisions.

Losses arising from the derecognition of financial assets managed at amortised cost/other fair value gains

The Group made a strategic decision to exit a number of lower yielding Bonds and Supranationals resulting in a loss of £1.0m.

During the year eight reversion properties that were in held for sale at the prior year Balance Sheet date were sold triggering £0.7m of fair value losses further to a fair value gain on the retirement mortgage portfolio of £0.1m. Fair value movements on interest rates swaps of £0.9m loss accounted for the remaining portion of the charge.

Divisional performance

Year ended 30 September 2024	Real Estate £m	Retail £m	Motor £m	Other £m	Total £m
Interest receivable and similar income	15.8	59.3	5.8	11.2	92.1
Interest (payable)/receivable and similar charges	(11.1)	(40.9)	(2.2)	1.8	(52.4)
Net interest income	**4.7**	**18.4**	**3.6**	**13.0**	**39.7**
Net fee and commission income/(cost)	-	2.8	(1.1)	-	1.7
Investment income	-	0.5	-	-	0.5
Administrative expenses (including depreciation)	(2.9)	(12.6)	(0.2)	(23.6)	(39.3)
Impairment gains/(losses) on loans and advances to customers	0.7	0.2	(3.1)	-	(2.2)
Operating (loss)/profit FY24	**2.5**	**9.3**	**(0.8)**	**(10.6)**	**0.4**

Year ended 30 September 2023	Real Estate £m	Retail £m	Motor £m	Other £m	Total £m
Interest receivable and similar income	15.8	45.3	-	6.2	67.3
Interest (payable)/receivable and similar charges	(9.1)	(31.9)	-	13.1	(27.9)
Net interest income	**6.7**	**13.4**	**-**	**19.3**	**39.4**
Other income				0.2	0.2
Net fee and commission income/(cost)	-	2.4	-	-	2.4
Investment income	-	4.6	-	-	4.6
Administrative expenses (including depreciation)	(2.8)	(12.4)	-	(23.0)	(38.2)
Impairment gains/(losses) on loans and advances to customers	(1.4)	(0.2)	-	-	(1.6)
Operating (loss)/profit FY23	**2.5**	**7.8**	**-**	**(3.5)**	**6.8**

Real Estate

Despite the Real Estate portfolio remaining relatively flat year on year, net interest income declined by £2.0m as the portfolio experienced a tightening of margins on new business written. Real Estate performance marginally improved on the prior year as a result of an impairment provision release of £0.7m (FY23: a £1.4m charge) following the successful exit of a number of historic defaulted accounts.

Retail

Retail Net interest income increased by £5.0m on the prior year as the channel was able successfully to increase its lending and improve net interest margin.

This improvement in the underlying portfolio performance helped to offset a reduction of income relative to prior year from a reduction in the sale of reversion properties (FY24: eight properties sold generating a profit of £0.5m, FY23: 41 properties sold generating a profit of £4.6m). Three properties remain.

Net fee and commission income includes the benefit of a 'one off' receipt of £1.7m received from a third party for the 'buy-out' of a future income stream relating to a legacy portfolio that was disposed of in a previous financial year. This income helped to offset a £0.7m reduction in other net fee income resulting from the Bank exiting a number of mortgage servicing arrangements with third parties.

Motor

The diversification of the Balance Sheet into Motor in October 2023 contributed £3.6m of net interest income earned from this new source of lending in the financial year. The net interest income margin on the Motor receivables has also helped the Bank maintain its Net Interest Income Margin in the year despite a softening of interest margins in the Real Estate portfolio

Motor incurred a £3.1m ECL charge which largely relates to the Stage 1 provision as the Motor component of the Balance Sheet grows.

Given the risk profile of the assets concerned (relative to Real Estate & Retail) and the nature of the Motor Finance market, the segment makes up the largest portion of the Bank's overall credit loss charge.

Other

The primary component of the other segment is Treasury operations and indirect costs which are not recharged to the trading segments. The net interest income growth achieved by the Banks trading segments was partially offset by a reduction in net interest income relating to treasury instruments which declined by £6.3m in the year. There was minimal growth in indirect costs given the cost control measures that were in place across the financial year.

• Chief Finance Officer's Report (continued)

Balance Sheet overview

	2024 £m	2023 £m	% Change
Liquid assets[1]	254.2	248.6	2.3
Loans and advances to customers	1,699.3	1,488.5	14.2
Investment properties	1.5	2.6	(42.3)
Other assets[2]	53.8	83.4	(35.5)
Total assets	**2,008.8**	**1,823.1**	**10.2**
Deposits from banks	167.7	240.7	(30.3)
Deposits from customers	1,639.4	1,368.1	19.8
Other liabilities[3]	18.5	26.2	(29,4)
Pension liabilities	-	4.3	N/A
Share capital and reserves	183.2	183.8	(0.3)
Total equity and liabilities	**2,008.8**	**1,823.1**	**10.2**

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 £195.2m (2023: £190m) and the establishment of the Motor portfolio. The retail mortgage book has grown primarily due to increased demand for later life lending. New lending to Real Estate customers amounted to £51.2m (2023: £46.3m). The growth in the retail mortgage portfolio has been partially offset by the reduction in a number of legacy Real Estate exposures.

The Motor portfolio within Loans and Advances to Customers amounting to £96.3m (2023: £Nil) relates to the Bank's rights to cashflows from HP agreements that are acquired through the Bank's partnership with Blue. Lending activity commenced in October 2023.

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 £239.5m of liquid assets (2023: £248.6m) 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 Bank's LCR as at 30 September 2024 was above the regulatory minimum of 100% at 274.0% (2023: 176.9%).

Funding

Retail savings remain a primary funding source, with savings balances increasing to £1,639.6m (2023: £1,368.1m). The Bank is also a participant of the Bank of England's TFSME scheme with balances reducing to £155m (2023:£205m). All but £25m is due to mature in FY25, with the balance maturing in FY26.

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 2024, the defined benefit scheme had a surplus (the difference between scheme assets and scheme liabilities) of £0.2m (2023: deficit of £4.3m).

The scheme recorded an actuarial gain of £1.7m as a result of a capital injection of £3m by the employer in October 2023. (2023: actuarial loss of £1.5m).

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 2024 the Bank's CET1 ratio stood at 19.8% (2023: 24.5%).

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 2024 was 8.4% (2023: 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 Finance Officer

12 December 2024

Long-term viability statement

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.

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 Real Estate lending businesses. This enables our services to be provided in a capital-effective way allied with our track record in attracting funding from different sources. This diversification benefit has been furthered during the year with the successful entrance to the Motor Finance market via our partnership with Blue.

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 Real Estate 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. 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 Global Conflicts & Cost of living crisis

The numerous overseas conflicts continue to persist with Ukraine/Russia now over two and half years in duration along with the more recent deterioration in the middle east with Israel – Palestine – Iran conflict all posing elevated risks to the global economy. The impact on global financial markets, domestic inflation and interest rates could impact future business volumes or the ability of the Bank's customers to meet their contractual payments. During the financial year the pressure on the balance sheet from the cost of living crises appears to be softening as inflation is returning to the Bank of England target and customers have gone through a cycle of refinancing.

At the date of signing the financial statements, there remains a range of outcomes and possibilities in relation to the wars in Ukraine and the Middle East and their 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 stress tested 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 has 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.

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.

> The Board believes that the market for our products will be strong for at least the next five years.

- 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 over the course of the five-year planning horizon.

Graeme Hughes
Chairman
12 December 2024

2

Governance

Corporate Governance

The Board's agenda during the financial year 2024 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 2018 ("the Code"), and from 1 January 2025 the new UK Corporate Governance Code 2024 will apply. Although the 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 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 six 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 from Deloitte 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 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. John currently holds a full-time executive role at Nordea, based in Copenhagen.

Aileen Wallace – Non-Executive Director

Aileen joined the Board in April 2020 and is Chair of both the Remuneration Committee and the Innovation and Change Committee. Aileen is an experienced non-executive director and holds a portfolio of Private & Listed roles in the UK and Europe within consumer, financial and digital services businesses. Aileen's USP is harnessing the intersection of business transformation, technology and customer innovation within heavily regulated environments.

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.

Graham Wheeler – Non-Executive Director

Graham joined the Board in June 2024. His career spans over 40 years, almost entirely in the Motor Finance sector. He led the significant growth of Volkswagen Financial Services, VW Bank, VW Insurance, and VW Fleet Services as Group CEO for 11 years up to 2016, and Advantage Finance, a leading non-prime lender until 2024. Graham is non-executive director at S&U PLC and at Citygate Automotive, a car dealer group based around London.

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 July 2011. An accountancy graduate from Cardiff University, he is a fellow of the Association of Chartered Certified Accountants.

Janet Preece – Chief Finance 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.

• Corporate governance (continued)

Board Committees
The Board has established the following standing committees:

Audit Committee:

John Barbour (Chair), Aileen Wallace, Iain Laing, Penny Bickerstaff and Graham Wheeler.

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.

Board Risk Committee:

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

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 is expected to meet at least five times a year. A report from the Chair of the Board Risk Committee can be found on page 26.

Nomination Committee:

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

All members of the Nomination 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, at a minimum of twice a year. A report from the Chair of the Nomination 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 twice 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.

Special Committee:

Graeme Hughes (Chair), David Landen, Jan Preece.

The members of the Special Committee are comprised of the Chair of the Board as non-executive director and two executive directors.

The function of the Special Committee is to provide a degree of non-executive oversight for certain specific matters without the need to convene a full meeting of the Board. For this purpose, the Board has delegated its authority to the Special Committee in respect of specific matters.

Board and Committee Membership and Attendance

Name	Board		Audit Committee		Board Risk Committee		Nomination Committee		Remuneration Committee		Innovation and Change Committee		Special Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Graeme Hughes	9	9	-	-	9	9	3	3	7	7	5	5	1	1
John Barbour	9	9	6	6	9	9	3	3	-	-	-	-	-	-
Penny Bickerstaff	9	9	6	6	9	9	3	3	7	7	5	5	-	-
Aileen Wallace	9	9	6	6	9	7	3	3	7	7	5	4	-	-
Iain Laing	9	9	6	6	9	9	-	-	7	6	4	4	-	-
Graham Wheeler*	4	3	3	2	2	2	-	-	-	-	-	-	-	-
David Landen	9	9	-	-	-	-	-	-	-	-	-	-	1	1
Jan Preece	9	9	-	-	-	-	-	-	-	-	-	-	1	1

(a) Number of meetings held during the year ended 30 September 2024 at which a director was entitled to attend.

(b) Number of meetings attended

Notes:
*Graham Wheeler was appointed as a statutory director at the meeting of 26 June 2024, and included in (a) and (b) for the purpose of the table above.

Risk Management Report

The Bank's business model is focused on deposit gathering and residential property backed specialist lending to both Retail and Real Estate customers within the UK. This year saw the introduction of motor finance through a third-party partnership. The lending portfolios being managed for modest growth with a focus on sustainable margins. The savings operation has now successfully implemented a new digital savings platform and continues to build out the offering available through this channel. The Bank is implementing a series of changes to improve the efficiency, scalability and resilience of the business.

The macro environment has become more stable over the reporting period with inflation rates returning to more normalised levels. Higher than recent past interest rates remain challenging for businesses and for customers looking for refinance and this has put a strain on economic growth, particularly in the Real Estate lending space. The Bank continues to see resilience from its customer base and so 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 continue to be re-priced to reflect the changing 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 release of the final Basel 3.1 rules along with the draft Small Domestic Deposit Takers regime have helped with strategic planning clarity going forward.

The business model has a medium to low risk profile due to the relatively straightforward products we offer.

Against this backdrop the Bank sees managing risk effectively as fundamental to our strategy, long term resilience and to successfully operating day to day.

Ongoing Geopolitical Tensions

The numerous overseas conflicts continue to persist with Ukraine/Russia now over two and half years in duration along with the more recent deterioration in the middle east with Israel – Palestine – Iran conflict all posing elevated risks to 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 so 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.

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 regulatory expectations for Operational Resilience ahead of the March 2025 deadline.
- Continued refinement and maturity of the Financial Crime Framework and supporting standards with focus on fraud aspects.
- Continued developments across the risk management framework through;

- improvements to risk reporting to executive and Board level risk committees;

- refinement of risk appetite calibrations and qualitative articulation of risk appetite postures;

- implementation of more comprehensive Risk Culture and Governance framework;

- successful Board attestation of Hodges first annual Consumer Duty report after following a structured programme of work to ensure Hodge is substantively compliant with first phase requirements.

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. As noted above the articulation of Risk Culture has been strengthened through the development of a Risk Culture and Governance framework the embedding of which will continue through the coming year.

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 lines 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)

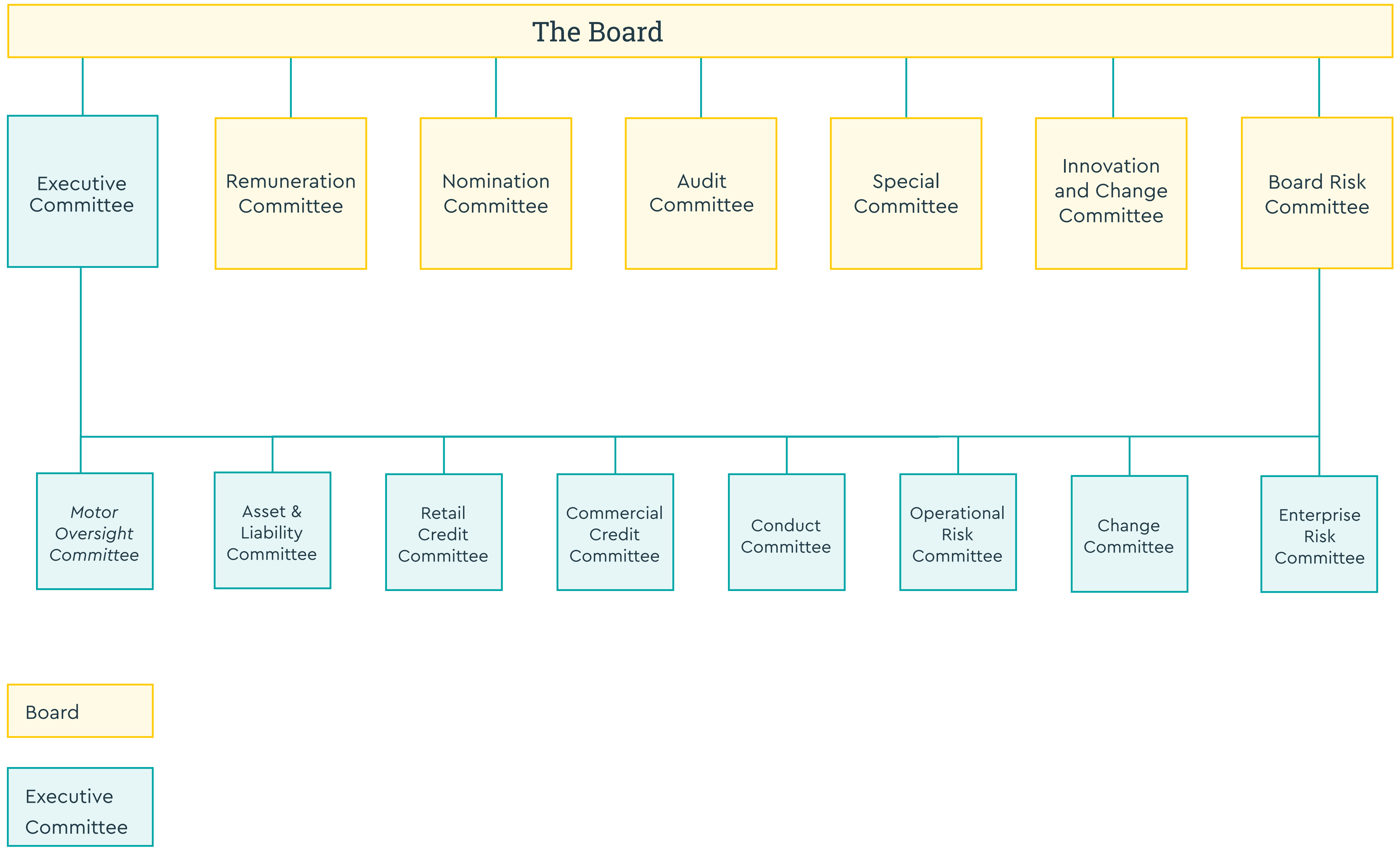
Risk Governance Structure

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

Motor Oversight Committee is chaired by the Chief Financial Officer. The committee is responsible for providing the necessary oversight to cover the Bank's partnership to support motor finance lending covering financial (including credit risk), non-financial and contractual maintenance. The committee reports to EXCo with any risk escalations made to the risk function and CRO.

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. This year risk appetite postures were introduced allowing a framework of consistent language to support articulation of the risk appetite statements.

• 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 *Decreasing Risk versus prior year.* 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 recent exit of a high inflationary period. This saw interest rates increased significantly in recent history, to combat this. This 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 a 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 *Stable risk versus prior year* The events of the past few years have been pivotal in changing the interest environment in which we live. Customer behaviours and requirements 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 *Stable risk versus prior year* 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 portfolio 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/Fraud threat *Increasing risk versus prior year* The threat of attacks either malicious or fraud related 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; - Authorised Push Payment fraud; - security vulnerabilities; - ransomware attacks; - attacks on third parties and; - sophistication of AI enabled threats.	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. In combination with developing its fraud controls and engaging with UK schemes to prevent and protect Hodge and its customers against fraud. It backs up the reliance on its control environment against the impact of this risk by also holding cyber risk insurance and is exploring APP fraud insurance suitability. 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 *Stable risk versus prior year* 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. As such a fast-moving topic, it is offering risks and opportunities which require consideration to achieve 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 Watershed this year to develop its emissions assessments and to further 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 this knowledge 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.

Other Risks of note

Pandemic risk remains on the emerging risk register as new variations or pandemics may impact or crystalise/present in a different ways and cause wider disruptions and population impacts.

A change of government featured in regular discussions in the lead up to the election but given the nature of an 'orderly' government transition the risk was deemed much lower than the impacts seen from the internal changes and the impact on the economy in the latter part of 2022.

Artificial Intelligence is also on the radar from both an emerging risk and also an opportunity viewpoint. Clear development of safe frameworks for Hodge in which to engage or operate with AI, or third parties using AI, along with horizon scanning on competitor use and malicious use of AI in the industry particularly the level of sophistication offered to threat actors.

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 Real Estate lending exposures, retail mortgage lending, motor finance exposures 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. **Real Estate credit risk** – the risk of financial loss from a Real Estate lending customer's failure to settle financial obligations as they fall due or movements in Real Estate real estate prices. **Motor Finance credit risk** - the risk of financial loss from motor finance lending due to the customer's failure to service the debt. **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. Motor Finance is a 3rd party funding arrangement and therefore operates a different governance model is bound by contractual parameters and management oversight. 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 are performed.

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. - Matching of the interest rate structure of assets 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, together 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 which allows us better alignment in support of the Consumer Duty.	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.

Approach to Resilience within the Bank

Stress Testing and Planning

Stress testing and scenario analysis are key tools 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 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.

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.

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 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 since 2022 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 has been conducting 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. This programme of work is transitioning from project led to business as usual in the latter part of 2024 ahead of the final regulatory deadline of March 2025.

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.

Climate Change Risk Management

During 2023/24 the Bank continues to progress its development and embedding of 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 Bank's 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 (1.7 – 3.2)
RCP 6.0	2.8 (2.0 – 3.7)
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.

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 1.7 – 3.2 °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 properties close to each other show.

III. Climate Transition Risks

To assess transition risks associated with properties, the current Energy Performance Certificates ("EPC") 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 an EPC "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 59% of the Bank's properties during the 2024 assessment, an improvement of 6.6% since 2023s assessment. Accordingly, some high-level assumptions that the 59% is a fair representation of the remaining portfolio were made to proxy for the total portfolio assessment.

Of the 59% for which an EPC was available, the profile of the Bank for 2024 follows a similar trend to national average and has 32% of its security properties at EPC of C or better, 37% with EPC of D and 30% of EPC E or lower. Of the 59% of properties with EPCs, 83% have the potential to achieve at least an EPC rating of C.

Through its partnership with Blue, the Bank obtains the rights to cashflows which stem from underlying Hire Purchase lease assets which are provided by Blue to UK consumers to fund the purchase of a used motor vehicle. At present, the vast majority of these vehicles are powered by Internal Combustion Engines ('ICE vehicles'). As the UK looks to move its automotive sector away from ICE vehicles to hybrid / electric, the transition risk of this move will be managed by the distribution network of Blue as the UK used market gradually evolves to electric / hybrid vehicles and away from ICE vehicles which are currently the dominant choice for the UK consumer purchasing a used vehicle. This transition will also take place over a number of years as new electric and hybrid vehicles move through their life cycle into the used car market.

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 under RCP 8.5, 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% for this the most severe scenario Hodge models, but average LTVs are sub 50%. Therefore this presents 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 6% in the most severe scenario. Average LTVs are circa 30% for this cohort.

Coastal Erosion risk- under the most severe scenario circa 1% of the portfolio result in a high probability of being impacted by coastal erosion in the next 50 years. The LTV is less relevant in this instance as the 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 relatively immaterial on an expected loss basis.

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 and therefore no adjustment is made to the ECLs of the lending portfolios as a result of this assessment. As the Bank continues to mature and learn more, this assessment will be revised.

VII. Planned enhancements during 2025

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 of low materiality 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

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 PMA

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.

Area of focus

As part of presenting fair and balanced accounts the Committee, as an area of focus, is expected to review and challenge both the economic scenarios to be used in the expected credit loss calculations as well as the weightings of the sensitivities to be applied to these scenarios. In addition, where it is felt the modelled expected losses do not fully reflect expected losses, consideration for post-model adjustments (PMA) is made.

Role of the Audit Committee

The Committee reviewed how the Standard & Poors and Experian economic scenarios had been updated to accommodate changes in macro-economic conditions, specifically inflation and interest rates, as well as geo-political conditions across the financial year. The Committee also reviewed and challenged the proposed weightings of the sensitivities in the scenarios to be used in the ECL calculation.

> "Across the financial year the Committee has observed an improving outlook, with a marked reduction in the level of inflation.

In FY 2023 the scenario weightings were biased towards the downside as it was felt by the committee that the economic scenarios did not adequately reflect recent changes in economic conditions. Across the financial year the Committee has observed an improving outlook, with a marked reduction in the level of inflation and the UK economy moving into a falling interest rate environment. Finally, the Committee reviewed and challenged the proposed PMA for the retail, commercial and motor loan portfolios.

Conclusion/action taken

The Audit Committee approved the proposed changes to the IFRS9 model for Commercial and Portfolio Buy-to-let lending, accepting that the increased interest and inflation rates were now adequately captured within the model. In addition, following a proposal from management, the Committee approved the IFRS9 approach for the new motor loan portfolio.

The Committee also approved the proposal to release both the retail and commercial PMAs from FY2023. A number of modest PMA's for the Motor portfolio were also agreed.

Finally, given the changes in the macro-economic environment noted above, the Committee also approved a more balanced weighting for the sensitivities applied to the scenarios compared to FY 2023.

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 2023 assumptions. The changes related to a further increase in expenses, an increase in dilapidations assumption for in-person valuations to reflect the component of valuations being conducted on a "drive by" basis, and updating mortality assumptions to CMI 2023 from CMI 2022. The Committee challenged all changed assumptions, specifically with respect to the assumptions around dilapidations.

Conclusion/action taken

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

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). With respect to preparation of the FY24 financial statements the timing of the completion of the ICAAP does not coincide with the timetable for the signing of the financial statements. Thus the Board and Audit Committee consider the capital position of the Bank through a review of the Capital Plan that supports the five-year operating plan instead. The expected outcomes from this plan, as presented by the CFO, are therefore factored into the Board assessment of going concern and long-term viability.

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.

• Report by John Barbour (continued)

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. A formal review of the effectiveness and audit quality of EY was carried out in 2024, 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 2024 were £NIL (2023: £NIL).

This reflects a non-audit fee to audit fee ratio of 0%, the average for the last three financial years is 2.5%. The average non-audit fee for the last three financial years is below the 70% limit set by the FRC.

EY were first appointed as external auditors for the financial year ended 31 October 2016 following a competitive tender. This financial year will be their 9th year of appointment. As a public interest entity ("PIE"), the Bank is required to re-tender the audit every 10 years and rotate auditors every 20 years. Accordingly, the Audit Committee and the Bank's procurement department are working to conduct an audit tender during the forthcoming financial year.

The Audit Committee have responsibility for making recommendations to the Board in relation to the appointment of the external auditors and are responsible for developing and overseeing the selection procedure for the appointment of the audit firm.

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 ILAAP and liquidity, Recovery Planning, Consumer Duty Post Implementation, Holiday Buy-to-Let, Cloud Governance, and Recruitment and Onboarding.

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. There were no Whistleblowing events notified to me during the year ended 30 September 2024.

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. Graham Wheeler joined the Committee this year to provide experience of motor finance, with accounting expertise on the Committee satisfied by the presence of the Senior Independent Director, Penny Bickerstaff.

Each Committee member has recent and relevant financial experience in accordance with the UK Corporate Governance Code. The Board of The Carlyle Trust Limited 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 greater clarity with respect to Terms of Reference would be helpful. To that end, an exercise has been carried out to identify improvements to the structure of the Audit Committee to more clearly reflect the roles and responsibilities across the TCT Group. These changes will be implemented in FY 2025.

John Barbour
Chairman of the Audit Committee
12 December 2024

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 risks are appropriately mitigated.
- Reviewing and recommending risk appetite to the Board and monitoring our risk profile against 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 six independent non-executive directors with regular attendance from the CEO, CFO, CRO, and the COO and supported as required by other colleagues from across the business to assist in discussions.

The Committee met nine times through the financial year along with a further four special committees focusing on ICAAP, ILAAP, Recovery Plan and the migrations relating to the Digital Savings Program ("DSP").

The prescribed responsibilities as Chair of the Board Risk Committee are to safeguard the independence of, and oversee the performance of, the Risk and Compliance function. 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 for 1st line management to take responsibility for risk management, led by Hodge's Executives. 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 or identified by executives. 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 coordination 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 Consumer Duty, operational resilience and outsourcing. There has been specific focus on preparation for the consumer duty board report which resulted in significant development of the Bank's conduct risk management systems, controls and MI. A number of actions to further strengthen the Banks approach to the Consumer Duty were identified and will be tracked through BRC.

• Report by Iain Laing (continued)

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.

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 2023/2024
Oversight of the embedding of Consumer Duty into every aspect of the bank, and completion of the follow-up action plan defined by management.	- Progress made on reporting and MI dashboard to Board - Alignment of risk appetite to consumer duty outcomes - 1st draft of CD Board report produced, reviewed and challenged - The final Consumer Duty Report was approved by the Board in July.
Ensuring the embedding of effective operational, conduct and compliance risk management, following-up the Control Debt schedule defined in 2022/23.	- Control debt framework update given to BRC in January - Outline of control debt in-flight also tabled at that meeting - Continued development of plans to contain JHB's control debts are ongoing.
Overseeing execution of the Bank's IT Change Programme to ensure that implementation risks are well managed and strategic benefits are realised.	- Core focus been on DSP providing oversight and challenge throughout the Change lifecycle - Risk opinions provided at key points in the cycle - Benefits realisation monitoring has not been area of focus for BRC but moved to ICC.
Continuing to track the Bank's Retail and Real Estate portfolio performance through the interest-rate.	- Several deep dives provided to BRC throughout the year - Engagement on Retail Lending strategy performance relative to risk appetite - Focus on Real Estate resilience exercises looking forward for emerging risks - Build of motor portfolio credit monitoring for BRC and associated risk appetite.
Embedding and maturing the management of financial risks of climate change.	- Watershed onboarded and implementation through latter part of FY2024 to strengthen robustness of emissions assessments - Ambiental data has been re-run on the entire portfolio. Will be re-analysed on bi-annual basis going forward - Strengthening of underlying model governance required.
Continuing development of the management information to support risk management across the business.	- Current MI production very manual in nature with some tactical improvements made to improve integrity of data - Datawarehouse looking at credit and consumer duty MI over next 12 month period - Focus project on credit risk MI to gather requirements, build data lake and reporting dashboards and provide analytical tooling for retail team.

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 Committee discussed the 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. The Risk Function has continued to mature and offer a stable 2nd line of defence for the Bank.
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 Risk function demonstrated to the committee a new Risk Culture and Governance Framework it had developed to allow a more structured assessment of what 'good' risk culture looks like. 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 along with the implementation of enhanced tolerance statements.
Risk Management	The Committee received and challenged a review of the Risk function and a maturity assessment of risk management across the Bank. 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 any challenges raised for key strategic deliverables. 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 by management.
Financial resilience and stress testing	During the year the Committee, supported by the opinion of the Risk function, reviewed and challenged the capital and liquidity adequacy assessment processes (ICAAP and ILAAP), including assumptions and the scenarios used when testing financial resilience. The Committee reviewed and challenged the Funding Plan, the Recovery Plan document and the Resolution Plan. The Committee then recommended approval to the Board for the ICAAP, ILAAP and Recovery Plan.
Consumer Duty	Whilst the Consumer Duty Board report was tabled through Board committees the Risk function was integral in providing risk opinions and challenges to management in its development and also providing a level of assurance to Board on its completeness and accuracy.

Looking ahead

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

- Ensuring the embedding of effective operational, conduct and compliance risk management;
- Ensuring the Control Debt schedule established in 2023/24 gets traction, and JHB Management and Board are well-sighted on the risks that we tolerate;
- Overseeing timely compliance with the PRA's Operational Resilience regulations
- Monitoring the implementation and credit performance of new Retail and Real Estate lending strategies, and tracking the development of new Motor Finance exposures.
- Continued oversight of the Bank's Strategic Change Programme to ensure that implementation risks are well managed and escalated as required.
- Continued oversight of the embedding of Consumer Duty into every aspect of the bank, and completion of the follow-up action plan defined by management.
- 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
12 December 2024

Report by Graeme Hughes

Chair of the Nomination Committee

Equality, diversity, across all aspects, and inclusion remains a core focus for the Board.

I am pleased to present a report on behalf of the Board which outlines the key areas we, as the Nomination Committee, have focussed on in 2024.

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 culture, leadership needs, succession plan and diversity of the senior leadership team. 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 composition of the Board for consideration of renewal of terms of appointment for Non-Executive Directors.
- Assessing the culture of Hodge through engagement and culture balance scorecard updates.
- Reviewing the ED&I strategy and success of initiatives.
- 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.
- Reviewing the succession plan for senior leadership across the business.

The Committee's Areas of Focus in 2024

Board Composition

As in previous years, a primary focus of the Committee remains to be 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 a review which identified the potential to strengthen the composition of the Board in the latter quarter of 2023, I was delighted to welcome Graham Wheeler as non-executive director, who joined in June 2024. Graham has recently held roles as Director of the FLA and CEO of Advantage Finance, bringing a wealth of both knowledge and experience of the motor finance sector to Hodge.

Executive Appointments

In March 2024, the Committee considered the resignation of Kevin Beevers, Managing Director of Real Estate, who has moved into Non-Executive roles following ten years at Hodge. To ensure appropriate skills, experience and knowledge within the leadership team while recruitment for the permanent role is undertaken, the Committee approved the engagement of Executive recruitment firm, Odgers Bernstein to undertake a search for an Interim MD of Real Estate.

We were pleased to welcome Andy Mallin as a result of this search as Interim of MD of Real Estate in April 2024. Andy has brought invaluable experience and insight of Real Estate Finance and I would like to thank him for his support while we continue recruitment for a permanent Head of Real Estate.

Succession Planning and Our Wider Leadership Development

Succession planning for Board, Executive leadership and the wider Senior Leadership Team continues to be a key priority for the Committee. In this year, the Committee received an update of the composition and diversity of the succession plan for all levels across the business, inclusive of Executive Leadership and other key management roles.

We were pleased to see the strength of talent and volume of potential future leaders at Hodge. However, gaps in the succession plan were noted for some key leadership positions following movements in the Executive and senior leadership teams in the last 12-18 months.

Therefore, a central focus for the Committee in this year has been the internal development of our current and future leaders. In February 2024, Hodge launched an internal leadership development program in partnership with Levati and the Committee has received regular updates on the progress and success of the development. The program is designed to stretch and grow our senior leadership team through crucial conversations, 360 feedback, coaching and mentoring, training and reflection over a ten month period and has successfully cultivated a high-performing, strategic senior leadership team, equipped to aid the achievement of the firm's strategic ambitions.

More broadly, an internal mentoring scheme was launched in July 2024, giving colleagues across the business opportunities to meet and learn from experienced leaders at Hodge. We believe that in launching an internal mentoring scheme, colleagues are enabled to enhance their skills, knowledge and achieve goals with the guidance of experienced leaders, ultimately allowing them to grow into their full potential at Hodge. In 2025, a key focus will be harnessing the leadership development frameworks and the senior leadership teams experience in furthering the embeddedness of leadership development across all levels of the business.

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.

In previous years, the Committee has received annual updates in respect of the colleague engagement survey. However, in this year, the Committee opted to receive quarterly updates of the colleague engagement results to remain abreast of the advocacy of our culture from our colleagues.

The way in which colleague engagement is measured was enhanced this year, allowing the Committee to review scores and thematic reviews in seven key areas across culture and colleague engagement. It was pleasing to note that management activity in response to colleague feedback elicited increasingly positive scores on subsequent exercises throughout the year.

A focus in 2025 for the Committee will be reviewing the measurement of culture more broadly through our culture balance scorecard to identify areas of both success and opportunities in our Company for both our colleagues and our customers.

Equality, diversity and inclusion

On behalf of the Board, the Committee continually ensures the Company is meeting its objectives and commitments against equality, diversity and inclusion. Equality, diversity, across all aspects, and inclusion remains a core focus for the Board. At Hodge, we recognise the benefits of diversity of thought and experience of a diverse workforce, where colleagues can bring their whole selves to work. Therefore, the Committee is committed to ensuring a culture of authentic inclusivity so as to ensure all colleagues can feel valued for who they are and, ultimately thrive.

This year I am delighted to discuss the initiatives implemented by the Inclusion Network at Hodge. The Inclusion Network has been instrumental in gaining real momentum in delivering ED&I initiatives which have been led and informed by our colleagues.

Just some of the initiatives in this year include sponsoring Cardiff Pride in June 2024 which saw our own Hodge colleagues leading the Pride walk through Cardiff, launching the Data Inclusivity Network in partnership with Cardiff Capital Region and Tramshed Tech which is aimed at broadening diversity in data and tech roles and, the launch of our 'Share your stories' campaign which encourages colleagues to share their own personal stories or experiences across a range of challenging topics to educate colleagues and embed inclusivity further.

I am also 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 remains on track, with 42% of senior leadership roles held by women at the end of 2024.

The Committee reviewed an ED&I strategy in September 2024 and will ensure regular oversight throughout 2025 to hold Executive Leadership account against the progress for our culture and our colleagues.

I am thrilled that we are taking steps in the right direction of achieving a truly inclusive workforce but we recognise there is still more to be done to achieve a truly diverse workforce and inclusive culture.

Graeme Hughes
Chair of the Nominations and Governance Committee

12 December 2024

Report by Aileen Wallace

Chair of the Remuneration Committee

We evidence our culture and values by ensuring a fair balance across measures of Customer, Risk and Colleagues and take pride in delivering propositions and services that are rated positively by our customers.

Letter from the Chair of the Remuneration Committee.

As Chair of the Remuneration Committee, I am pleased to present this report which outlines how our organisational purpose and values shape remuneration strategy and decision making. The report also details how our Remuneration Policy has been applied during the year.

You will have read in the Chief Executive's review about the business performance in 2024. Our organisation has performed well in 8 out of 13 key measures in the balanced scorecard, which is used to underpin the Annual Reward Plan (ARP). The scorecard enables the full range of business performance to be assessed against our forward momentum oriented targets. We evidence our culture and values by ensuring a fair balance across measures of Customer, Risk and Colleagues and take pride in delivering propositions and services that are rated positively by our customers and innovated to assist our colleagues in being able to provide these.

The external landscape for remuneration has continued to provide challenges for our colleagues and our customers, with inflationary pressures continuing to impact UK households. As a result of this, our Committee has taken time this year to review the market and economic landscape and related pressure, assessing the regulatory environment ensuring the interests of our colleagues, customers and Hodge Bank were at the centre of all remuneration decisions and remained appropriate. In doing so, the Committee is required to achieve a balance in decisions that are relevant in-year, yet also provide a strong foundation for future business growth and colleague recognition. This is not always an easy balance to strike and I would like to personally thank each of my colleagues for their continued commitment during the last 12 months.

As I look to the year ahead, in 2025 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 continue to deliver our strategic vision.

All eligible colleagues received a base pay increase in December 2023 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.

A Wallace

Aileen Wallace
Chair of the Remuneration Committee
12 December 2024

• Report by Aileen Wallace (continued)

The Remuneration Committee

Committee Membership and Attendees 2024

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.

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 2024

The Committee met on 7 occasions during 2024, operating under our Remuneration Committee Schedule. Key matters considered by the Committee were:

- Annual approval of our Remuneration Policy, setting the tone for remuneration within the firm overall.
- 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. This review resulted in enhancements being made to our long service awards and holiday entitlement.
- Assessment of the gender pay gap and the contributory factors driving the pay gap which have informed our pay gap action plan – the Committee will continue to monitor and have oversight of this plan to ensure the success in achieving pay parity.
- Considering the application of discretion in respect of potential awards under our Annual Reward Plan (ARP) reflecting a year where long term business enablement capabilities were implemented but the full financial objectives were not realised.
- The principles underpinning the annual pay review, ensuring these were appropriate considering the continuing uncertain and difficult economic market.

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 competitive within the market.

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 this year, the Remuneration Policy review focussed on an overall quality review against Hodge practices and regulatory requirements such as in response to strong and simple and removal of regulatory restrictions between fixed and variable reward.

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 allowance, they may be permitted to opt into a partial 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 £122,050, with a further total deferred payment of £81,365.

• 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 2024 performance year has been awarded in line with our Remuneration Policy which remains under annual review to ensure our key underpinning remuneration approach is dynamic to respond to both internal and external market conditions.

The table to the right shows the single total figure table of remuneration for our Executive Directors for the year ending 30 September 2024. Our disclosure remains voluntary beyond that required of a Level 3 Firm and 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 30 September 2024 took place in December 2024 in conjunction with a risk opinion, provided by the Chief Risk Officer, to determine the payout of a variable reward payment for all colleagues, including Executive Directors. Despite performing well in 8 out of 13 performance targets which determine variable pay, not all of the expected targets were achieved. A scoring matrix provides guidance to the Remuneration Committee as to the potential outturn based on performance against the balanced scorecard. The number of performance targets that are deemed to be above or below target determine both the applicability of award and range of award that could be considered. Collective performance as determined by the outturn of the balanced scorecard and individual performance, as determined by agreed individual goals and conduct performance are both utilised in the consideration of any award. This approach ensures alignment between remuneration and the long term sustainable goals of the organisation. The 2024 review concluded that not all of the underpinning conditions reached our Annual Reward Plan (ARP) gateway conditions and therefore this would not automatically enable variable awards to be made. The Committee reviewed a recommendation from management, considered the in-year enablement activity that had successfully been delivered this year and balanced this against the wider organisational strategic delivery plan and incomplete target achievement. Appropriate consideration was given to the efforts of colleagues during the year, the advancement of the organisation from the prior period and framed against market challenges and expectations. Having considered all inputs, the Committee made a decision to implement a discretionary award. To ensure fairness in awarding a discretionary payment, the Committee did so with the application of the remuneration principles, utilising the balanced scorecard and the outcome of individual performance and conduct assessments. The Committee believed this approach would deliver a fair reward in application and in doing so, considered and applied appropriate adjustments to the discretionary award, where exceptional performance was evident.

	Fixed				Variable	Total
	Base Salary (1) £000	Taxable Benefit £000	Pension Allowance (2) £000	Total Fixed £000	Annual Reward Plan £000	Total Remuneration £000
David Landen, Chief Executive Officer	338	1	49	388	67	455
Jan Preece, Chief Finance Officer	266	-	39	305	53	358
Total	**604**	**1**	**88**	**693**	**120**	**813**

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

(2) 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. The Committee can confirm no such discretion or rights was enacted during the financial year.

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 2024 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.

2024 Performance Period £000	**2023**	**2024**	**2025**	**2026**
David Landen, Chief Executive Officer	-	41	13	13
Jan Preece, Chief Finance Officer	-	31	11	11
2023 Performance Period £000				
David Landen, Chief Executive Officer	74	25	25	-
Jan Preece, Chief Finance Officer	64	21	21	-
2022 Performance Period £000				
David Landen, Chief Executive Officer	15	15	-	-
Jan Preece, Chief Finance Officer	11	11	-	-
Total	**164**	**144**	**70**	**24**

• Report by Aileen Wallace (continued)

Remuneration for 2024

The base salary for Executive Directors was reviewed, with any increases applied prior to December 2024, 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 2025 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)	147	6	153
Penny Bickerstaff (2)	90	-	90
Aileen Wallace (3)	62	12	74
Iain Laing (4)	62	11	73
John Barbour (5)	62	11	73
Graham Wheeler (6)	21	-	21
Total	**444**	**40**	**484**

(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
(6) Non-Executive Director from 01/06/2024

The fees for Non-Executive Directors were reviewed and increased in April 2024 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.

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.

External Environment

Last year in my report, I mentioned that 2023 was a transitional year for the organisation in that our focus and tone for architecting the Bank of our future was well understood and underway. In parallel to that, we were diligently focused on also ensuring the Bank was running effectively and efficiently for the benefit of our customers and colleagues. Notwithstanding our own internal readiness, as we observed the external environment, 2024 continued to challenge economies with continued pressures fiscally, with impacts still felt by global conflicts and inflation and talent shortages in existence.

> Our customers however continued to show resilience, being informed and empowered.

Our customers however continued to show resilience, being informed and empowered and as a consequence, their needs became more diverse and varied. These expectations created both opportunities and challenges and the role of our Committee this year was a resounding need to enhance our innovation, customer centricity and differentiation in our market.

Key Areas of Focus in 2024

Against this external backdrop and a strong desire to continue to deliver for our customers and colleagues, the following were key areas of focus as the Committee considered our schedule:

- Alignment of new technology with operating model changes and strategic objectives.
- Programme governance, delivery frameworks and integrated planning.
- Challenging functional requirements to ensure optimum scopes were defined.
- Data strategy, migration and re-platforming.
- Testing validation and transition into our live customer and colleague service environment.
- Customer understanding and colleague engagement in our customer lifecycle.

Having agreed on the key areas of focus, our Committee reviewed the following across the year:

- Our capability roadmap, outlining the enablers for the organisation towards the achievement of strategic goals. This has become a core tenet of our Committee each time we meet, allowing us to truly hold management to account on the progress of our organisation.
- Implementation and migration planning for Dy Arian, our modern component based savings platform. The Committee were pleased to see colleague engagement in the soft launch of our platform as we tested "colleague as a customer" processes and touchpoints. We gained great insight in this activity, leading to enhancements to our customer processes and ensured that when our platform went live to new customers in March 2024 that colleagues were well informed and were engaged participants of the customer experience. We were able to oversee the use of our benefits realisation framework through the lens of this programme during the year and observe strong senior leader accountability of benefits and value
- Our data strategy has materially matured enabling us to confidently view Business Intelligence and Data Governance as entwined capabilities. The Committee were able to review how our data from our core systems has been implemented on a singular controlled repository and learned how our colleagues have engaged in the provision of enhanced business information which has helped them to optimise processes, improve propositions and mitigate risk. We were also able to observe further steps being taken to implement data science approaches in our mortgage business, seeking to deliver application efficiencies for our mortgage customers.
- A detailed review was undertaken of the cyber security threat landscape and our programme of activities to continue to deliver protection to our customers and our internal assets. This is an area that will continue to be a critical focus of the Committee operating schedule and our overarching principle posture of ensuring access is only granted when it is needed, for as long as it is needed and always in a controlled environment. Having concluded this review, the Committee were comfortable to recommend to the Board the submission of our information security organisational performance and control to our regulator.
- Examples of AI and new technology application, with specific focus on use cases that would benefit our customers and our colleagues formed part of our agenda this year. The Committee queried how such use cases could be prioritised, how risks would be managed and how enhanced governance over data models could be implemented. We expect to review this further during 2025.

Overall, the steps taken over the last 12 months in the deepening of our data capability and organisational use cases, ready for the advancement of benefits from AI and the implementation of our Dy Arian savings platform has moved the organisation forward. We will see further product enhancement in 2024, leveraging the capabilities deployed this year and will continue to keep the needs and behaviours of our customers under constant review.

Aileen Wallace
Chair of the Innovation and Change Committee
12 December 2024

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 September 2024. 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 5

Financial performance review - page 11

Risk management policies - page 18

Derivative financial instruments - note 25

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)

Graham Wheeler* (Non-Executive Director) (appointed 26 June 2024)

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

There are no adjusting or non-adjusting post balance sheet events.

Results and dividends

The loss for the year after taxation from continuing activities amounted to £1.7m (2023: loss of £0.2m).

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 financial statements have been prepared on a going concern basis. 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 trading performance as well as consideration of the capital and liquidity positions of the Bank.

The adequacy of the Bank's liquidity over the forecast period has utilised the ILAAP which is required by the Prudential Regulation Authority to demonstrate the Bank is holding appropriate levels of liquidity and would be adequately equipped under stress conditions.

The adequacy of the Bank's capital has been assessed through an examination of the Bank's financial forecasts and associated capital plans.

The Directors confirm that they are satisfied that the Bank will continue in business for a period to 31 December 2025. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

By order of the Board.

David Landen
Director

12 December 2024

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
Director

12 December 2024

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 (the 'Company') for the year ended 30 September 2024 which comprise the Income Statement, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and the related notes 1 to 32 (except for note 32 which is unaudited), including material accounting policy information. 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 2024 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 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 2025.

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 commercial loans and advances to customers (commercial lending and portfolio buy-to-let) and motor receivables.**
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 page 20 in the top and emerging risks. They have also explained their climate commitments on page 6 and Climate Change Risk Management on page 23. 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 20 and the significant judgements and estimates disclosed in note 1 and whether these have been appropriately reflected in the financial statements. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability 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) and motor receivables ECL: £7.2m; (2023: £5.5 m). **Refer to the accounting policy for measurement of ECL and notes 13 and 27 to the financial statements.** **The assessment of the IFRS 9 ECL provision is inherently judgemental. The risk of incorrect measurement of the ECL manifests itself in the following areas:** **Staging of loans and advances – the determination of what constitutes significant increase in credit risk and consequent timely allocation of qualifying assets to the appropriate stage in accordance with IFRS 9;** **Inputs and assumptions used to estimate the impact from the Company's use of multiple 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 commercial loans and advances for a sample of agreements to validate this was in line with the approved scorecard model. We tested the motor receivable portfolio to check whether significant increases in credit risk had been appropriately identified. 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 performed testing over the integrity of the key data elements used in developing and validating the Company's ECL models and assumptions. We challenged the completeness of these data elements and then tested the data within the models back to source evidence. We engaged property valuation specialists to evaluate the reasonableness of the property valuations for stage 3 loans. We evaluated the rationale for the assumptions applied by the management in calculating the new motor loans PMA to address the infancy of the portfolio.	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 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. Our assessment of the completeness and measurement of PMAs applied in the year are materially appropriate.

In the prior year, our auditor's report included a key audit matter in relation to risk of incorrect valuation of derivatives. In the current year, this risk has been downgraded as we did not identify any complexity or issues in this area.

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 (2023: £2.7 million), which is 1.5% (2023: 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% (2023: 75%) of our planning materiality, namely £2.0m (2023: £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 (2023: £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 9 years, covering the years ending 31 October 2016 to 30 September 2024.
- 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.

Ernst & Young LLP.

Robin Enstone
(Senior statutory auditor)

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

Bristol

12 December 2024

4 Financial Statements

Income Statement

For the year ended 30 September 2024

	Notes	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Interest receivable and similar income	3	92.1	67.3
Interest payable and similar charges	4	(52.4)	(27.9)
Net interest income		**39.7**	**39.4**
Fees and commissions receivable		2.9	2.5
Fees and commissions payable		(1.2)	(0.1)
Net fee and commission income		**1.7**	**2.4**
Investment income		0.5	4.6
Other operating income		-	0.2
Net operating income		**41.9**	**46.6**
Administrative expenses	5	(36.4)	(35.3)
Depreciation and amortisation	14/15	(2.9)	(2.9)
Impairment losses on loans and advances to customers	13	(2.2)	(1.6)
Operating profit		**0.4**	**6.8**
Loss arising from the derecognition of financial assets managed at amortised cost	11	(1.0)	-
Other fair value losses	6	(1.5)	(7.0)
(Loss)/profit before taxation	**7**	**(2.1)**	**(0.2)**
Tax credit on loss before taxation	8	0.4	-
Loss for the financial year		**(1.7)**	**(0.2)**

Statement of Other Comprehensive Income

For the year ended 30 September 2024

	Notes	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Loss for the financial year		**(1.7)**	**(0.2)**
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit pension plan	23	1.7	(1.7)
Deferred tax thereon		(0.4)	0.4
Movement of pension scheme reimbursement liability (2023: asset)	18/22	(0.3)	0.4
Deferred tax thereon		0.1	(0.1)
Total other comprehensive income/(loss)		**1.1**	**(1.0)**
Total comprehensive loss for the year		**(0.6)**	**(1.2)**

The results for the year ended 30 September 2024 relate entirely to continuing operations.

The notes on pages 42 to 44 form part of the financial statements of the Bank.

Balance Sheet

As at 30 September 2024

	Notes	30 September 2024 £m	30 September 2023 £m
Assets			
Cash and balances held at central banks		151.3	93.7
Loans and advances to credit institutions	9	4.5	11.2
Derivative financial instruments	21	27.9	58.5
Government bonds	10	27.7	61.7
Debt securities	11	70.7	82.0
Loans and advances to customers	12	1,699.3	1,488.5
Intangible assets	14	15.1	12.7
Property, plant & equipment	15	1.0	1.2
Investment properties	16	1.5	2.6
Deferred tax assets	17	3.7	5.6
Other assets	18	5.9	5.4
Pension asset	23	0.2	-
Total assets		**2,008.8**	**1,823.1**

	Notes	30 September 2024 £m	30 September 2023 £m
Liabilities			
Deposits from banks	19	167.7	240.7
Deposits from customers	20	1,639.4	1,368.1
Derivative financial instruments	21	5.6	9.7
Other liabilities	22	12.9	16.5
Pension liabilities	23	-	4.3
Total liabilities		**1,825.6**	**1,639.3**
Share capital and reserves			
Share capital	24	130.0	130.0
Other reserves		53.2	53.8
Total equity		**183.2**	**183.8**
Total equity and liabilities		**2,008.8**	**1,823.1**

These financial statements of the Bank were approved by the Board of Directors on 12 December 2024 and were signed on its behalf by:

David Landen
Director

Statement of Changes in Equity

For the year ended 30 September 2024

	Called up share capital £m	Retained earnings £m	Pension reserve £m	Total £m
2024				
At beginning of the financial year	130.0	56.6	(2.8)	183.8
Loss for the financial year	-	(1.5)	(0.2)	(1.7)
Other comprehensive income	-	-	1.1	1.1
Pension additional contribution	-	(3.0)	3.0	-
At end of the financial year	**130.0**	**52.1**	**1.1**	**183.2**

	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**

Notes to the Financial Statements

For the year ended 30 September 2024

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 (IFRS) 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.
- A 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.

The financial statements are presented in the pounds sterling ("GBP") which is the Bank's functional and presentation currency.

Going concern

The financial statements have been prepared on a going concern basis. 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 trading performance as well as consideration of the capital and liquidity positions of the Bank.

The adequacy of the Bank's liquidity over the forecast period has utilised the Internal Liquidity Adequacy Assessment Process which is required by the Prudential Regulation Authority to demonstrate the Bank is holding appropriate levels of liquidity and would be adequately equipped under stress conditions.

The adequacy of the Bank's capital has been assessed through an examination of the Bank's financial forecasts and associated capital plans.

The Directors confirm that they are satisfied that the Bank will continue in business for a period up to 31 December 2025. 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 where this could impact the Bank are loans and advances to customers and investment properties. As part of this assessment, three scenarios were considered: flooding, 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 2024. 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.

Segmental analysis

In prior years, the Bank presented segmental analysis on a voluntary basis. Following review by the Audit Committee in July 2024, it was agreed that this disclosure would be discontinued for the current financial period.

• Accounting policies (continued)

Summary of Material 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, motor and buy-to-let portfolio's therefore including an adjustment for prepayments on those 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 the impairment loss allowance rather than interest income. The reversal of impairment loss allowance will not be recognised until any recovery is completed.

Other interest income/expense

Other interest income/expense includes interest on derivatives in economic hedge relationships (as defined in note 21) and all financial assets/liabilities measured at FVTPL, other than those held for trading, using the contractual interest rate.

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.

Expenses Recognition

Fees and commissions expense

Fee and commission expense primarily relates to fees that are payable to Blue through the partnership agreement in place. The fees relate to the servicing costs of the underlying HP receivables and the sharing of a portion of the residual interest that is earned from the receivables. The fees are recognised in the period in which the services have been received or in which the residual interest has been earned.

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 and real Estate loans, motor receivables, 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 (note 12 and 25(d)).
- FVTPL: Derivative assets.

With the exception of assets carried at FVPTL, financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial asset.

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

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

Amortised cost is the default category for financial liabilities.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. Financial assets and liabilities are generally reported gross in the statement of financial position except where netting criteria are met.

Reclassification of financial assets and financial liabilities

The Bank does not reclassify its financial assets subsequent their initial recognition apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates the business line. Financial liabilities are never reclassified.

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 25. Levels are reviewed at each reporting date, determining whether transfers between levels are required.

• Accounting policies (continued)

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 among 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 25(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, 150bps for motor receivables. The quantitative criteria for which our real estate, retail and motor portfolios 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 2024, the Bank has recognised a post model adjustment in respect of the Motor Portfolio. The Bank has not recognised any other post model adjustments at 30 September 2024 as it considers that its forward looking ECL models adequately capture current economic conditions. At 30 September 2023, the Bank recognised a post model adjustment in the financial statements to reflect the higher interest rate environment. The adjustments to the retail, real estate provisions reflected 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 13.

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

Additions and improvements the office premises and equipment, including costs directly attributable to the acquisition of the asset are capitalised at cost. The property plant and equipment value in the statement of financial position represents the original cost less cumulative depreciation. The costs, less estimated residual values of assets are depreciated on a straight line basis over their estimated useful economic lives as follows:-

Fixtures, fittings and equipment
3 - 10 years.

• Accounting policies (continued)

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

Tax on (losses)/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. Corporation tax is charged directly to the Income Statement.

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 which is 25% (2023:25%).

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.

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 liability (2023: asset) 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 23). 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:

Significant judgements

Recoverability of deferred tax asset

There is significant judgement applied in setting the assumptions used in assessing the recoverability of the deferred tax asset in that an assessment is made of future taxable profit and movements in timing differences.

Significant estimates and assumptions

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.

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 23.

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 25(d).

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

Other 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 21.

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.

Hedge Accounting

Hedge accounting involves judgment / estimation. The Bank's hedge accounting policies include an element of judgement and estimation, in particular, in respect of the projected behaviour of mortgage prepayments in portfolio fair value hedges and the existence of highly probable cash flows for inclusion within the macro hedge accounting process.

3. Interest receivable and similar income

	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Interest income receivable using the EIR method		
Loans and advances to customers	81.0	61.1
Loans and advances to credit institutions	7.9	3.7
Interest on government bonds & debt securities	3.2	2.5
	92.1	**67.3**

4. Interest payable and similar charges

	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Interest payable using the EIR method		
On customer accounts	59.0	30.3
On defined benefit pension scheme (note 23)	0.1	0.2
On term funding scheme	10.3	8.0
Net interest (receivable)/payable on derivative financial instruments	(17.3)	(11.2)
Other interest payable	0.3	0.6
	52.4	**27.9**

5. Administrative expenses

	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Staff costs		
Wages and salaries	19.0	18.8
Social security	2.1	1.9
Pension costs – defined contribution scheme	2.1	2.0
	23.2	**22.7**
Other administrative expenses	13.2	12.6
	36.4	**35.3**

Directors and employees

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

	Year ended 30 September 2024	Year ended 30 September 2023
Provision of finance and banking	321	334
	321	**334**

Staff costs include remuneration in respect of Directors as follows:

	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Fees	0.5	0.4
Aggregate emoluments as executives	0.8	1.0
	1.3	**1.4**

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

	Year ended 30 September 2024 £000	Year ended 30 September 2023 £000
Aggregate emoluments	445	447
	445	**447**

The pension accrued for the highest paid director was £161,000 (2023: £137,000).

One director has accrued benefits in the defined benefit scheme (2023: One).

6. Other fair value (losses)/gains

	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Movement in fair value of derivatives (note 21)	-	(1.9)
Movement in fair value of equity release and retirement mortgages	0.1	(0.5)
Reversal of unrealised gains on disposal of investment properties	(0.5)	(4.6)
Movement in fair value of investment properties (note 16)	(0.2)	(0.5)
Movement in fair value of derivatives held within an effective macro hedge relationship	15.8	46.0
Movement in fair value of hedged items attributable to hedged risk	(16.7)	(45.5)
	(1.5)	**(7.0)**

7. Loss on ordinary activities before taxation

	Year ended 30 September 2024 £000	Year ended 30 September 2023 £000
Loss 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	420	394
Amortisation (note 14)	2,541	2,309
Depreciation (note 15)	444	571

8. Tax credit/(charge) on loss before taxation

	Year ended 30 September 2024		Year ended 30 September 2023	
	£m	£m	£m	£m
Analysis of credit in the financial year				
UK corporation tax				
Current tax on income for the year	1.8		(1.0)	
Prior period adjustment	0.2		-	
Total current tax		**2.0**		**(1.0)**
Deferred tax				
Origination/reversal of timing differences:				
Current year	(1.3)		1.0	
Prior period adjustment	(0.3)		-	
Total deferred tax (note 17)		**(1.6)**		**1.0**
Tax credit/(charge) on loss before taxation		**0.4**		**-**

The total tax credit for the year is lower than the blended rate of corporation tax in the UK of 25% (2023: in line with 22%). The differences are explained below.

	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Total tax reconciliation		
Loss on ordinary activities before tax	(2.1)	(0.2)
Current tax at 25.00% (2023: 22.00%)	**(0.5)**	**-**
Effect of deferred tax unwinding at the current tax rate	-	0.1
Adjustments in respect of previous years - deferred tax	0.3	(0.1)
Adjustments in respect of previous years – current tax	(0.2)	-
Total tax (credit)/charge	**(0.4)**	**-**

	Year ended 30 September 2024 £m	Year ended 30 September 2023 £m
Tax relating to other comprehensive income		
Temporary difference in relation to the defined benefit pension scheme	0.4	(0.4)
Temporary difference in relation to the pension reimbursement asset	(0.1)	0.1
Tax charge/(credit) relating to other comprehensive income	**0.3**	**(0.3)**

9. Loans and advances to credit institutions

	2024 £m	2023 £m
Repayable on demand	4.5	11.2
	4.5	**11.2**

There are no provisions held in respect of loans and advances to credit institutions (2023: £nil).

10. Government bonds

	2024 £m	2023 £m
Government bonds – at amortised cost	27.9	63.0
Fair value adjustment for hedged risk	(0.2)	(1.3)
	27.7	**61.7**

The movement in government bonds is summarised as follows:

	2024 £m	2023 £m
At start of year	61.7	111.2
Additions	-	35.0
Redemptions and interest received	(35.0)	(85.0)
Gain from hedge accounting – Income	1.1	2.0
Premium unwind	(0.1)	(1.5)
At end of financial year	**27.7**	**61.7**

There are no provisions held in respect of government bonds (2023: £nil).

11. Debt securities

	2024 £m	2023 £m
Debt securities – at amortised cost	71.2	84.3
Fair value adjustment for hedged risk	(0.5)	(2.3)
	70.7	**82.0**

The movement in debt securities is summarised as follows:

	2024 £m	2023 £m
At start of year	82.0	116.2
Additions	66.1	-
Redemptions and interest received	(50.6)	(35.7)
Disposals due to restructuring exercise	(28.7)	-
Gain from hedge accounting - Income Statement	1.8	1.3
Discount unwind	0.1	0.2
At end of financial year	**70.7**	**82.0**

There are no provisions held in respect of Debt securities (2023: £nil).

During the year, the Bank made a strategic decision to exit a number of lower yielding Bonds and Supranationals. The carrying value at the date of disposal amounted to £28.7m, the proceeds received amounted to £27.7m, resulting in a loss on disposal of £1.0m. The disposal is viewed as a one-off restructuring exercise and therefore the business model assessment for the remaining assets remains unchanged.

12. Loans and advances to customers

	2024 £m	2023 £m
Loans and advances – classified at amortised cost		
Retail	1,315.9	1,234.9
Real estate - commercial	189.7	170.4
Real estate – portfolio buy-to-let	70.3	74.7
Motor receivables	96.3	-
	1,672.2	**1,480.0**
Fair value adjustment for hedged risk	(16.5)	(40.9)
Loans and advances (retirement mortgages) – classified as FVTPL – see note 25(d)	43.6	49.4
	1,699.3	**1,488.5**

Of this amount, at 30 September 2024, £351.5m (2023: £354.8m) has been pledged as collateral under the TFSME. Collateral that has been pledged is restricted.

	2024 £m	2023 £m
Loans and advances to customers at amortised cost		
Gross balances	1,671.4	1,483.1
Less: Provision for impairment	(7.7)	(6.0)
Add: Net loan fee deferral	8.5	2.9
Net balance	**1,672.2**	**1,480.0**

13. 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
2024					
At start of year	1.3	3.1	1.2	0.4	6.0
Utilised in year	-	-	(0.5)	-	(0.5)
Income Statement					
Impairment (gains)/losses	1.1	(1.9)	3.5	(0.5)	2.2
At 30 September 2024	**2.4**	**1.2**	**4.2**	**(0.1)**	**7.7**

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**

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 2024, the Bank has recognised a post model adjustment of £(0.1m) (FY23: £0.4m). At 30 September 2023, the Bank recognised a post model adjustment in the financial statements to reflect the higher interest rate environment. The adjustments to the Retail and Real Estate provisions reflected the lag in the 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. Across the financial year the Bank has seen the conditions that gave rise to the prior year PMA's gradually dissipate and as a result, prior year PMA's for the Retail and Real Estate portfolios have been released to the Income Statement as the Bank considers the relevant forward looking ECL models adequately capture the current economic conditions.

In the current financial year the Bank's PMA relates to the Motor portfolio and is a net £0.1m reduction to the ECL model output.

There are two components to this Balance Sheet debit: a PMA of £0.1m (FY23: Nil) which increases the ECL model-based provision, this amount has been recorded in recognition that the ECL model does not take into account a 'loan curing' period when moving defaulted assets into non-performing or performing categories or non-performing assets back to performing once customers have improved their arrears status. For the purpose of calculating this PMA, a 6-month curing period has been applied. Offsetting this amount is a PMA of (£0.2m) which reduces the ECL model-based provision, this amount has been recorded to address a small cohort of receivables where the ECL model was over-providing.

The net impact on the Motor receivables portfolio is a PMA of (£0.1m) which reduces the ECL model-based provision.

The following table provides a breakdown of the post model adjustment:

Post Model Adjustments	2024 £m	2023 £m
Retail – inflation and higher interest rates	-	0.2
Real Estate – inflation and higher interest rates	-	0.2
Motor receivables – model overprovision	(0.1)	-
	(0.1)	**0.4**

14. Intangible assets

	Computer software	
	2024 £m	**2023 £m**
Cost:		
At start of year	21.6	16.3
Additions	4.9	5.3
At end of financial year	**26.5**	**21.6**
Amortisation:		
At start of year	(8.9)	(6.6)
Amortisation	(2.5)	(2.3)
At end of financial year	**(11.4)**	**(8.9)**
Net book value:		
At end of financial year	**15.1**	**12.7**

£2.5m (2023: £2.3m) 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.

15. Property, plant and equipment

	Fixtures, fittings and equipment	
	2024 £m	**2023 £m**
Cost:		
At start of year	3.1	3.3
Additions	0.2	0.3
Disposals	(0.2)	(0.5)
At 30 September	**3.1**	**3.1**
Depreciation:		
At start of year	(1.9)	(1.8)
Depreciation	(0.4)	(0.6)
Disposals	0.2	0.5
At 30 September	**(2.1)**	**(1.9)**
Net book value:		
At 30 September	**1.0**	**1.2**

16. Investment properties

	Reversionary Interests £m
At start of year	2.6
Disposals	(0.9)
Fair value adjustments	(0.2)
At 30 September 2024	**1.5**

The historical cost of the reversionary interest in properties is £0.7m at 30 September 2024 (2023: £1.0m). 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 2023 mortality projection model. In line with the CMI's decision to place a degree of weight on the mortality experience data from 2023 for the purpose of projecting future mortality improvements, for the 2024 year end the mortality improvement assumptions for reversions were updated to use the CMI_2023 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.

The mortality scalar of 140% was retained for year end 2024. This is supported by the 2023 experience study which showed that, on an amounts-weighted basis (by property value) the actual deaths for 2023 were only marginally higher than expected for the year.

Early buy-outs are expected to occur infrequently and the rate of entry into long-term care is expected to increase with age as with mortality. There is therefore not a separate early redemption assumption for reversions as such exits are assumed to be implicitly included within the mortality assumption.

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 equal to the market implied rate of RPI inflation plus an allowance (0.75%) for expenses increasing faster than the market expectation of prices. At the average duration of the reversion portfolio, the expense inflation rate is 4.33% (2023:4.45%).

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 4-year point on the yield curve based on the expected average duration) at 30 September 2024 was 5.82% (2023: 6.75%) - including an illiquidity spread of 2.17% (2023: 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 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 reversion properties valued using an automated valuation model, a 10% haircut to the property value is applied.

For properties that have been subject to a recent physical inspection by a valuer (an inspection of both the interior and exterior of the property) or a drive-by valuation (an inspection of only the exterior of the property as viewable from a public access way) a separate haircut is applied. The exact properties which have been subject to a drive-by valuation instead of a physical valuation is not known, and hence a weighted haircut assumption is applied to all such valuations. For year end 2024, this (weighted) haircut has been updated to 5.4% (2023: 0%).

No future property price inflation is assumed beyond the valuation date; instead, future house price inflation is implicitly allowed for through the choice of the illiquidity spread in the discount rate.

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 £0.2m (2023: £0.3m)

Following the sale in 2022 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.

17. Deferred tax

	2024 £m	2023 £m
At start of year	5.6	6.3
Charge to the Income Statement – current year	(1.3)	(1.0)
Charge to the Income Statement – prior year	(0.3)	-
Charge to the Statement of Other Comprehensive Income – reimbursement asset (2023: liability)	0.1	(0.1)
(Charge)/credit to the Statement of Other Comprehensive Income – defined benefit pension scheme	(0.4)	0.4
At end of financial year	**3.7**	**5.6**

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

	2024 £m	2023 £m
Accelerated capital allowances	(0.2)	(0.3)
Other timing differences	1.3	2.0
Timing differences on reimbursement asset	-	(0.1)
Defined benefit pension scheme	-	1.6
Tax losses	2.6	2.4
At end of financial year	**3.7**	**5.6**

18. Other assets

	2024 £m	2023 £m
Prepayments and accrued income	2.8	3.1
Group relief debtor	1.8	1.0
Other assets	1.1	1.1
Pension reimbursement asset	-	0.2
Corporation tax	0.2	-
At end of financial year	**5.9**	**5.4**

19. Deposits from banks

	2024 £m	2023 £m
Term Funding Scheme	155.0	205.0
Collateral held on behalf of swap counterparties	12.7	35.7
	167.7	**240.7**

20. Deposits from customers

	2024 £m	2023 £m
Deposits from customers	1,636.7	1,361.9
Amounts owed to parent and fellow subsidiaries (note 29)	2.2	7.2
Fair value adjustment for hedged risk	0.5	(1.0)
	1,639.4	**1,368.1**

The amounts owed to parent and fellow subsidiaries are repayable on demand and accrue interest based on the monthly SONIA overnight rate.

21. 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 2024 £m	Fair value 2024 £m
Derivative assets		
Interest rate swaps held at fair value	70.7	5.6
Derivatives held in fair value hedges	752.8	22.3
Total recognised derivative assets	**823.5**	**27.9**
Derivative liabilities:		
Interest rate swaps held at fair value	(70.7)	(5.6)
Total recognised derivative position	**752.8**	**22.3**

	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**

At 30 September 2024, the fixed interest rates vary from 0.0% to 4.9% (2023: 0.0% to 4.9%), the floating rates are SONIA. Gains and losses recognised on interest rate swap contracts are recorded in 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:

	2024 Book Value £m	2024 Hedged Items £m	2024 Hedged Fair Value £m	2023 Book Value £m	2023 Hedged Items £m	2023 Hedged Fair Value £m
Hedged Assets						
Government bonds	27.7	25.1	(1.5)	61.7	30.8	(2.9)
Debt securities	70.7	63.1	(0.6)	82.0	25.2	(2.4)
Loans advances to customers	1,672.2	568.8	(16.9)	1,480.0	537.1	(41.2)
Deposits from customers	(1,639.4)	(115.5)	0.8	(1,368.1)	(67.0)	1.0
	131.2	**541.5**	**(18.2)**	**255.6**	**526.1**	**(45.5)**

• **Derivative financial instruments (continued)**

At 30 September 2024, the hedge ineffectiveness on the hedged asset portfolio amounted to £2.5m (2023: £3.4m). A hedge ineffectiveness loss of £0.8m has been recognised within the Income Statement in the year ended 30 September 2024 (2023: gain £0.5m).

At 30 September 2024, the hedge ineffectiveness on the hedged liability portfolio amounted to £nil (2023: £nil). A hedge ineffectiveness gain of £nil has been recognised within the Income Statement in the year ended 30 September 2024.

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.

	2024 £m	2023 £m
Movement in fair value of interest rate swaps	-	(1.9)
	-	**(1.9)**

Offsetting

In accordance with IAS32 Financial Instruments, the Bank reports derivative financial instruments on a net basis where 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.

Management has no intention to settle on a net basis and no amounts have been offset in the current and prior year.

	Amounts subject to netting arrangements		
	Gross amounts £m	**Amounts offset £m**	**Net amounts reported on Balance Sheet £m**
2024			
Derivative financial assets	27.9	-	27.9
Impact on total assets	**27.9**	**-**	**27.9**
Derivative financial liabilities	(5.6)	-	(5.6)
Impact on total liabilities	**(5.6)**	**-**	**(5.6)**
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)**

The collateral pledged against the market value of derivative instruments comprises interest-bearing cash deposits, which are included in loans and advances to credit institutions (note 9).

22. Other liabilities

	2024 £m	2023 £m
Due within one year:		
Accruals	5.5	6.8
Amounts owed to fellow subsidiaries (note 29)	2.9	4.3
Other creditors	2.9	0.6
Amounts owed in relation to mortgages administered for third parties	0.9	4.2
Other taxation and social security	0.6	0.6
Pension reimbursement liability (note 29)	0.1	-
	12.9	**16.5**

The amounts owed to fellow subsidiaries are repayable on demand and accrue interest based on the monthly SONIA overnight rate.

23. 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 21 years (2023: 22 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 2024. 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 £0.2m (2023: £0.3m).

Following an additional contribution to the pension scheme during the year of £3.0m (2023: £1.8m), the Bank has successfully eliminated the pension scheme deficit that it had reported over previous financial years.

The IAS 19 valuation as at 30 September 2024 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:

	2024 £m	2023 £m
Fair value of plan assets	30.1	24.0
Present value of defined benefit obligations	(29.9)	(28.3)
Surplus/(Deficit)	**0.2**	**(4.3)**

Movements in fair value of plan assets

	2024 £m	2023 £m
Market value of assets at the beginning of the year	24.0	25.5
Interest income	1.3	1.3
Actuarial loss	2.8	(3.7)
Employer contributions	3.0	1.8
Benefits paid	(1.0)	(0.9)
Market value of assets at the end of the year	**30.1**	**24.0**

Movements in present value of defined benefit obligations

	2024 £m	2023 £m
Present value of scheme liabilities at the beginning of the year	28.3	30.0
Interest cost	1.5	1.5
Actuarial (gain)/loss on defined benefit obligation of which:		
due to experience	(0.1)	0.4
due to demographic assumptions	(0.2)	(0.4)
due to financial assumptions	1.4	(2.0)
Benefits paid	(1.0)	(1.2)
Present value of scheme liabilities at end of the year	**29.9**	**28.3**

• Pension scheme (continued)

Expense recognised in the Income Statement

	2024 £m	2023 £m
Net interest expense – other finance costs	0.2	0.2
Other admin costs	-	0.1
	0.2	**0.3**

The total amount recognised in the Statement of Other Comprehensive Income in respect of actuarial gains and losses is a gain £1.7m (2023: loss of £1.7m) before tax.

Cumulative losses reported in the Statement of Other Comprehensive Income since the date of transition to FRS 101 are losses of £3.3m (2023: losses of £4.6m) after deferred tax.

Plan assets

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

	Fair Value	
	2024 £m	2023 £m
Quoted equity investments	8.5	4.1
Alternative funds	4.5	0.0
Diversified growth funds	-	5.0
Private investments	-	3.8
Bonds	5.1	3.8
LDI	10.2	6.5
Cash	1.8	0.8
Total market value of assets	**30.1**	**24.0**

The actual return on assets was a gain of £2.8m (2023: loss £2.4m).

Future contributions

In view of the fact that the defined benefit plan is in surplus, the Bank does not expect to make any contributions in the next financial year (2023: the Bank expects to contribute approximately £3.0m to its defined benefit plan).

Major assumptions

The major assumptions underpinning the defined benefit obligation are:

	2024 %	2023 %
Rate of increase for pensions in payment – RPI capped at 5.0% per annum	3.3	3.5
Discount rate applied to scheme liabilities	5.0	5.4
RPI inflation assumption	3.4	3.7

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:

	2024	2023
Current pensioners age 65 – male	86.1	86.3
Current pensioners age 65 – female	88.6	88.7
Future pensioners age 65 (current age 45) - males	87.1	87.2
Future pensioners age 65 (current age 45) - females	89.7	89.8

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 as follows:

Impact on present value of obligation:	Change in assumption £m	Increase in liabilities £m
Discount rate	0.1%	0.5
Rate of inflation (RPI or CPI)	0.1%	0.3
Life expectancy	1 year	0.7

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

	2024 £m	2023 £m	2022 £m	2021 £m	2020 £m
Fair value of plan assets	30.1	24.0	25.5	37.9	30.3
Present value of funded defined benefit obligations	(29.9)	(28.3)	(30.0)	(52.1)	(51.3)
Surplus/(Deficit)	**0.2**	**(4.3)**	**(4.5)**	**(14.2)**	**(21.0)**

History of experience gains and losses

	2024	2023	2022	2021	2020
Difference between the expected and actual return on scheme assets:					
Amount	**£2.8m**	**£(3.7)m**	**£(12.9)m**	£2.7m	£(0.4)m
Percentage of year-end scheme assets	**9.3%**	**(15.4)%**	**(50.6)%**	7.1%	(1.3)%
Experience (gains) and losses on scheme liabilities:					
Amount	**£(0.1)m**	£0.4m	**£1.5m**	£(0.3)m	£-
Percentage of year-end present value of scheme liabilities	**(0.3)%**	1.4%	**5.0%**	(0.6)%	0.0%
Total amount recognised in statement of comprehensive income:					
(Loss)/gain before tax	**£1.7m**	**£(1.7)m**	**£9.0m**	£2.6m	£(4.4)m
Percentage of year-end present value of scheme liabilities	**5.7%**	**(6.0)%**	**30.0%**	5.0%	(8.5)%

24. Called up share capital

	2024 £m	2023 £m
Authorised, allotted, called-up and fully paid:		
130,000,000 (2023:130,000,000) ordinary shares of £1 each	130.0	130.0
	130.0	**130.0**

25. 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 only financial assets and liabilities and hence will not reconcile to the total assets and liabilities in the Balance Sheet.

As at 30 September 2024	At amortised cost £m	FVTPL £m	Total £m
Assets			
Cash and balances held at central banks	151.3	-	151.3
Loans and advances to credit institutions	4.5	-	4.5
Derivative financial instruments	-	27.9	27.9
Government bonds	27.7	-	27.7
Debt securities	70.7	-	70.7
Loans and advances to customers	1,655.7	43.6	1,699.3
Other assets	2.6	-	2.6
Total financial assets	**1,912.5**	**71.5**	**1,984.0**
Liabilities			
Deposits from banks	167.7	-	167.7
Deposits from customers	1,639.4	-	1,639.4
Derivative financial instruments	-	5.6	5.6
Other liabilities	12.9	-	12.9
Total financial liabilities	**1,820.0**	**5.6**	**1,825.6**

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**
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**

• Financial instruments (continued)

b) Fair value estimation

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

The table below summarises the fair value of the 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.

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 2024	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	-	-	43.6	43.6
Derivative financial instruments	-	27.9	-	27.9
Total financial assets at FVTPL	**-**	**27.9**	**43.6**	**71.5**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	5.6	-	5.6
Total financial liabilities at FVTPL	**-**	**5.6**	**-**	**5.6**

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**

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 £43.6m (2023: £49.4m) of assets which have been classed as FVTPL and represent retirement mortgages.

	Fair Value		Book Value	
	2024 £m	2023 £m	2024 £m	2023 £m
Loans and advances (retirement mortgages) – classified as FVTPL	43.6	49.4	44.3	50.0
	43.6	**49.4**	**44.3**	**50.0**

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

	2024 £m	2023 £m
At start of year	49.4	58.6
Fair value losses in the Income Statement	0.1	(0.5)
Redemptions	(5.9)	(8.7)
At end of financial year	**43.6**	**49.4**

• Financial instruments (continued)

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 2023 mortality projection model. In line with the CMI's decision to place a degree of weight on the mortality experience data from 2023 for the purpose of projecting future mortality improvements, for the 2024 year end the mortality improvement assumptions for reversions was updated to use the CMI_2023 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 2024, the year end 2023 mortality scalar assumption has 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 equal to the market implied rate of RPI inflation plus an allowance (0.75%) for expenses increasing faster than the market expectation of prices. At the average duration of the retirement mortgage portfolio, the expense inflation rate is 4.33% as at September 2024 (2023: 4.45%).

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 (2023:4.5-year point) on the yield curve based on the average duration of our business) at 30 September 2024 was 6.07% (2023: 7.09%) - including an illiquidity spread of 2.44% (2023: 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 future house price inflation assumption is made up of three parts:

- The market implied rate of RPI inflation.
- An addition to allow for the expected excess of earnings growth in excess of price inflation, since, over the long-term, house prices are assumed to be more closely linked to earnings inflation than general price inflation; and
- A deduction for underperformance.

The property growth (net of The property growth (net of underperformance) and volatility assumed at 30 September 2024 was 3.22% (2023:3.35%) and 15.0% (2023:15.0%) respectively. This includes an adjustment for an excess of wage vs price growth assumption of 0.24% p.a. at 30 September 2024 (0.25% in 2023), and an adjustment for underperformance of 0.60% p.a. (2023: 0.60%).

The value of the no-negative equity guarantee as at 30 September 2024 is £0.01m (2023:£0.01m).

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 2024	**(0.1)**	**(0.1)**	**-**	**(1.8)**
30 September 2023	(0.1)	(0.1)	(0.1)	(2.1)

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

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 flows.

As at 30 September 2024	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	151.3	-	-	-	-	151.3
Loans and advances to credit institutions	4.5	-	-	-	-	4.5
Derivative financial instruments	0.2	0.9	0.9	21.2	4.7	27.9
Government bonds	-	-	-	27.7	-	27.7
Debt securities	10.4	2.9	-	57.4	-	70.7
Loans and advances to customers	13.7	11.2	16.6	287.7	1,370.1	1,699.3
Other assets	2.6	-	-	-	-	2.6
Total financial assets	**182.7**	**15.0**	**17.5**	**394.0**	**1,374.8**	**1,984.0**
Liabilities						
Deposits from banks	12.7	-	20.0	135.0	-	167.7
Deposits from customers	182.1	162.5	475.1	819.7	-	1,639.4
Derivative financial instruments	-	-	0.2	1.5	3.9	5.6
Other liabilities	12.9	-	-	-	-	12.9
Total financial liabilities	**207.7**	**162.5**	**495.3**	**956.2**	**3.9**	**1,825.6**
Interest sensitivity gap	**(25.0)**	**(147.5)**	**(477.8)**	**(562.2)**	**1,370.9**	**158.4**

• Financial instruments (continued)

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

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**
Interest sensitivity gap	**(72.3)**	**26.4**	**(537.3)**	**(593.0)**	**1,342.2**	**166.0**
Loan commitments liabilities - 2024	**46.5**	**-**	**6.0**	**6.0**	**-**	**58.5**
Loan commitments liabilities -2023	**33.4**	**3.2**	**6.4**	**3.3**	**-**	**46.3**

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. The amounts disclosed in the table are the contractual undiscounted cashflows.

As at 30 September 2024	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	167.7	12.7	-	135.3	26.4	-	174.4
Deposits from customers	1,639.4	178.4	168.8	486.8	860.5	-	1,694.5
Derivative financial instruments	5.6	-	-	0.2	5.9	13.6	19.7
Other liabilities	12.9	12.9	-	-	-	-	12.9
Total financial liabilities	**1,825.6**	**204.0**	**168.8**	**622.3**	**892.8**	**13.6**	**1,901.5**

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**

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.

26. Fair value of financial instruments carried at book value

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. There is no difference between book values and fair values for cash and balances held at central banks, loans and advances to credit institutions, deposits from banks and other financial assets and liabilities.

The Bank estimates that the difference between book and fair values for loans and advances to customers is £75.1m (fair value greater than book value) (2023 £73.0m) and for deposits from customers £70.2m, fair value is less than book value (2023:£37.8m). In addition, the Bank estimates that the fair values of government bonds and debt securities is £8.1m less than book value (2023: £3.8m less).

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 2024 is the carrying value recognised on the Balance Sheet as disclosed in the table in note 25(a), along with the loan commitments as disclosed in the table in note 25(e).

Credit risk within the Real Estate 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 Real estate 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 real estate property and retail property books. For its Motor receivables, the underlying HP receivables are secured against a used motor vehicle and in turn, the Bank is provided with the benefit of this security in its cashflow rights.

The Bank manages its credit risk through its Retail Credit Committee, Commercial Credit Committee, Motor Oversight 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, Real estate credit risk. Motor credit risk and credit risk in relation to treasury financial instruments is described in the relevant sections below.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). PD is defined as 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.
Real estate (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.
Motor	Calculated at an individual account level using an internal risk grading approach that is applied by Blue during loan underwriting. This risk grading is underpinned by a number of factors including the customers credit rating and loan to value. In the absence of the Bank having its own seasoned default data for its Motor portfolio, the PD is derived from Blue's historic account performance data and overlaid with economic forecast assumptions to obtain a forward-looking PD.
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	1.76	2.03	2.03	1.91	1.95
Baseline	1.36	1.70	1.83	1.76	1.74
Downside	1.04	1.48	1.70	1.65	1.62
Scenario weighted forecasts	1.38	1.73	1.85	1.77	1.76
UK Unemployment Rate					
Upside	4.23	3.97	3.76	3.58	3.52
Baseline	4.43	4.27	4.17	4.11	4.07
Downside	4.68	4.64	4.64	4.65	4.66
Scenario weighted forecasts	4.45	4.29	4.19	4.11	4.08
The following assumptions only impact the Real Estate portfolio					
% Change in S&P 500 Index[1]	25.3				
% Change in Energy Index	(2.71)	(3.85)	(3.85)	n/a	n/a
% Change in Non-Energy Index	(0.73)	(4.2)	(4.2)	n/a	n/a
% Change in Proportion of Downgrades[1]	19.32				
The following assumption only impacts Motor receivables					
Bank of England Base rate					
Upside	3.8	3.1	2.4	2.6	2.6
Baseline	4.3	3.8	3.3	3.3	3.3
Downside	5.2	4.6	4.1	3.9	3.9
Scenario weighted forecasts	4.4	3.8	3.3	3.3	3.3

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.

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Expected Credit Loss Provisioning (continued)

The scenario weightings and the three distinct scenarios used to reflect the expectations of the wider economy that feed into the PD models used for the Retail, Real Estate and Motor portfolios for the year ended 30 September 2024 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 provide renewed downward impetus for inflation and allow interest rates to drop back more swiftly. - The certainty created by a majority outcome in the General Election could lead to stronger growth in business investment than contained in our base case projection. - 'Back to work' policies and an easing in long-term sickness could see the labour force expand more quickly than projected, buoying growth in the medium to long term. - Consumer demand has been relatively resilient against a backdrop of high inflation. However, the savings ratio has picked back up in recent months suggesting consumers are still somewhat concerned regarding the economic outlook. If consumer confidence continues to build this could see precautionary savings ease, providing a boost to consumer spending. - Nominal pay growth is gradually slowing. A swifter associated drop back in services inflation could prompt a sharper loosening in monetary policy than that shown in the base case. This would have positive implications for household budgets and spending.	30.0%
Central	- Continued conflict in Ukraine. Current sanctions remain, but no new sanctions are introduced. - Conflict in the Middle East does not escalate to the point that one or several major oil producing nations cut oil supply as a political reaction. - The global oil price remains choppy around a flat trend. - CPI inflation drifts up to 2.6% by the end of the year, given the impact of easing energy prices has largely played out, moderating thereafter. - The unemployment rises slightly to a peak of 4.5% in 2024/2025. - Real household disposable income growth slows from 2.4% in 2024 to 1.2% in 2025, as nominal pay growth eases and inflation edges up. - GDP grows by 1.2% in 2024, and 1.5% in 2025 supported by real income rises and moderate expansion in consumer spending. - Growth in 2025 would be stronger if not for elevated interest rates and high tax rates. - No Covid-19 related restrictions are reimposed. - The policies announced by the new government so far point towards a continuation of high taxes and constrained public spending, against a backdrop of elevated public debt. There is little impact on the forecast at a macro level. This is subject to change as the details emerge in October, when a new Budget is delivered.	40.0%
Downside	- European wholesale gas prices have edged up in recent weeks, though remain well down though European gas prices have fallen in recent months, cold weather in winter and spring and stronger demand globally could see prices rise. This would add to inflationary pressures in the UK and hurt consumer spending. - The key risk to the UK economy linked to the conflict in the Middle East that we envisage is that one or several major oil producing nations cut oil supply as a political reaction. A wider conflict could also disrupt global supply chains. Additionally, the impact of the crisis in the Red Sea could drive up operating costs for businesses due to longer delivery times and delaying logistical plans as ships are rerouted to go around Africa's Cape of Good Hope. All outcomes would result in higher inflation. - Global trade policies particularly relating to China and the US have become increasingly protectionist in recent quarters. Further moves in this direction will lead to higher prices domestically and slower growth.	30.0%

The scenario weightings and the three distinct scenarios used to reflect the expectations of the wider economy that feed into the PD models used for the Retail, Real Estate and Motor portfolios 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 prices 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%

- 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.
Real estate (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).
Motor	LGD is calculated at a risk grade level and drawn from historic recovery / loss performance recorded on the Motor portfolio by the strategic partner (Blue). The LGD assumptions are updated periodically to reflect the latest loss expectations.
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:

	2024 £m	2024 %
Fully secured by a first charge on residential property	1,360.2	100.0
	1,360.2	**100.0**
Fair value adjustments	(0.7)	
	1,359.5	

	2023 £m	2023 %
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	

The cumulative change in fair values due to credit risk amounts to losses of £0.1m (2023: £0.1m) and the change in the year is a gain of £nil (2023: 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 2024 is disclosed below:

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Satisfactory	1,225.7	(0.1)
Stage 2	Watchlist	83.0	(0.2)
Stage 3	Default	4.4	(0.2)
		1,313.1	**(0.5)**
Plus: Loan fee deferral		3.3	
Provisions for impairment		(0.5)	
Total		**1,315.9**	

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 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**	

• 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 2023	1,137.9	86.0	7.4	1,231.3
Advances	237.1	19.5	0.1	256.7
Stage transfers	15.2	(13.0)	(2.2)	-
Repayment and settlement	(164.5)	(9.5)	(0.9)	(174.9)
At 30 September 2023	**1,225.7**	**83.0**	**4.4**	**1,313.1**

Arrears

Performance risk is measured by those accounts in arrears. The total loan balances in arrears at 30 September 2024 amounted to £10.6m (2023: £37.8m).

Past due but not impaired

As at 30 September 2024 there were no retail exposures that were past due but not impaired (2023: £nil).

Forbearance

At 30 September 2024, there were 11 loans in forbearance (2023: 7 loans).

Sensitivity

A 100% weighting for a negative scenario produces an additional ECL provision for Stage 1, 2 and 3 of £nil (2023: £0.2m).

Credit risk: Commercial lending

Commercial: analysis of risk concentration

Loans secured on commercial property are as follows:

	2024 Loan Balance £m	2024 Collateral Held £m	2023 Loan Balance £m	2023 Collateral Held £m
Commercial mortgage	10.1	16.1	29.7	48.2
Development finance	18.5	28.9	8.0	10.9
Investment loans	161.7	315.9	130.5	251.8
Renewable energy	4.2	-	7.0	-
	194.5	**360.9**	**175.2**	**310.9**
Less: Loan fee deferral	(1.9)	-	(1.1)	
Provisions for impairment	(2.9)	-	(3.7)	
	189.7	**360.9**	**170.4**	**310.9**

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:

	2024 £m	2024 %	2023 £m	2023 %
Wales	24.3	12.5	33.9	19.3
London – England	66.5	34.3	68.4	39.1
South East & East of England	26.5	13.6	13.0	7.4
Midlands – England	28.1	14.4	19.7	11.2
South West of England	38.3	19.7	31.8	18.2
North West & North East of England	9.4	4.8	6.1	3.5
Scotland	1.4	0.7	2.3	1.3
	194.5	**100.0**	**175.2**	**100.0**

The average LTV in respect of commercial loans is estimated to be 56.5% (2023: 61.2%). 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.

£5.7m (2023: £0.5m) of exposures have an LTV of greater than 100%. Of these, £4.2m (2023: £0.5m) are already classified as in default.

The largest exposure to one counterparty is £13.6m (2023: £14.4m) or 7% (2023: 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:

	2024 £m	2024 %	2023 £m	2023 %
Stage 1	171.1	88.0	128.7	73.5
Stage 2 – significant increase in credit risk	12.7	6.5	44.7	25.5
Stage 3 – default	10.7	5.5	1.8	1.0
	194.5	**100.0**	**175.2**	**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 2023	128.7	44.7	1.8	175.2
Advances and interest	75.3	0.1	0.2	75.6
Stage transfers	2.6	(24.5)	21.9	-
Repayment and settlement	(35.5)	(7.6)	(13.2)	(56.3)
At 30 September 2024	**171.1**	**12.7**	**10.7**	**194.5**

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 2024 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-	0.9	-
2.2	Low risk	Stage 1 or 2	BB+ to BB	15.7	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	70.5	(0.2)
3.2	Moderate risk	Stage 1 or 2	B+ to B-	87.6	(0.5)
4.1	Watch	Stage 1 or 2	B- to CCC	3.9	-
4.2	Enhanced watch	Stage 1 or 2	CCC	5.2	-
5	Substandard	Stage 2	CCC to CCC-	-	-
6	Default	Stage 3	CCC-	9.2	(1.2)
7	Loss	Stage 3	CCC-	1.5	(1.0)
Total				**194.5**	**(2.9)**

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 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)**

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Arrears

As at 30 September 2024 there were commercial loans arrears of £0.5m (2023: £1.3m).

Past due but not impaired

As at 30 September 2024 and 30 September 2023 there were no commercial loan balances that were past due but not impaired.

Forbearance

There were two instances of forbearance during the year on loans with a balance at 30 September 2024 of £6.6m. (2023: 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).

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and Stage 2 of £0.4m (2023:£0.1m).

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

PBTL: analysis of risk concentration

Loans secured on PBTL property are as follows:

	2024		2023	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
PBTL lending	71.6	107.7	76.5	76.7
	71.6	**107.7**	**76.5**	**76.7**

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

The Bank's PBTL loan portfolio comprises the following:

	2024		2023	
	£m	%	£m	%
Loans secured on PBTL property	71.6	100.0	76.5	100.0
	71.6	**100.0**	**76.5**	**100.0**
Less: Loan fee deferral	(0.1)		-	
Provisions for impairment	(1.2)		(1.8)	
	70.3		**74.7**	

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

	2024		2023	
	£m	%	£m	%
Wales	3.7	5.2	3.7	4.9
London – England	42.1	58.8	46.3	60.5
South East & East of England	13.4	18.7	13.4	17.5
Midlands – England	7.6	10.6	7.6	9.9
North West of England	1.3	1.8	1.3	1.7
South West of England	3.5	4.9	4.2	5.5
	71.6	**100**	**76.5**	**100**

The average LTV in respect of PBTL loans is 64.3% (2023:65.4%). 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 £10.4m (2023: £11.0m) or 14.5% (2023:14.4%) 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:

	2024		2023	
	£m	%	£m	%
Stage 1	37.1	51.8	37.1	48.5
Stage 2 – significant increase in credit risk	30.3	42.3	39.4	51.5
Stage 3 – default	4.2	5.9	-	-
	71.6	**100**	**76.5**	**100**

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 2023	37.1	39.4	-	76.5
Stage transfers	0.8	(5.0)	4.2	-
Repayment and settlement	(0.8)	(4.1)	-	(4.9)
At 30 September 2024	**37.1**	**30.3**	**4.2**	**71.6**

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 2024

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-	16.1	(0.1)
3.2	Moderate risk	Stage 1 or 2	B+ to B-	13.1	(0.1)
4.1	Watch	Stage 1 or 2	B- to CCC	12.5	(0.3)
4.2	Enhanced watch	Stage 1 or 2	CCC	13.6	(0.2)
5	Substandard	Stage 2	CCC to CCC-	2.2	(0.1)
6	Default	Stage 3	CCC-	4.2	(0.4)
Total				**71.6**	**(1.2)**

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)**

Arrears

As at 30 September 2024 there were no PBTL loans in arrears (2023: £Nil).

Past due but not impaired

As at 30 September 2024 there were no PBTL loans that were past due but not impaired (2023: 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 £0.3m (2023:£nil).

• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Credit risk: Motor receivables

Through its partnership with Blue, the Bank has secured the rights to cashflows which will flow from Hire Purchase (HP) assets that have been originated by Blue. The Bank recognises these cashflows as loans and advances to customers – Motor.

The underlying HP receivables are secured against a used motor vehicle and in turn, the Bank is provided the benefit of this security in its cashflow rights:

	2024	
	£m	%
Fully secured by a first charge against a used motor vehicle	96.3	100.0
	96.3	**100.0**

There were no prior year comparative balances as the partnership commenced in October 2024.

Through their standard underwriting procedures Blue assess customers for risk using a variety of factors including credit quality and LTV. The Bank bears full credit risk exposure to the cashflows that are due from the underlying agreements which are secured on used motor vehicles sold across England, Wales and Scotland. The Motor receivables portfolio has no geographic concentrations.

Motor: performance

The gross exposure on loans and advances to customers – Motor, 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 2024 is disclosed below:

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Performing	84.0	(1.5)
Stage 2 – significant increase in credit risk	Non-performing	5.7	(0.3)
Stage 3 – default	Default	2.8	(1.3)
		92.5	**(3.1)**
Plus: Loan fee deferral		6.9	
Provisions for impairment		(3.1)	
Total		**96.3**	

All prior year balances were nil.

A deterioration in an underlying customer's credit score since inception of greater than or equal to 150 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.

Arrears

Performance risk is measured by those accounts in arrears. The total receivables balances in arrears (measured as missed one or more normal monthly instalments) at 30 September 2024 amounted to £4.5m.

Past due but not impaired

As at 30 September 2024 there were no Motor exposures that were past due but not impaired.

Forbearance

There were 155 instances of forbearance during the year on loans with a balance at 30 September 2024 of £1.4m.

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 of £0.2m (2023:Nil) and Stage 2 of Nil (2023:Nil).

• 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:

	2024 £m	2023 £m
Cash and balances held at central banks	151.3	93.7
Loans and advances to credit institutions	4.5	11.2
Government bonds	27.7	61.7
Debt securities	70.7	82.0
	254.2	**248.6**
Provision for impairment	-	-
	254.2	**248.6**

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:

	2024 £m	2023 £m
AAA to AA-	254.2	248.6
	254.2	**248.6**

Concentration of credit risk

The geographical exposure is as follows:

	2024 £m	2023 £m
UK	249.8	178.8
Other	4.4	69.8
	254.2	**248.6**

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 25 (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 25 (e) shows an estimate of the interest rate sensitivity gap as at 30 September 2024. 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.

	2024		2023	
	£m	%	£m	%
Wales	2.2	5.2	2.2	4.5
East Anglia	1.8	4.2	2.2	4.5
East Midlands	1.9	4.4	1.7	3.4
Greater London	1.5	3.5	2.2	4.5
Yorkshire & Humberside	2.9	6.8	5.2	10.5
North West	4.8	11.2	9.4	19.0
Scotland	9.0	21.0	10.4	21.0
Outer Metropolitan	9.2	21.5	5.7	11.5
Outer South East	-	-	0.1	0.2
South West	4.6	10.8	2.5	5.1
West Midlands	3.0	7.0	4.2	8.5
North	1.9	4.4	3.6	7.3
	42.8	**100.0**	**49.4**	**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 2024 (2023: £nil).

g) Pension risk

The Bank is exposed to pension risk through its defined benefit scheme. Further information is provided in note 23.

h) Macroeconomic environment risk

Macroeconomic environment risk is the risk of economic loss because of a change in the economic conditions that the Bank and its customers face.

Unfavourable movements in the economic conditions could heighten the risks that the Bank is exposed to as set out in a-g above, with credit risk being the largest risk given the nature of the Bank's lending portfolios. The Executive Risk Committee is responsible for managing risk decisions and monitoring risk levels which it reports to the Board Risk Committee.

28. Financial commitments

	2024 £m	2023 £m
Loan Commitments		
Expiring in less than one year	52.5	43.0
Expiring in more than one year	6.0	3.3
	58.5	**46.3**

Capital commitments
The Bank had contracted capital commitments amounting to £nil at 30 September 2024 (2023: £nil).

29. 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 2024 and 30 September 2023:

	2024 £m	2023 £m
Amounts due/(owed) from parent and fellow subsidiaries		
Reimbursement (liability)/asset due (to)/from The Carlyle Trust Limited	(0.1)	0.2
SWAP collateral liability due to Hodge Reversions Limited	(3.4)	(3.4)
Amount due from The Carlyle Trust Limited	0.5	-
Group relief debtor	1.8	1.0
Total	**(1.2)**	**(2.2)**
Jane Hodge Foundation – shareholder of The Carlyle Trust Limited	-	(2.0)
Total	**-**	**(2.0)**
Deposits owed to parent and fellow subsidiaries		
Sterling House Limited	(0.2)	(0.5)
Wingwest (Fountain Lane) Limited	(0.4)	(0.2)
The Carlyle Trust Limited – parent	(1.1)	(2.6)
Carlyle Property Development Company Limited	-	(0.4)
Hodge Limited	-	(0.2)
Hodge Reversions Limited	(0.5)	(3.3)
Total	**(2.2)**	**(7.2)**

30 . 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.

At 30 September 2024	Due within 12 months £m	Due after 12 months £m	Total £m
Assets			
Cash and balances held at central banks	151.3	-	151.3
Loans and advances to credit institutions	4.5	-	4.5
Derivative financial instruments	2.0	25.9	27.9
Government bonds	-	27.7	27.7
Debt securities	13.3	57.4	70.7
Loans and advances to customers	41.5	1,657.8	1,699.3
Intangible assets	2.5	12.6	15.1
Property, plant & equipment	0.4	0.6	1.0
Investment properties	1.5	-	1.5
Deferred tax assets	2.0	1.7	3.7
Other assets	5.9	-	5.9
Pension assets	-	0.2	0.2
Total assets	**224.9**	**1,783.9**	**2,008.8**
Liabilities			
Deposits from banks	32.7	135.0	167.7
Deposits from customers	819.7	819.7	1,639.4
Derivative financial instruments	0.2	5.4	5.6
Other liabilities	12.9	-	12.9
Total liabilities	**865.5**	**960.1**	**1,825.6**

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**

31. Contingent assets and liabilities

There are no contingent assets or liabilities at 30 September 2024 (2023: None).

32 . 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.

	2024 Unaudited £m	2023 Unaudited £m
Common Equity Tier 1 capital	166.2	172.9
Total risk weighted assets	841.1	704.7
Common Equity Tier 1 capital ratio	**19.8%**	**24.5%**
Total own funds	166.2	172.9
Total risk weighted assets	841.1	704.7
Total capital ratio	**19.8%**	**24.5%**

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 5 to the accounts.
- Annual turnover (Net Interest Income) and profit before tax: as disclosed in the Income Statement.
- Corporation Tax paid: 2024: £14,000 (2023: £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.

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