



# Annual report and financial statements

**30 SEPTEMBER 2025**

Registered number 00743437

# Officers and professional advisers



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



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



**Jan Preece**  
Chief Finance Officer  
A.C.A.



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



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



**Iain Laing**  
Non-Executive Director



**Graham Wheeler**  
Non-Executive Director



**Melanie Kincaid**  
Company Secretary

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**Registered number**  
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**Auditor**  
Ernst & Young LLP  
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**Principal bankers**  
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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.

As has become my unfortunate practice in recent times, I begin the report by recognising the many challenges that the World faces this year, from the continued military conflicts in Ukraine and the Middle East, to the highly unusual economic environment created by the threat of global tariffs followed by often hastily agreed trade deals.

Added to this, the change of UK Government last year with its first budget in September saw increased pressures on businesses in the form of additional tax and National Insurance contributions, and this has led to a falling level of business confidence despite the clear intention of the Government to put growth as their primary objective. Interest rates have begun to fall but more slowly than was anticipated by the markets last year, as inflation remains stubbornly above the 2% Bank of England target, and employment levels have fallen in recent months. Inevitably, Julian Hodge Bank is not immune to these conditions and this is reflected in the performance this year, where many aspects of our trading activity have been encouraging.

The underperformance of our Real Estate Finance (“REF”) division together with the difficult economic environment referenced above have meant that the financial results are below plan. We remain completely committed to our strategy, which is to be the 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 lending markets, our focus remains to helping later life customers as well as people with diverse incomes, and we have seen some significant progress in this division both in terms of new business volumes and above target returns.

“We remain completely committed to our strategy, which is to be the leading ‘Specialist Lender’.

The very good credit quality of our residential lending book continues into this year. The Board was delighted to see the appointment of John Carter as Managing Director of our REF division in June this year and he has had a very positive impact on recent performance. Nevertheless, the lack of sustained growth throughout the year and predating his appointment means that the balance sheet is behind plan for the second year running and so has created a fiscal drag on projected profits. The Board is supportive of our REF strategy pivoting towards a balance sheet reflective of both a smaller number of larger sized loans to very good quality customers, and a focus on smaller (sub £5m loans) introduced to the Bank via partnerships with debt advisory companies. We believe that there is potential for us to grow both volume and return in these markets and, in doing so, increase the size of our balance sheet supporting our REF division.

We were also delighted to see that the positive impact that the partnership with Blue Motor Finance that began in October 2023 has continued, with an extended arrangement agreed this summer to last until 2028. The new savings platform, Dy Arian, has been embedded into the Bank and we have seen the first impact of the broader product range that this brings – Easy Access – not just being launched but starting to attract new daily volumes of up to £1m. There are more opportunities to be explored but the new platform will allow the Bank to participate in much larger and more diverse markets and so create more opportunities to attract both new and existing customers whilst maintaining flexibility over the timing and pricing of our savings plans.

“Our Trustpilot score of 4.6 is amongst the highest in the banking sector.

The strategic importance of delivering industry leading levels of service and building trust with our customers is reflected in the excellent progress that we have made in this area again this year. Our Trustpilot score of 4.6 is amongst the highest in the banking sector, as is our Net Promotor Score (NPS) of 59. Naturally, we continue to listen to our customers and the embedding of Consumer Duty into the business has helped to identify areas where improvements can and have been made. Just as our customers remain critical to the success of the Bank going forward, so too are our colleagues across the business.



This year, we have implemented a new ‘open door’ framework to gain feedback from colleagues and ensure we continue to work collaboratively with everyone across the business to foster a culture of inclusivity. The framework allows all colleagues to raise any concerns or ideas they may have directly to Executive Committee members and, it allows us to ensure continual open and honest conversations, identify learnings on our culture and implement where possible improvements for efficiencies prompted by our colleagues’ ideas.

As part of our ongoing commitment to foster a truly inclusive environment for our colleagues, we have begun measuring our culture through a scorecard, considering metrics in employee engagement, retention, inclusivity and risk culture. We have seen good progress throughout the year through monitoring the scorecard, making improvements to our recognition schemes and engagement platforms in response to the key themes.





• Chairman's Statement (continued)



Looking to the future, the execution of the strategy is the number one priority across all aspects of the Bank.

We have also seen good progress against our equality, diversity and inclusion strategy this year. As members of the Women in Finance Charter, we now have 41% of our senior management represented by women against our target of 45- 50% by October 2026 and have continued to make good progress in continually improving our gender pay gap. Many of our colleagues have also 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 and neonatal support, menopause and long-term health issues. The Bank also sponsored the Cardiff Pride 2025 and SheWho events this year, with several of our colleagues taking part from across the business.

The excellent progress that has been made in recent years in embedding strong risk and governance across the Bank has continued into this year, with this now being recognised as a capability that we believe can add additional value to the success of the Bank going forward as we explore adjacent business areas.

It is pleasing to note that our Green House Gas emission have declined by 6% following the switch to 100% certified renewable electricity and continued monitoring of our supply chain.

Turning to the Board itself, in September 2025 the Board accepted the resignation of David Landen, Chief Executive Officer ("CEO") and, on behalf of the Shareholder and the Board, I would like to say an enormous thank you to David for his considerable contribution to the Bank over many years, the last five years of which have been as CEO. David has led the whole business through some significant challenges, his appointment coinciding with COVID, where his calm and reassuring leadership helped colleagues navigate new ways of working. David successfully managed the sale of Hodge Life, he led a significant transformation of the Bank, significantly strengthened our risk and governance frameworks and delivered industry leading customer service. David has therefore positioned the firm incredibly well for the future and we wish him all the very best for his own next chapter as he explores new opportunities. David will continue as CEO for the time being and the search for a new CEO remains underway.

In addition, I would like to extend an enormous thank you to Aileen Wallace, who finished her Non-Executive Directorship with us on 30 November 2025. Aileen's insight, knowledge and contribution as Chair of the Remuneration Committee, Chair of the Innovation and Change Committee and as a NED over the past six years has been hugely invaluable and very much appreciated by all of her Board colleagues.

The search for a NED to join the Board to further increase the skills and experience appropriate to the Bank strategy is underway, with a particular emphasis on Real Estate Finance and broader specialist lending markets, and I look forward to providing an update on this over the coming months

Looking to the future, the execution of the strategy is the number one priority across all aspects of the Bank, nowhere more so than with the improved delivery in REF which is being both sustained and built on further to establish a base balance sheet size and shape consistent with the 5 year plan.

Whilst an unwavering focus on trading performance is critical to the successful delivery of the financial plan, we will continue to explore opportunities to use our capabilities both organically and through selected partnerships in adjacent specialist lending markets.

Good progress has been made to create a more efficient business and greater use of emerging technologies, particularly process improvement plans to make life easier for colleagues and customers alike, will remain a key component on the delivery of the 5 year plan.

Finally, and on behalf of the whole Board, I would like to thank all colleagues right across the Bank for their hard work, professionalism, dedication and for the continued delivery of great service to all of our many customers and partners – we really do appreciate all that you do.

**Graeme Hughes**  
Chairman

8 December 2025





# Chief Executive Officer’s Statement

## My Reflections on 2024/2025

**While the bank delivered 8% loan book growth and made significant progress on our strategic priorities, the financial year closed with a disappointing net operating loss of £3.5m. This reflects both the impact of our investment in modernisation and the challenging economic environment. With the major transformation now complete, we expect profitability to improve in the coming years.**

It has been a year where we have seen significant completion of key strategic priorities, notably fully migrating both our savings and mortgage accounts onto modern technology platforms. This marks a key point in the transformation of Hodge with the foundations in place for enhanced future performance.

### Considered Growth in our lending

It is pleasing that we have delivered 8% loan book growth during the year with £389million of new lending across our three divisions of Specialist Mortgages, Real Estate Finance and Motor.

Our mortgage business has performed well; gross new lending was in line with expectations at £188million during the year and the loan book on target standing at £1.41bn as at September 2025.

We have continued to enhance our range of offerings to all stages of our customers’ mortgage journeys with enhancements to our Hodge Resi and Resi retire ranges allowing lending with smaller deposits of 5% to further support customers to access mortgage funding. Whilst our ambitions to grow in Real Estate Finance continued with new lending of £69.1million (£51.2million in 2024) during the year, the strategy was refined and with the appointment of John Carter as the Managing Director, this is already delivering a fresh momentum. The strategy is to build on our relationship focused, flexible lending approach to further support customers and increase new lending in 2026.

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

In September 2025, I was delighted to announce an extension to our strategic partnership with Blue Motor Finance, committing to a new facility of £540million over the next 3 years (effective from June 2025) in line with our strategy of continuing to build value in Motor finance. New funding during the year amounted to £132million (2024: £100million).

### Value for our savings customers

The cost of living and above target inflation remain a challenge for our customers. So the need for our money to work harder as well as having flexibility to seamlessly access our savings when we need is even more important than ever. Through our savings business we have continued to provide consistently competitive rates and during the year we launched our easy access account providing instant access to our savings customers, leveraging the significant technology transformation we have undertaken in recent years. It has been pleasing to see its growth and popularity with customers, with £92 million of balances at September and over 3,000 customers having opened accounts since launch in March 2025.

We continue to enhance our offering to provide certainty and great customer experiences for our savings customers who trust us with their money.

### Customer centric approach

We continue to aspire to deliver brilliant experiences for our customers through every single interaction. This customer first approach has again been demonstrated in our continued Trustpilot score of 4.6. Our Net Promoter Score (NPS), the primary way we judge overall satisfaction with our service has also remained outstanding at +59 (2024: +65) for the Bank as a whole.

We continue to hold the Institute of Customer Service ServiceMark accreditation, which independently recognises organisations’ achievement in customer service to drive business performance. I am proud that Hodge has continued to hold this standard and we remain the only bank in the UK to receive such accreditation.

With the maintained uncertain economic backdrop we are continuing to support our customers if they get into any financial difficulties. Whilst we have a relatively small number of mortgage customers experiencing difficulties, arrears balances with 2 or more missed payments, as a share of total mortgage balances stands at 0.35% (2024: 0.28%). This is significantly below UK average levels (1.21%<sup>1</sup>) and demonstrates our responsible lending approach and the range of support we provide to help those customers going through difficulties.

### Transformation

Our investment in technology has continued and we have delivered new offerings using the modern technology enabling us to innovate and move forward at pace to adapt to our customers’ needs. During the year we have completed successful migrations across mortgages and savings moving our customers onto our modern platforms, simplifying our approach to serving our customers and enabling us to deliver more value with new products and offerings in both mortgages and savings.

### Sustainability and People

We have made strong progress on our ESG and diversity commitments, reducing greenhouse gas emissions by 6% and increasing female representation in senior management to 41%. Our sponsorship of Cardiff Pride and SheWho events reflects our commitment to inclusion.

These achievements have only been possible because of our dedicated and talented colleagues, and I would like to personally thank them for their continued commitment to our customers.

### Future plans

Looking ahead, our focus will be on delivering sustainable growth, enhancing customer outcomes, and leveraging our modern technology platforms to drive efficiency and innovation. The bank is well-positioned to execute its five-year plan and deliver value for all stakeholders.

Finally on a personal note, this will be my last report as CEO of Hodge. I have made the incredibly difficult decision to step down from my role. It has been a great honour and privilege to lead Hodge over the last 5 years and 24 years in total. With the transformation and modernisation, I believe the Bank is setup for the next chapter to deliver enhanced performance and continue to deliver great outcomes for our customers.

**David Landen**  
Chief Executive Officer  
8 December 2025

<sup>1</sup> <https://www.bankofengland.co.uk/statistics/mortgage-lenders-and-administrators/2025/2025-q1>



# 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 particularly those with complex income requirements, to own their own home, using our trusted expertise to assess their income ‘up to’ and ‘into’ retirement.

“In 2025 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.

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 allows customers to either repay down the capital or choose interest only. Our interest only mortgages allow customers the flexibility 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.

We continued with the extensive customer research in 2025, and following the delivery of Hodge Resi, which targeted customers with complex income requirements, we expanded 50+ criteria and rebranded as Hodge Resi Retire. The alignment of these products enabled us to support more customers regardless of their age or professional qualifications. It enabled our experienced underwriters to assess cases holistically rather than pigeon holing customers to our criteria. These changes enable us to serve customers with complex income lending into retirement better and with no change to overall risk appetite.

We also expanded our criteria to support customers looking to purchase a property with only a small deposit, launching into 95% lending in September 2025. This has been received well in the market.

In 2025 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 are 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.

**Real Estate Finance**

The Bank has operated in the Real Estate Finance sector for many years and has an established reputation for offering flexible and reliable funding solutions to our customers by taking a hands-on, individual risk-based approach, working alongside customers to understand and meet their business needs.

During FY25 we streamlined the Real Estate team, improving efficiencies from initial enquiry to loan closure and successfully re-launched our relationship-led, solutions-based approach, backed by the strength of our heritage, expertise, reputation and appetite to do things differently which are truly embodied throughout the Bank.

We work in close partnership with our customers, often directly or through a trusted and targeted network of debt advisors and professional advisors.

Our offering extends throughout the UK, across most sectors and asset types in the Development and Investment Finance segments, to include short-term funding requirements. Our 8-week approval to closure proposition launched this year has proved a successful initiative for customers with opportunities where short completion windows exist.

Our highly experienced, expert Relationship Management team is supported by a refreshed Business Development team, to be further strengthened in Q1 FY26 by the appointment of an additional Business Development Manager.

Together they face into the market to deliver tailored Real Estate Funding solutions ‘without the fuss’ and product inflexibilities of our mainstream competitors.

We remain relatively small within the sector but will continue to operate as a focused player, reinforcing our reputation by deepening existing long-term client relationships and establishing new ones. We are also pursuing strategic funding partnerships and actively evaluating adjacent market opportunities which will assist in driving sustainable and diverse growth.

**Motor**

In October 2023 the Bank entered 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.

“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’ Trustpilot score .

Since its inception, the partnership with Blue has proved a successful mechanism for the Bank in diversifying the asset side of its Balance Sheet and establishing a presence in Motor Finance. In June 2025 the contract with Blue was extended for a further 3 years.

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 2025 we have continued our commitment to support more customers through our online channels and have continually monitored our savings rate to ensure we are delivering 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’ Trustpilot score.

We have continued to make significant investment in our technology capabilities and have launched an Easy Access product which enables customers to access a variable rate. We have also implemented a customer relationship management (CRM) capability which allows us to contact customers much more easily, enabling us to be there for our customers in the moments that matter. Improvements have continued to be made to the customer website and customers regularly feedback that our journeys are clear and simple to navigate.

We manage over £1.8bn 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 has been a participant in the Bank of England’s (“BoE”) 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. Whilst the Bank has now repaid its TFSME obligations, it will continue to participate in BoE initiatives where appropriate.

**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. 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 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.



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

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 several 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, colleagues, 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 sought when designing products to enable us to offer the right products to the right customer at the right time, ensuring they have good outcomes. Surveys and Trustpilot capture feedback which is analysed to determine trends and suggest improvements to enable us to 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 review our processes and procedures and invest in new technology to increase our customer offering and improve the customer

journey and experience and bring about further efficiencies to constantly improve our high value offering.

In Savings the key achievements this year have been the launch of an Easy Access savings product which allows us to offer variable rates to our customers. We also launched a Customer Relationship Management (CRM) system which enables us to contact our savings customers much more easily and respond to feedback sooner. 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.

In Retail mortgages, 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. This feedback is also compounded by the FCA's Mortgage Rule Review which is a discussion paper on the future of the UK mortgage market.

We have responded to the paper by introducing criteria changes to support more customers with complex income requirements and have launched into the 95% Loan to Value market. These propositions enable more customers with complex incomes and/or who have small deposits to buy their own home.

In 2025 a discovery phase 1 retention strategy project was completed. This was focused on improving the customer journey, particularly for customers who are approaching fixed rate maturity and to improve the experience for our colleagues as it is a predominantly manual process. As part of the discovery, our communications to brokers and customers were reviewed and improved.

Elements of the customer journey were also enhanced including the website which now informs and serves our existing customers better.

A key achievement this year has been the completion of the migration of customers' accounts to Dy Arian, a new savings platform, which enables us to enhance our customer offering and provide a frictionless customer experience. The Bank works closely with its retail mortgage 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. Further enhancements were made throughout 2025, with a particular focus on providing even more support to our existing customers.

**Colleagues**

Our people are central to the delivery of excellent services for our customers. We remain committed to continuing to foster a culture of where our colleagues can bring their whole selves to work and thrive.

This year, enhancements were made to several initiatives to ensure we continue to engage with colleagues, take feedback and ideas and make improvements to the colleague and customer experience. We implemented a new 'Hodge People' system, centralising all our core people processes across HR, Talent and Payroll for our colleagues to gain access to an improved, self-service experience for their development, performance, talent, payroll and absence needs. We also integrated a new employee feedback platform 'Hive', allowing improved survey and data analysis capabilities to enable us to take feedback and act as part of our commitment to continually improve colleague experience.

A key success for this year was the relaunch of our colleague to colleague recognition scheme, enabling colleagues across all levels of the business to thank, recognise and reward one another for their efforts and support. We are pleased this has been a popular addition to our colleague experience, further supporting our culture of collaboration and support across all teams at Hodge.

We have also continued to invest in the skills, capabilities and knowledge of our leaders not only to support our talent and succession plans but to also ensure our leaders are equipped to lead and support our colleagues through daily customer interactions, their development and their wellbeing. We have continued to deliver our leadership development program in partnership with Levati and, have launched multiple internal management toolkits and training workshops this year. These toolkits complement our 'passport to leadership' program by placing focus on both developing our current leaders and, our leaders of the future.

Hodge remains committed to supporting our colleagues' wellbeing and building a truly inclusive workplace. Throughout the year, and with support from our newly launched Colleague Committee, we have worked with colleagues to promote a 'Healthy Hodge', promoting colleague wellbeing and providing support, services and access to providers for advice and guidance in relation to health, pension and wider benefits. Hodge also sponsored SheWho and the Cardiff Pride Walk in 2025 as part of the ongoing commitment to foster an equitable, diverse and inclusive culture.

During the year we continued with 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.

**Our Suppliers**

The Bank's suppliers are a fundamental part of the successful operation of the Bank's business and delivery of its objectives. The Bank has continued to enhance its due diligence coverage resulting in greater information to assess each contract presented for approval. The Board has approved many new relationships and in doing so, considered their strategic value to the Bank and ensuring compliance with relevant regulations and legislation such as the Prudential Regulatory Authority's Supervisory Statement on Outsourcing and Third Party Risk Management ("SS2/21"). The Board also re-approved the existing Outsourcing Policy, which sets out how we manage those relationships where the Bank continues to hold accountability for the actions even though they may be undertaken by a third party.

Throughout 2025 several key procurement and supplier management initiatives were brought before the Board, including new strategic partnerships, contract renewals and the continued 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, the Board has continued focusing on increasing the resilience and de-concentration of the supply base, embedding environmental, social and governance (ESG) principles, minimising the possibility of cyber incidents and driving cost efficiencies through embracing digital solutions and automation.

**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 2025, the Shareholder representative was consulted in relation to the five-year strategic plan and the remuneration of the Executive Committee and Non-Executive Directors. The Shareholder representative agreed with the remuneration proposals submitted by the Executive and Non-Executive Directors. The five-year strategic plan was approved as the basis of the forthcoming financial processes (including year end requirements e.g. Going Concern), however the Board continue to challenge the ExCo to strengthen the Bank's financial performance over the 5-year period.



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 ("BRC") 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 to reduce our climate impacts. The Bank assesses both the physical and transitional risks associated with climate change and complies with the Streamlined Energy and Carbon Reporting standard ("SECR") 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 Process ('ILAAP'). The Bank continues to report Green House Gas ('GHG') emissions, to comply with the Streamlined Energy & Carbon Reporting (SECR) initiative. We tasked Watershed, 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 in terms of our carbon footprint. The figures presented below are for the years to June 2025 and June 2024. The assessments below include Scope 3 – purchased goods and services, although this is not a requirement of the SECR initiative. The Watershed assessments are based on CEDA emissions factors, which is multi region, and is recognised by the GHG protocol standard.

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	2025	2024 <sup>⊗</sup>
Scope 1 (tCO2e)	Fuel (Buildings)	25	38
	Refrigerants	8	19
		33	57
Scope 2 (tCO2e)	Electricity	-	22
		-	22
Scope 3 (tCO2e)	Business travel	108	89
	Employee working	164	167
	Other	-	2
		272	258
Directly controllable emissions		305	337
Scope 3 (tCO2e)	Purchased goods and services	2,261	2,389
Total location based GHG emissions (tCO2e)		2,566	2,726
Average number of employees <sup>1</sup>		288	321
GHG per employee (tCO2e)		8.9	8.5
GHG use per £m income (tCO2e) <sup>2</sup>		20.9	24.9

⊗ The 2024 Scope 1 Fuel emissions were restated downwards following a calculation error. This was because the incorrect unit of measurement was input into the system for 5th floor gas usage [therms instead of Kwh]. The related GHG ratios per employee and per £m of income have been restated accordingly.

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

The decrease in directly controllable emissions in 2025 arises from the fact the Bank now purchases all its electricity from a Certified Green Energy Supplier. In addition, the Bank validated our Scope 3 suppliers' emissions outputs which reduced the number of suppliers and overall spend reducing the emissions from "Purchased goods and services".

All the Bank's operations are UK based. The Bank's GHG emissions are reported in (tCO2e) 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

Mitigating some of the reduction in Net Operating Income, the Bank has continued to manage costs closely.

The financial year closed with the Bank generating a Net Operating Loss of £3.5m (FY24: Net Operating profit £0.4m. This was a disappointing performance and stemmed from the Bank's inability to grow its Real Estate Finance portfolio to the extent it would have liked in the first half of the financial year. New Real Estate Finance lending in the second half of the year was more positive and contributed towards the Bank being able to grow its Balance Sheet. Whilst savers sought higher interest rates (relative to previous years) the Bank was able to successfully pass on the increase in funding costs and improve its net interest income.

Net fees and commissions moved into a payable position in the financial year because of the non-recurrence of a one-off income amount received in FY24 of £1.6m from the sale of a legacy portfolio. The payable position was also driven by an increase in the costs associated with the Motor portfolio which continued to grow across FY25 as that portfolio scaled. Mitigating some of the reduction in Net Operating Income, the Bank has continued to manage costs closely. Costs reduced in the year as the Bank was able to reap the benefits of a restructuring exercise that was concluded early within the financial year. The variable pay award was also removed given a continuance of the overall loss-making position. Offsetting some of the cost synergies achieved was an increase in impairment losses which can be attributed to the growth in the Motor portfolio and a migration to Stage 3 for a small number of legacy Real Estate Finance loans. Through the year the macro economic outlook also deteriorated and this generated a provision coverage increase across each of the lending portfolios contributing to the increased impairment charge. The Bank is targeting a return to an Operating Profit position during FY26. An overview of the Bank's financial performance is provided below:-

Income statement

	2025 £m	2024 £m (Restated)
Interest revenue calculated using the EIR method	122.9	109.4
Interest expense calculated using the EIR method	(81.1)	(69.7)
Net interest income	41.8	39.7
Net fee and commissions (expense)/income	(2.6)	1.7
Investment income	0.6	0.5
Net operating income	39.8	41.9
Administration expenses	(33.7)	(36.4)
Depreciation and amortisation	(3.1)	(2.9)
Impairment losses	(6.5)	(2.2)
Operating (loss)/profit	(3.5)	0.4
Losses arising from the derecognition of financial assets managed at amortised cost	-	(1.0)
Other fair value losses	(2.3)	(1.5)
Loss before taxation	(5.8)	(2.1)

Income statement KPI's

	2025	2024
Net interest income	£41.8m	£39.7m
Average total assets	£2,065.7m	£1,915.5m
Net interest margin <sup>1</sup>	2.0%	2.1%
Cost to income ratio <sup>2</sup>	84.7%	86.9%

<sup>1</sup> Net interest margin: net interest income / average total assets  
<sup>2</sup> 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 growth seen in net interest income of £2.1m or 5.3% (2024: £0.3m or 0.8%). This growth includes £6.2m from the Motor portfolio which continued to scale as the Bank entered into its second year of lending in the Motor Finance Sector. Net interest income growth was also achieved in the Bank's other lending operations with both the Real Estate Finance and Retail portfolios able to grow their Net interest income by £2.4m and £1.9m respectively from FY24.

Net interest income from lending operations during FY25 totalled £37.2m (FY24: £26.7m). The overall growth in Net 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 £4.6m of Net interest income in FY25 (FY24: £13.0m). The net result of these movements saw Net interest income margin remain relatively flat at 2.0% for the year (FY24: 2.1%).

• Chief Finance Officer’s Report (continued)

Cost to income ratio

The cost to income ratio decreased from 86.9 % to 84.7% during the financial year. Despite the reduction in net operating income, the cost savings previously mentioned helped to drive the improving ratio. The ongoing delivery of the Bank’s strategic plan will ensure we continue to focus on improving the ratio in future years. However, it is expected that future improvements in the ratio will be predominately income driven.

Administrative expenses

Administrative expenses decreased by £2.7m (2024: £1.1m increase) or 7.4% (2024: decrease 3.1%). Following the restructuring activity, average headcount fell from 321 to 288 during the year, with staff costs accounting for £2.4m of the overall administration expenses decrease. Of this decrease, £1.3m arose from the removal of the variable pay award. All colleagues were awarded a 3% pay increase in November 2024. Approximately 10% of the workforce left the Bank in November 2024 as part of a restructuring programme with the cost benefit of this restructuring now evident in FY25. Further one-off restructuring costs were incurred in the final quarter of FY25 of £1.2m. The Bank continues to assess its operating model to ensure it aligns with the capabilities necessary to successfully execute the strategy.

Expected credit losses (“ECL”) and write offs

	Charge for year 2025 £m	ECL provision at 2025 £m
Retail	(0.5)	0.9
Real Estate	(1.4)	5.5
Motor	(4.6)	7.4
Total	(6.5)	13.8

The Expected Credit Loss (ECL) charge, including write offs, increased to £6.5m in the year (FY24: £2.2m) as the Motor portfolio grew into its second year of lending. Motor generated an ECL charge of £4.6m (2024: £3.1m) which largely relates to Stage 1 assets that are up to date at the Balance Sheet date. Following a provision release in FY24 of £0.7m (following the work-out of a number of defaulted loans), the Real Estate Finance ECL charge increased to £1.4m in the year as a result of a deterioration in the value of secured collateral. Across each of the lending portfolio's, the ECL coverage requirements increased across the financial year as the macro economic outlook worsened.

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

During the year 2 (2024: 8) reversion properties that were held for sale at the prior year Balance Sheet date were sold triggering £0.7m (2024: £0.7m) of fair value losses further to a fair value loss on the retirement mortgage portfolio of £0.4m (2024: £0.1m gain). Fair value losses on interest rates swaps of £1.2m (2024 £0.9m) accounted for the remaining portion of the charge.

Divisional performance

Year ended 30 September 2025	Real Estate £m	Retail £m	Motor £m	Other £m	Total £m
Interest revenue	18.3	64.5	15.4	24.7	122.9
Interest expense	(11.2)	(44.2)	(5.6)	(20.1)	(81.1)
Net interest income	7.1	20.3	9.8	4.6	41.8
Net fee and commission income/(expense)	-	0.4	(3.5)	0.5	(2.6)
Investment income	-	0.6	-	-	0.6
Administrative expenses (including amortisation and depreciation)	(1.7)	(8.0)	(0.1)	(27.0)	(36.8)
Impairment losses on loans and advances to customers	(1.4)	(0.5)	(4.6)	-	(6.5)
Operating (loss)/profit FY25	4.0	12.8	1.6	(21.9)	(3.5)

Year ended 30 September 2024 (restated)	Real Estate £m	Retail £m	Motor £m	Other £m	Total £m
Interest revenue	15.8	59.3	5.8	28.5	109.4
Interest expense	(11.1)	(40.9)	(2.2)	(15.5)	(69.7)
Net interest income	4.7	18.4	3.6	13.0	39.7
Net fee and commission income/(expense)	-	2.8	(1.1)	-	1.7
Investment income	-	0.5	-	-	0.5
Administrative expenses (including amortisation and 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

Real Estate Finance

Despite the Real Estate Finance portfolio contracting in the year, net interest income grew by £2.4m (FY24: £2.0m) as interest margins were improved on the new business written. Direct cost savings were also achieved because of the restructuring mentioned.

Retail

Retail Net interest income increased by £1.9m (2024: £5.0m) on the prior year as Balance Sheet lending growth helped to offset a contraction seen in net interest margin. The growth achieved in Net Interest Income helped to offset the non-reoccurrence of a one-off income receipt of £1.6m received from a third party for the 'buy-out' of a future income stream relating to a legacy portfolio in FY24. Retail lending operations also benefited from a reduction in direct costs from the cost saving initiatives referred.

Motor

As Motor operations moved into their second year of lending, Motor Receivables grew by c.90% helping to drive a £6.2m increase in net interest income. The portfolio growth also generated a £2.4m increase in the fees and commission costs associated with running the portfolio.

Motor incurred a £4.6m (2024: £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 Finance and 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 Bank’s trading segments was partially offset by a reduction in net interest income relating to treasury instruments which declined by £8.4m (2024: £6.3m) in the year. There was minimal growth in recurring indirect costs given the cost control measures that were in place across the financial year with most of the cost synergies gained in the direct costs associated with the Real Estate Finance and Retail portfolios.



• Chief Finance Officer’s Report (continued)

Balance Sheet overview

	2025 £m	2024 £m	% Change
Liquid assets <sup>1</sup>	241.1	254.2	(5.2)
Loans and advances to customers	1,839.7	1,699.3	8.3
Investment properties	0.2	1.5	(86.7)
Other assets <sup>2</sup>	41.6	53.8	(22.7)
<b>Total assets</b>	<b>2,122.6</b>	<b>2,008.8</b>	<b>5.7</b>
Deposits from banks	67.0	167.7	(60.0)
Deposits from customers	1,860.3	1,639.4	13.5
Other liabilities <sup>3</sup>	15.5	18.5	(16.2)
Share capital and reserves	179.8	183.2	(1.9)
<b>Total equity and liabilities</b>	<b>2,122.6</b>	<b>2,008.8</b>	<b>5.7</b>

1 Liquid assets: made up of Cash and balances held at central bank, Government bonds, Debt securities, Loans and advances to financial institutions  
2 Other assets: made up of Intangible assets, Property and equipment, Deferred tax assets, Pension assets, Derivative financial instruments and others  
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 the growth in the Motor portfolio fuelled by new lending of £131.7m (FY24: £108.3m). Growth was also supported by the Retail portfolio with gross new lending of retail mortgages of £188.3m (2024: £195.2m). Growth across Motor and Retail helped to offset a modest contraction seen in the Real Estate Finance portfolio. Despite new lending of £69.1m (FY24 £51.2m) the Real Estate Finance portfolio shrunk as several legacy exposures matured and new lending in the first half of FY25 fell below expectations.

Liquidity

The Bank holds liquid assets to meet its financial obligations in both business-as-usual and stressed situations. On 30 September, the Bank held £225.6m of regulatory liquid assets (2024: £239.5m) which are available to protect it from liquidity stresses. This figure is computed in accordance with Prudential Regulatory Authority rules and includes a "haircut" against the value of debt securities.

Liquidity levels remained within Board risk appetite and regulatory requirements throughout the year which ensures that sufficient high-quality liquid assets ("HQLA") are held to survive a short term severe but plausible liquidity stress. This is monitored by way of the Liquidity Coverage Ratio ("LCR"). The Bank's LCR at 30 September 2025 was above the regulatory minimum of 100% at 310.7% (2024: 274.0%). The Bank's average LCR throughout the financial year was 331.3% (2024: 234.0%).

Funding

Retail savings remain a primary funding source, with savings balances increasing to £1,860.3m (2024: £1,639.6m). The Bank was also a participant of the Bank of England's TFSME scheme with balances reducing to £NIL (2024: £155.0m) by the end of FY25. In FY25 the Bank made use of the Bank of England's Indexed Long-Term Repo ("ILTR") scheme drawing £60m (2024: £NIL) of short term funding.

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.

On 30 September 2025, the defined benefit scheme had a surplus (the difference between scheme assets and scheme liabilities) of £0.9m (2024: surplus of £0.2m). The scheme recorded an actuarial gain of £0.7m (2024: actuarial gain of £1.7m).

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 2025 the Bank's CET1 ratio stood at 17.5% (2024: 19.8%). The average CET1 ratio throughout the financial year was 19.2% (2024 21.6%).

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 2025 was 8.1% (2024: 8.4%). The average leverage ratio throughout the financial year was 8.6% (2024 9.7%).

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  
8 December 2025





# Long-term viability statement

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.

**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, Motor Finance and Real Estate Finance lending businesses. This enables our services to be provided in a capital-effective way allied with our track record in attracting funding from wholesale and retail funding sources.

We assess our prospects on a regular basis through our financial planning process. Our rolling five-year strategy forecasts the Bank's profitability, cash flows, capital and funding requirements and is reviewed by the Board each year.

Our business and financial planning considers 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 Finance 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 allow the Bank to widen its customer base. Our commitment to ensuring that customers can deal with us efficiently 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 prospects.

**Impact of Global Conflicts & Cost of living crisis**

The numerous overseas conflicts cOverseas conflicts continue to persist in Ukraine and the Middle East, both of which pose 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 has increased as inflation is above the Bank of England target of 2%.

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.
- Liquidity stress tests are conducted as part of the Bank's ILAAP. The ILAAP demonstrates that the Bank holds sufficient liquid assets to meet cash outflows during a severe-but-plausible scenario where there is a combined market-wide and firm specific stress.
- The review also considered all aspects of emerging regulation where there is sufficient clarity to inform the analysis. For example, the assessment of the Bank's capital position reflects the latest understanding of the capital buffer and leverage requirements likely to be imposed on the Bank.

Based on this assessment, the Board confirms that it has a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due over the course of the five-year planning horizon.



**Graeme Hughes**  
Chairman  
8 December 2025

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# 2 Governance



# Corporate Governance

The Board’s agenda during the year was focused on overseeing and supporting executive management to deliver on the Bank’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 for financial years beginning on or after 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 have regard for the Code 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 a representative from internal audit attends each meeting to present a summary of audit reports completed during the period and to provide any explanations required by the Committee.

## Governance framework

### The Board

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

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

A board control manual has been adopted which describes the high-level policy and decision-making arrangements within the Bank. The manual includes a schedule of matters

reserved to the Board together with those items delegated to Directors and Board and executive committees. Details of the members of the Board are set out below.

### Graeme Hughes – Chair

Graeme joined the Board in 2019 and was appointed Chair in May 2020. He is also Chair of the Nomination Committee. 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 Chair of the Audit Committee. John was previously Managing Director of Treasury at ICBC Standard Bank, a 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 also non-executive director at S&U PLC.

### 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 30-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 Acting 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 normally meets at least four times per year. A report from the Innovation and Change Committee can be found on page 33.

Special Committee:

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

The members of the Special Committee are comprised of the Chair of the Board Risk Committee and the Chair of the Board as non-executive directors, and together with one of the executive directors to effect decision making.

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	10	10	-	-	9	9	4	4	4	4	3	3	4	4
John Barbour	10	10	6	6	9	6	4	3	-	-	-	-	-	-
Penny Bickerstaff	10	9	6	6	9	9	4	4	4	4	3	3	-	-
Aileen Wallace	10	10	6	5	9	7	4	4	4	4	3	3	-	-
Iain Laing	10	9	6	6	9	9	-	-	4	4	-	-	4	4
Graham Wheeler	10	10	6	6	9	9	-	-	-	-	-	-		
David Landen	10	10	-	-	-	-	-	-	-	-	-	-	3	3
Jan Preece	10	10	-	-	-	-	-	-	-	-	-	-	1	1

(a) Number of meetings held during the year ended 30 September 2025 at which a director was entitled to attend.

(b) Number of meetings attended.





# Risk Management Report

The Bank's business model continues to centre on deposit gathering and specialist lending, primarily secured against residential property, serving both Retail and Real Estate Finance customers across the UK. During the year, the Bank has further developed its motor finance proposition, which was introduced in the prior year through a third-party partnership. Lending portfolios are being managed for measured growth, with a continued focus on maintaining sustainable margins and prudent risk management.

The Bank's savings franchise has built on the successful launch of its new digital savings platform, expanding the range of products and enhancing the customer experience through this channel. This digital capability supports the Bank's strategy to diversify and grow its funding base efficiently.

In parallel, the Bank is progressing a series of strategic initiatives designed to improve operational efficiency, scalability, and resilience. These changes are aligned with the Bank's long-term ambition to deliver sustainable growth, enhance customer outcomes, and strengthen its competitive position in the UK financial services market.

The macroeconomic environment continues to present a multifaceted risk landscape for the Bank, shaped by interest rates slightly elevated from forecasts, subdued growth, and cost-of-living pressures through embedded inflation. Asset quality remains robust across key portfolios, including Real Estate lending and residential mortgages, supported by prudent underwriting standards and active portfolio monitoring.

Both lending and deposit-taking continue to be re-priced to reflect the changing interest rate environment. Regulatory developments in 2025 have not eased with alongside the ongoing Basel 3.1 and Small Domestic Deposit Takers (SDDT) consultations, the proposed reforms of mortgage affordability rules, depositor protection changes and potential amendments to Senior Managers & Certification Regime (SM&CR). The Bank is actively horizon scanning and aligning its frameworks to ensure readiness and responsiveness to these evolving expectations.

While the Bank's operations are primarily focused within the United Kingdom, the Directors acknowledge that ongoing global developments—including geopolitical tensions and regional conflicts—have the potential to influence global financial markets. These external factors may indirectly affect domestic economic conditions, which in turn could impact future business volumes or the ability of customers to meet their contractual obligations. The Directors continue to monitor these developments closely and will take appropriate action as required, including ensuring full compliance with applicable UK legislation and sanctions.

The business model has a medium to low risk profile due to the straightforward products we offer and being focused solely on the UK market. The Bank's risk appetite accommodates measured exposure to macroeconomic volatility, supported by strong governance and a proactive approach to risk oversight ensuring managing risk is fundamental to our strategy.

**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 credit risk.
- Embedding and maturing the management of financial risks of climate change.
- Continued developments across the risk management framework through;
  - improvements to risk reporting to executive and Board level risk committees;
  - development and refinement of risk appetite calibrations and qualitative articulation of risk appetite postures;
  - implementation and assessment of a more comprehensive Risk Culture and Governance framework;
  - embedding Board attestation of Hodge's annual Consumer Duty report together with continued work of embedding Consumer Duty into every aspect of the Bank.

**Risk Culture**

The Bank is committed to maintaining a strong and transparent culture of risk awareness and control. This culture is embedded across the organisation through our Enterprise Risk Management Framework (ERMF), which ensures that risks—both current and emerging—are actively identified, monitored, and managed.

Our approach is built on clearly defined roles and responsibilities, a structured governance model, and a shared understanding of our risk appetite. All colleagues receive ongoing training and support to build risk competence and uphold the behaviours expected in a risk-aware organisation.

We foster a culture of openness and challenge, where issues are raised early and addressed constructively.

The Board plays a vital role in promoting this environment, ensuring that risk management is aligned with our strategic objectives and supports good customer outcomes.

In 2024, we strengthened our approach through the development of a dedicated Risk Culture and Governance Framework. This framework provides a clear structure for assessing and embedding risk culture across Hodge and will continue to evolve as we mature in this area. Our focus remains on ensuring long-term sustainability, regulatory compliance, and delivering value to our customers.

Three Lines of Defence Model
The Bank operates a well-established three lines of defence model to ensure effective risk management and oversight across the organisation. This model provides clarity of roles, promotes accountability, and supports a strong risk-aware culture.
First Line of Defence – Day-to-Day Risk Management
- The first line comprises all colleagues, including executive committees, management, and staff. They are responsible for implementing the Bank's strategy and managing risks within their areas of accountability. This includes designing and operating controls, identifying and reporting risks, and ensuring compliance with policies and procedures.
Second Line of Defence – Risk Oversight
- The second line is led by the Risk and Compliance function, which provides independent oversight, guidance, and challenge to the first line. Headed by the Chief Risk Officer (CRO), this function supports the development and embedding of risk frameworks, monitors risk indicators, and facilitates risk reporting. The CRO reports to the CEO and has an independent reporting line to the Chair of the Board Risk Committee, ensuring independence, transparency and objectivity.
Third Line of Defence – Internal Audit
- The third line is provided by Internal Audit, which delivers independent assurance on the effectiveness of governance, risk management, and internal controls. This function is outsourced to Deloitte. The Internal Audit function is independent from the business and is directly responsible to the Chair of the Audit Committee with a day-to-day administrative reporting line to the Chief Executive. The Internal Auditors have free and unrestricted access to the Chair of the Board, the Chair of the Audit Committee and the Chief Executive.

Together, these three lines work in coordination to support the Bank's strategic objectives, safeguard customer outcomes, and uphold regulatory standards.



• Risk Management (continued)

Risk Governance Structure

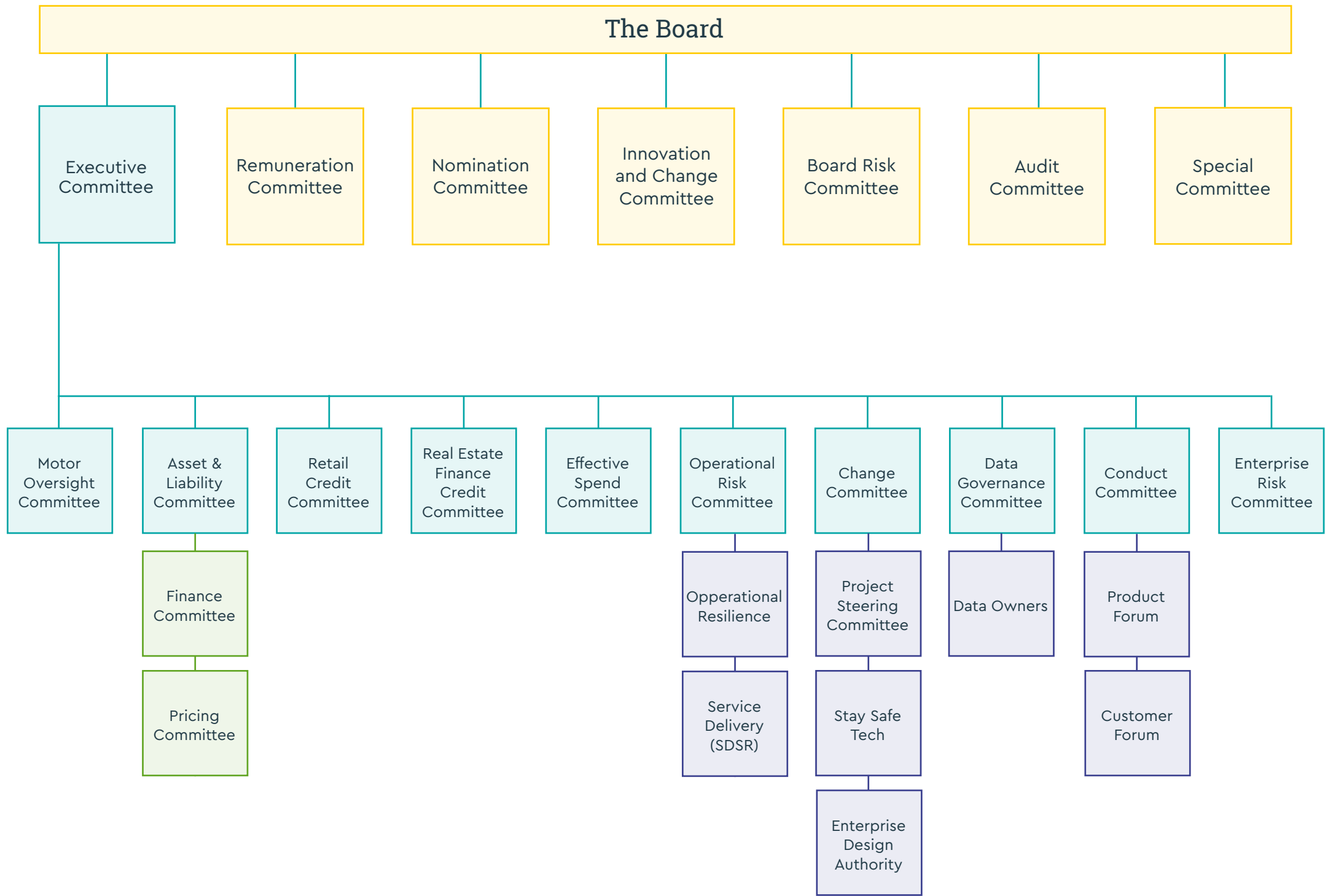
The Bank's governance structure is aligned to the three lines of defence model ensuring that risk is managed at every level of the Bank.

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 the 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 People 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 Executive 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. ALCO delegates responsibility to :-

- the Finance Committee for review and challenge of significant accounting policies and the judgements within;
- to the Pricing Committee who monitor and manage risks in relation to funding, liquidity and Interest Rate Risk derived from business activities.

**Retail Credit 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.

**Real Estate Finance Committee** is chaired by the Head of Real Estate Finance. 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.

**Data Governance Committee** is chaired by the Chief Executive Officer. The Committee is newly created this year with a core objective to develop and mature the Bank's data governance.

Risk Strategy

The Bank's Risk Strategy outlines the approach to risk management in support of its strategic ambitions. It specifies which risks will be avoided, mitigated, or accepted and is implemented by defining risk tolerances through its risk appetite. The Risk Strategy also assesses the Bank's maturity level against its Risk Management Framework to identify areas for improvement in 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 defines the level of risk the Bank is willing to accept or avoid through a risk appetite statement, which includes both qualitative and quantitative measures addressing each key risk type identified in the Risk Strategy. These statements are reviewed annually to ensure alignment with the Bank's strategy and are supported by a suite of risk metrics, limits, and triggers designed to monitor exposure to principal risks. These parameters outline the operational boundaries within which the Bank functions.

The risk appetite statement is not merely a static reporting tool; it provides a framework for assessing all strategic and operational business decisions. Consistent language is used to articulate the risk appetite statements, ensuring clarity and coherence.

• 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
<b>Macro-economic/political environment</b> <i>Stable Risk versus prior year.</i> The Bank remains exposed to UK macroeconomic volatility, primarily through its lending portfolios. While inflationary pressures have eased and rates have decreased over the year, which has potential to ease affordability pressures the economic outlook remains uncertain. Arrears have remained broadly stable, but provisioning has increased due to a worsening macro economic outlook.	The Bank’s strategy incorporates sensitivities to key assumptions, enabling it to assess the potential impact of economic downturns. More severe scenarios are explored through the ICAAP and ILAAP, which demonstrate the Bank’s ability to remain resilient under stress. The Recovery Plan outlines mitigating actions should adverse conditions materialise. Early warning indicators are monitored regularly, with economic developments reviewed at ALCO and Board Risk Committee. Lending portfolios are actively overseen at both executive and business levels to identify and respond to emerging risks. In-depth portfolio reviews are conducted throughout the year and presented to senior committees to assess trends and inform decision-making. Credit policy is continuously reviewed to reflect current and anticipated risks, and financial crime activity is closely monitored to ensure appropriate controls remain effective.
<b>Market/competitive environment</b> <i>Stable risk versus prior year</i> The evolving interest rate landscape continues to influence customer behaviours and financial service expectations. Emerging technologies, new market entrants—both traditional and non-traditional—and the ongoing search for yield present potential challenges to the current business model and strategic delivery.	We continuously monitor customer needs and the competitive landscape, integrating insights into strategic planning. Competitor benchmarking and industry forums inform our understanding of potential market movements. Strategic initiatives are governed through robust market research and product development processes. Recent actions have simplified our business model and enabled the exit of non-core assets. The strategy is reviewed annually to evaluate market positioning, emerging risks and opportunities, and the resilience of our operating model.
<b>Change Delivery &amp; Execution risk</b> <i>Stable risk versus prior year</i> 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 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
<b>Cyber/Fraud threat</b> <i>Increasing risk versus prior year</i> Cyber and fraud threats remain significant across all sectors. Attack sophistication continues to evolve facilitated in part by AI, increasing the risk of security vulnerabilities if defences are not maintained and enhanced. Key threats include: <ul style="list-style-type: none"><li>- Compromised customer accounts</li><li>- Authorised Push Payment (APP) fraud</li><li>- Security vulnerabilities</li><li>- Ransomware</li><li>- Third-party attacks</li><li>- AI-enabled threats</li></ul>	The Bank continues to strengthen its cyber security controls and align with the National Institute of Standards and Technology framework to address the evolving threat landscape. This includes enhancing fraud prevention measures and collaborating with UK industry schemes to protect both the Bank and its customers. To mitigate potential impacts, the Bank maintains cyber risk insurance and is assessing the suitability of APP fraud cover. Market challenges around the cost and availability of cyber insurance are being closely monitored to ensure adequate protection is maintained. Regular testing is conducted to identify and remediate vulnerabilities, reinforcing the resilience of the control environment.
<b>Climate Change risk</b> <i>Stable risk versus prior year</i> Climate change and society’s response remain global priorities, with our understanding and approach continuing to evolve. Financial risks arise through two main channels: <ul style="list-style-type: none"><li>- Physical risks – from weather-related events and asset damage</li><li>- Transition risks – from regulatory and policy changes linked to the shift to a low-carbon economy.</li></ul>	ESG considerations, particularly climate risk, are increasingly embedded in the Bank’s strategic planning and risk management. As a rapidly evolving area, climate change presents both risks and opportunities in achieving firm-level and global targets. Delays in government policy and ambition heighten transition risk, potentially leading to more abrupt regulatory responses. This year, the Bank partnered with Watershed to enhance emissions assessments and deepen understanding of physical and transition risks, supporting the measurement and management of climate-related financial exposures. Climate risks are addressed through the ICAAP and inform broader strategic and business model decisions. Senior management is allocated the responsibility for overseeing transition risks, including legal and regulatory aspects, and ensuring their integration into the Risk Management Framework.
<b>Third-Party and Supply Chain Risk</b> <i>Increasing risk versus prior year</i> Increasing reliance on external providers, particularly in technology and cloud services, introduces concentration and operational risks that require enhanced oversight.	The Bank continues to assess operational resilience and continuity tests that incorporate suppliers. We continue to integrate third party oversight into overall risk governance and understanding concentrations on vendors particularly as it presents in cloud providers. This risk links in with the Cyber threat noted above.

Other Risks of note

- **Artificial Intelligence** – presents both risk and opportunity. The Bank is developing safe operating frameworks for internal and third-party AI use, while monitoring industry developments and the growing sophistication of malicious AI applications.
- **Data Integrity and Governance** – as digital operations scale, ensuring data quality, lineage, and control is critical to effective risk management and decision-making.
- **Operational Resilience and Important Business Services (IBS)** – regulatory expectations around resilience, impact tolerances, and scenario testing are driving a more structured approach to continuity planning and customer harm mitigation.

The Bank continues to monitor emerging risks through regular horizon scanning, ensuring early identification and integration into the Risk Management Framework.



• 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.

<b>CREDIT RISK</b> – The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument on time. Credit risk also encompasses concentration risk and underwriting risk.	
Key drivers and appetite	Our approach
Credit risk emerges from retail lending exposures, residential mortgages and motor finance loans to retail customers and from investments held by the Treasury function. Concentration risks within and across these portfolios is also considered. Hodge is willing to be exposed to a moderate level of risk for an acceptable return.	<p>The Bank manages credit risk across four key categories:</p> <ul style="list-style-type: none"><li>- <b>Retail Credit Risk:</b> Risk of loss from residential mortgages due to customer default;</li><li>- <b>Motor Finance Credit Risk:</b> Risk of loss from motor finance receivables due to customer default;</li><li>- <b>Real Estate Credit Risk:</b> Risk of loss from Real Estate lending due to customer default or adverse movements in property values;</li><li>- <b>Treasury Credit Risk:</b> Risk of loss from issuer or counterparty default, or deterioration in credit quality affecting investment value.</li></ul> <p>Dedicated first line risk management is provided by skilled credit and treasury professionals within each business line. Lending product pricing incorporates expected credit loss margins, and treasury counterparties are limited to well-rated institutions.</p> <p>Mitigation measures include:</p> <ul style="list-style-type: none"><li>- Approved underwriting policies and authorisation mandates for each risk category;</li><li>- Use of rating and scoring systems, supported by affordability stress testing;</li><li>- Risk appetite limits to manage concentration risk across exposures, sectors, and geographies;</li><li>- Ongoing monitoring by qualified staff within Board-defined parameters;</li><li>- Portfolio-level stress testing and scenario analysis.</li></ul> <p>These practices ensure credit risk is managed prudently and in line with the Bank's strategic objectives and regulatory expectations.</p>

<b>FINANCIAL RESILIENCE RISK</b> – 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
<p>Financial resilience risk arises from changes to the respective resources (i.e. capital, 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.</p> <p>Hodge 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.</p>	<p>The Bank assesses its financial resilience across three key risk categories:</p> <ul style="list-style-type: none"><li>- <b>Capital Risk:</b> The risk of insufficient capital to meet regulatory requirements, absorb losses, and maintain stakeholder confidence through economic cycles;</li><li>- <b>Liquidity Risk:</b> The risk of being unable to meet financial obligations as they fall due, or doing so only at uneconomic cost, potentially undermining customer and market confidence;</li><li>- <b>Market Risk:</b> The risk of adverse movements in market rates affecting the value or income of assets and liabilities. Interest rate risk is a key sub-category.</li></ul> <p>Responsibility for day-to-day management of financial resilience rests with Treasury &amp; Regulatory Finance, operating within Board-approved policies and limits. Mitigation measures include:</p> <ul style="list-style-type: none"><li>- Regular monitoring and forecasting of key metrics across capital, liquidity, and interest rate risk;</li><li>- Stress testing to ensure adequacy of capital and liquidity under adverse conditions;</li><li>- Maintenance of high-quality capital surplus and a buffer of liquid assets;</li><li>- Alignment of asset and liability maturities to manage funding risk;</li><li>- Portfolio composition and funding structures managed in line with policy;</li><li>- Natural hedging of interest rate exposures, supplemented by derivatives where appropriate;</li><li>- Embedded regulatory assessments through ICAAP, ILAAP, and the Recovery Plan;</li><li>- Contingency and recovery plans to support resilience under stress.</li></ul> <p>These measures collectively support the Bank's ability to withstand financial shocks and maintain operational continuity.</p>

<b>STRATEGIC RISK</b> – The risk of significant loss or reputational damage that affects the sustainability of the Bank arising from inappropriate culture and governance incorrect decisions or assumptions made in setting and executing the strategy, and/or from an inability to adapt to external developments.	
Key drivers and appetite	Our approach
<p>Strategic risk can arise from changes to the business model and also the risk of the business model or strategy proving inappropriate due to macroeconomic, political, regulatory or other impacts. The risk of inappropriate culture and governance also gives rise to a strategic risk. The risk to delivery of the strategy is deemed to be the principal risk. This category includes the risks from climate change and legal and regulatory changes due to impact across all risk categories.</p>	<p>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.</p> <p>Horizon scanning is conducted to identify emerging regulatory and legal developments to ensure that the business can respond appropriately. This is supported by a Horizon scanning working group with representatives from across the business.</p>



• Risk Management (continued)

**OPERATIONAL RISK** – The risk of financial loss, adverse customer and employee impacts, reputational events, and regulatory breaches resulting from inadequate or failed internal processes, people and systems, or from external events.

Key drivers and appetite	Our approach
<p>Operational risk is an inherent part of the Bank's activities, arising from its people, processes, systems, and external environment. The Bank seeks to mitigate these risks to acceptable levels through robust controls and governance. Operational risk is assessed across nine core sub-categories:</p> <ul style="list-style-type: none"><li>• Data &amp; Information: Risk of loss due to reporting errors, modelling inaccuracies, or poor data governance.</li><li>• Financial Crime: Risk of loss from fraud, misappropriation, or regulatory breaches.</li><li>• People: Risk from ineffective management of human resources impacting service delivery.</li><li>• Infrastructure &amp; Resilience: Risk of loss from technology failures or inadequate resilience controls.</li><li>• Security: Risk to the confidentiality, integrity, or availability of data and services.</li><li>• Change: Risk from unsuccessful delivery of strategic change or poor implementation controls.</li><li>• Third Party: Risk from outsourced services failing to meet required standards, causing disruption or financial loss.</li></ul> <p>Operational risk is managed by skilled first line teams across business units, supported by defined policies, controls, and oversight mechanisms. The Bank maintains a proactive approach to identifying, assessing, and mitigating operational risks to ensure continuity and protect customer outcomes.</p>	<p>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.</p> <p>Oversight on operational risk is provided by committees and governance forums.</p>

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

Key drivers and appetite	Our approach
<p>Conduct risk is inherent in any business that provides products or services to customers. Failing to 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: Consumer Understanding, Price &amp; Value, Product &amp; Services and Consumer Support.</p>	<p><b>Consumer Understanding</b></p> <p>All retail lending products are distributed via independent brokers to ensure customers receive impartial advice. Deposits and Real Estate lending products are offered on an execution-only basis. Product literature is subject to approval processes to ensure clarity, fairness, and regulatory compliance. Oversight of distribution and sales is provided by the Conduct Committee.</p> <p><b>Price &amp; Value</b></p> <p>Products and services are priced to reflect fair value for customers. Pricing and associated fees are reviewed on a risk-based basis to ensure continued value for money.</p> <p><b>Products &amp; Services</b></p> <p>The Bank's Product Governance Framework ensures products are designed with customer needs in mind, including consideration for vulnerable customers. Product reviews are conducted on a risk-based approach, and service performance is monitored using customer feedback to support good outcomes.</p> <p><b>Consumer Support</b></p> <p>Customer journeys are mapped across the product lifecycle to ensure appropriate support. Services are tailored to meet the needs of vulnerable customers. Complaints are analysed for root causes, and a training and competency framework supports high standards of customer service.</p>

Approach to Resilience

The Bank's resilience framework integrates financial, operational, and strategic dimensions of risk management to ensure the organisation remains robust and responsive to adverse developments. This includes stress testing, recovery and resolution planning, operational resilience, and solvent exit planning.

Stress Testing and Planning

Stress testing and scenario analysis are core components of the Bank's Risk Management Framework. These tools assess vulnerabilities under a range of hypothetical and historical scenarios, including multi-risk category stress events, idiosyncratic financial shocks, and operational and conduct risk scenarios. Regulatory-prescribed scenarios are also incorporated to ensure alignment with supervisory expectations.

Stress testing informs the Bank's annual business planning, risk appetite development, and the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). These assessments are updated annually or following any material change in the business model or risk profile. Reverse stress testing is also conducted to identify scenarios that could render the Bank's business model unviable, thereby informing contingency planning and strategic adjustments.

Where scenarios indicate risks beyond acceptable thresholds, the Bank implements mitigating actions such as strategic pivots, enhanced controls, early warning indicators, or contingency funding arrangements.

Recovery, Resolution and Solvent Exit Planning

The Bank maintains a Recovery Plan in accordance with the Bank Recovery and Resolution Directive. This plan outlines a structured response to internal or external events that could threaten the Bank's capital or liquidity position. It includes a menu of management actions designed to restore stability and prevent failure, informed by the outcomes of stress testing and scenario analysis.

The Recovery Plan is reviewed annually and tested through desktop exercises to ensure operational readiness. It is closely aligned with the Bank's Business Continuity Plan and includes early warning and invocation triggers to provide sufficient lead time for intervention.

In the event that recovery is not feasible, the Resolution Plan provides the Prudential Regulation Authority (PRA) with the necessary data to facilitate a rapid and orderly resolution; while preserving any critical functions the Bank provides to the UK economy.

In addition, the Bank has developed a Solvent Exit Plan to ensure that, should the Board determine that an orderly wind-down of operations is required, it can be executed in a manner that protects customer interests, maintains regulatory compliance, and preserves value. The Solvent Exit Plan outlines the steps necessary to cease operations while remaining solvent, including the disposal of assets, settlement of liabilities, and communication with stakeholders. It complements the Recovery and Resolution Plans by providing a structured pathway for voluntary exit under controlled conditions.

Operational Resilience

In response to evolving regulatory expectations, the Bank has significantly enhanced its operational resilience framework. This includes detailed assessments of critical business services and supporting processes to identify potential disruptions—such as cyber-attacks or site unavailability—and to allocate resources effectively.

Since 2022, the Bank has undertaken a structured programme to mature its operational resilience methodology, incorporating external benchmarking and scenario testing. These tests have helped identify vulnerabilities and inform remediation programmes to ensure that impact tolerances for important business services are not breached.

This programme transitioned from a project-led initiative to business-as-usual operations in late 2024, ahead of the final regulatory deadline in March 2025. Operational resilience, when combined with financial resilience planning, forms a holistic framework that enables the Bank to assess and manage resilience across multiple dimensions and scenarios.



• Risk Management (continued)

Climate Change Risk Management

During 2024/25, the Bank continued to embed climate change risk management into its enterprise-wide Risk Management Framework. Climate risk is now assessed alongside other principal risks through the ICAAP, with defined risk appetite metrics and governance outlined in the Climate Risk Policy.

Climate Risk Exposure

The Bank is exposed to three key climate-related risks:

**Physical Risk:** Includes acute weather events and long-term climate shifts, such as flooding, subsidence, and coastal erosion. These may affect the value of collateral held against lending portfolios.

**Transition Risk:** Arises from the shift to a low-carbon economy, including regulatory changes, technological disruption, and evolving societal expectations. The Bank's current focus is on Energy Performance Certificate (EPC) migration, deemed the most material transmission channel.

**Conduct and Reputational Risk:** Linked to failing to meet stakeholder expectations or delivering poor customer outcomes in response to climate-related changes.

Risk Assessment Approach

The Bank partners with Ambiental to assess climate risk at the individual property level across its loan portfolios. These assessments inform ICAAP submissions and Board-level oversight. Physical risks are evaluated using Representative Concentration Pathway (RCP) scenarios aligned with industry standards, including RCP 4.5, 6.0, and 8.5, which project temperature increases through 2100.

Emissions Scenario		
RCP Scenario	Change in temperature (°C) by 2100	Net Zero
RCP 4.5 (Intermediate Stabilisation Scenario)	1.7 – 3.2	Not achieved by 2100
RCP 6.0 (Delayed Stabilisation Scenario)	2.0 – 3.7	Not achieved by 2100
RCP 8.5 (High Emission Scenario)	3.2 – 5.4	Not achieved by 2100

Flood, subsidence, and coastal erosion risks are modelled for present day, 2030, and 2060. For example, under RCP 8.5, 9% of properties are predicted to face high flood risk by 2030, though average LTVs remain below 50%, limiting financial exposure.

Transition risk is assessed via EPC ratings. In 2025, 65% (up 6% from last year) of properties had valid EPCs, with 32% (same as last year) of these are rated C or better. Of these, 83% (same as last year) have the potential to reach a C rating. The Bank also monitors transition risk in its partnership with Blue, which provides hire purchase lease assets for used vehicles—currently dominated by internal combustion engines. Transition to electric vehicles is expected to occur gradually.

Methodology

Physical risks are reflected in adjusted property valuations, impacting Loan to Value ("LTV") and Loss Given Default ("LGD") metrics. Transition risks are assessed using CBES guidance, factoring in renovation costs and valuation impacts. Given the low average LTVs and Energy Performance Certificates("EPC") profile, climate-related financial risks are currently deemed immaterial, and no adjustment has been made to expected credit losses.

Outcomes

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 Expected Credit Losses ("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.

Conclusion

Based on current assessments, the Bank's financial exposure to climate-related risks is considered low. Next year the Bank will continue to mature its assessment methodologies and engagement with regulators and industry peers to support best practice. Disclosures have been prepared on a proportionate basis and will evolve as the Bank's capabilities mature.







# Report by John Barbour

## Chair of the Audit Committee

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 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 the Bank; 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 Ernst & Young LLP, our external auditor, during the year.

**Audit tender**

One of the most significant new partnerships the Committee provided input to during the year was the tender process for the external auditor. Through the Audit Committee, regular updates were provided on progress throughout the external audit tender process which included approving the initial shortlist of firms that were to receive an ‘Invitation to Tender’. The shortlist was created based on analysis which considered the scale and expertise to support a banking audit and recent quality ratings from the annual FRC review cycle.

Following a review of the tender offers received, the firms that were taken forward to the next stage provided detailed presentations to relevant senior colleagues within the Group, which included Board members. Thereafter, a final proposal was presented to the Board and Shareholders in May and June 2025 where approval was given for Ernst & Young LLP to be reappointed as the Group external auditor from 1 October 2025.

**IFRS 9 impairment and PMA**

*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 of a post-model adjustment (“PMA”) is made.

“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.”

*Role of the Audit Committee*

The Committee gave careful consideration on 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 continued to monitor the volatility in the economic environment, it observed a mixed outlook, with the economy moving into a falling interest rate environment, but with a worsening GDP and inflation outlook. Finally, the Committee reviewed and challenged the appropriateness of PMAs for the retail, real estate and motor loan portfolios.

*Conclusion/action taken*

The Audit Committee approved the proposed changes in macro-economic forward indicators in the Retail model. In addition, the Committee concluded that the assumptions in the IFRS9 Real Estate and Retail models were appropriate with no PMA being required, noting that most fixed rate Retail loans were on post September 2022 interest rates.

In FY24 the Committee approved a modest motor PMA and approved to continue to hold a PMA in FY25 in recognition that the ECL model does not take into account a ‘loan curing’ period.

**Retirement Mortgages–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. Challenging the valuation assumptions for this asset class 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, with only a minimum update in the expense assumption proposed for FY25. The Committee challenged all assumptions in the model

*Conclusion/action taken*

The Committee approved the unchanged assumptions as well as the proposed expense change.

**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), the Bank’s assessment of liquidity (ILAAP) and a stressed view of the forecast. With respect to the preparation of the FY25 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 to provide the Board with assurance that it can make the statement recommended by the Financial Reporting Council’s Corporate Governance Code.

*Role of the Audit Committee*

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

*Conclusion/action taken*

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



• Report by John Barbour (continued)



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 2025, 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 considering 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 2025 were £NIL (2024: £NIL). This reflects a non-audit fee to audit fee ratio of 0%, the average for the last three financial years is 0%. 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 10th 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 conducted an audit tender during the financial year and reappointed EY.

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 Operational Resilience, Cyber Security, Real Estate Finance,

Financial Planning and Analysis model, Data Governance, Product Governance, Risk Culture, Responsible Lending, Operational Regulatory Reporting, Pricing and Conduct Risk. The Committee tracks the implementation of the recommendations of Internal Audit, in conjunction with Deloitte, and is satisfied that these are being implemented in a timely manner. 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 Bank. 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 that 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 Committee continues to encourage management to reduce the volume of manual internal controls and automate as many controls as possible to reduce operational risk, noting that improvements had been observed in the year.

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 was one Whistleblowing event notified to me during the year ended 30 September 2025. This was investigated, with the conclusion, following a comprehensive process, that no further action was warranted. (2024: NIL).

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. Accounting expertise on the Committee is 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 Bank 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 completed its annual self-assessment of its performance and concluded the changes in greater clarity with respect to Terms of Reference had been implemented effectively in the year. No other areas of concern were raised.



John Barbour  
Chairman of the Audit Committee  
8 December 2025





# Report by Iain Laing

## Chair of the Board Risk Committee

The Committee is mindful of the need for 1st line management to take responsibility for risk management, led by Hodge’s Executives.

**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 (including ILAAP, ICAAP, Recovery Plan, Solvent Exit Analysis and Consumer Duty Board Report).

**Committee Membership**

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

committees focusing on ICAAP, ILAAP, Recovery Plan, and Solvent Exit Analysis.

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. For example, committee members have held meetings with management focused

on the Consumer Duty Board report, the hedging of interest rate risks, potential investment in asset-backed securities, and the refinement of retail and real estate credit risk appetite and policy.

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 Solvent Exit Analysis, Consumer Duty, operational resilience and outsourcing. There has been specific focus this year on preparation and recommendation for approval of the Solvent Exit Analysis, along with continued maturity of the Consumer Duty Board report with a number of key actions delivered to strengthen the Bank’s conduct risk management systems, controls and MI.





• 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 2024/2025
<b>Oversight of the embedding of Consumer Duty (CD) into every aspect of the Bank, and completion of the follow-up action plan defined by management.</b>	<div><div></div><div><ul style="list-style-type: none"><li>- Good progress continues on the implementation of the CD action plan. Some actions extended during the year but at time of writing majority are on track for delivery by the revised deadlines.</li><li>- The Risk Committee and Board were satisfied that issues reported are tolerable and effective, timely action is underway</li><li>- Alignment of risk appetite to consumer duty outcomes.</li><li>- The second Consumer Duty Board report was produced and approved in July.</li></ul></div></div>
<b>Overseeing timely compliance with the PRA's Operational Resilience regulations</b>	<div><div></div><div><ul style="list-style-type: none"><li>- The final remaining aspects of the operational resilience regulation were put in place ahead of the deadline.</li><li>- Transition of Operational resilience to Business as Usual activity following the past years of project supporting achieving compliance with the regulation.</li></ul></div></div>
<b>Ensuring the embedding of effective operational, conduct and compliance risk management, following-up the Control Debt schedule defined in 2023/24.</b>	<div><div></div><div><ul style="list-style-type: none"><li>- Control debt framework update given to the Board Risk Committee ("BRC") in February.</li><li>- Outline of control debt in-flight also tabled at that meeting.</li><li>- Management have progressed high priority items within the control debt schedule. There are resource and capability constraints to mature control, and this effort must be balanced with responding to the Bank's strategic risks. A proportionate and pragmatic approach to reducing control debt has been adopted.</li></ul></div></div>
<b>Overseeing execution of the Bank's IT Change Programme to ensure that implementation risks are well managed and strategic benefits are realised.</b>	<div><div></div><div><ul style="list-style-type: none"><li>- Significant change projects have reached the implementation stage with benefits now being realised.</li><li>- More focused second line oversight is provided on the Bank's Change Programme. Focus on improving measurements of benefit realisation is provided by ICC.</li></ul></div></div>
<b>Continuing to track the Bank's Retail and Real Estate portfolio performance through the interest-rate cycle.</b>	<div><div></div><div><ul style="list-style-type: none"><li>- Several deep dives provided to BRC throughout the year.</li><li>- Focus on Real Estate resilience exercises looking forward for emerging risks.</li><li>- Build of motor portfolio credit monitoring for BRC and associated risk appetite.</li><li>- Continuous oversight of the legal and regulatory review of commission disclosure in auto-finance, and potential implications for Hodge.</li></ul></div></div>
<b>Embedding and maturing the management of financial risks of climate change.</b>	<div><div></div><div><ul style="list-style-type: none"><li>- Watershed onboarded and implementation through latter part of FY2024 to strengthen robustness of emissions assessments.</li><li>- Ambiental data has been re-run on the entire portfolio. Will be re-analysed on bi-annual basis going forward and due later this year.</li><li>- Maturity of climate change financial risk assessment model to be in line with Model Governance Policy expectations has been completed.</li></ul></div></div>
<b>Continuing development of the management information to support risk management across the business.</b>	<div><div></div><div><ul style="list-style-type: none"><li>- Current MI production very manual in nature with some tactical improvements made to improve integrity and timeliness of data.</li><li>- Improvements have been made on credit and consumer duty MI but they are yet to be finalised.</li><li>- Project on credit risk MI has been paused due to resource gap to test in Retail Credit risk, however, as noted above tactical improvements put in place to allow much better timeliness and consistency of MI production.</li></ul></div></div>

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
<b>Enterprise Risk Management</b>	<p>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 second line of defence for the Bank.</p>
<b>Frameworks &amp; policies</b>	<p>The Committee reviewed the 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).</p> <p>Following its introduction the previous year the Risk function demonstrated to the committee embedding of the Risk Culture and Governance Framework it had developed and the insight it had provided leading to some key action identified to allow incremental improvement.</p> <p>Following a prior year comprehensive risk appetite review, this year was an annual refresh to ensure appetite is still aligned to the strategy with a small number of improvements and revisions made.</p>
<b>Risk Management</b>	<p>The Committee received and challenged a review of the Risk function and a maturity assessment of risk management across the Bank.</p> <p>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.</p> <p>The Committee oversees quarterly summaries of the second line assurance reviews.</p>
<b>Risk Monitoring</b>	<p>The Committee receives regular reports on the enterprise-wide risk profile of the business, a business-wide Financial Crime Risk Assessment, MLRO report and a Data Protection annual report.</p> <p>The Committee tracked the progress of the Bank's Change Programme closely, including any challenges raised for key strategic deliverables.</p> <p>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.</p>
<b>Financial resilience and stress testing</b>	<p>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.</p> <p>The Committee reviewed and challenged the Funding Plan, the Recovery Plan document and the Resolution Plan. In addition, this year the committee reviewed and challenged the new solvent exit analysis</p> <p>The Committee then recommended approval to the Board for the key regulatory documents.</p>
<b>Consumer Duty</b>	<p>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.</p>

Looking ahead

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

- Ensuring the sustainable, profitable growth of Hodge's Retail, Real Estate, Treasury and partner credit exposures;
- Ensuring continued maturing of effective operational, conduct and compliance risk management in-line with management's control debt plan;
- Maintaining focused oversight on the management of 3rd party risks and information security risks;
- Continuing oversight of Hodge's response to the Consumer Duty, including execution of identified actions and identification and response to new issues;
- Maturing our management of Hodge's impacts on climate change, and tracking of our exposure to climate change risks.



Iain Laing  
Chair of Board Risk Committee  
8 December 2025





# Report by Graeme Hughes Chair of the Nomination Committee

I am delighted to confirm that, once again, this year we have seen continuous and sustainable improvements against our median gender pay gap.

I am pleased to present this report on behalf of the Board which outlines the key areas we, as the Nomination Committee, have focused on in 2025.

## 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 considering the culture, leadership, succession planning and diversity of the senior leadership team and the Bank. 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 as least four times a year to meet its principal duties which, during this year, included:

- Considering and approving Executive appointments within the year;
- Reviewing the composition of the Board, giving consideration toward the diversity of skills, knowledge and experience amongst the Board to remain competitive within the market;
- Monitoring the Bank's culture through a wide range of metrics covering

- engagement, inclusion and retention;
- Ensuring oversight and execution of the Equality, Diversity and Inclusion strategy and reviewing the success of the initiatives;
- Reviewing the succession plan for senior leadership across the business.

## The Committee's Areas of Focus in 2025

### Board Composition

As in previous years, a focus of the Committee remains to be ensuring that the balance of knowledge, experience and skills within the composition of the Board continually supports the Bank's strategy and the market in which it operates. The Committee conducted a review of the skills matrix of the Board and the succession plan for the Chairs of Committees. Following this review, I am delighted to confirm that the composition of the Board remains complimentary to the strategy of the Bank and, as a result, we have extended Penny Bickerstaff's term of appointment. I would like to personally thank her for her continued support and dedication to the Bank.

I would like to personally extend an enormous thank you to Aileen Wallace, who completed her Non-Executive Directorship with us on 30 November 2025. Aileen's knowledge and

contribution as Chair of the Remuneration Committee, Chair of the Innovation and Change Committee and as a NED over the past six years has been hugely invaluable and I wish her the best of luck as she explores new opportunities as part of her portfolio. Activity has commenced to appoint a NED to the Board to further increase the skills and experience appropriate to the Bank strategy, with a particular emphasis on Real Estate Finance and broader specialist lending markets, and I look forward to this process concluding in the coming months.

### Executive Appointments

The Committee accepted the resignation of David Landen, Chief Executive Officer, this year and, on behalf of the Shareholder and the Board, I would like to say an enormous thank you to David for his considerable contribution to the Bank over twenty three years, the last five years of which have been as CEO, David has led the whole business through very difficult times, commencing his appointment during COVID, with his calm and reassuring leadership helping colleagues navigate new ways of working to continue to deliver excellent levels of service to our customers despite the difficult circumstances. David led a significant transformation of the Bank, significantly strengthened our risk and

governance frameworks and delivered industry leading customer service. David has therefore positioned the Bank incredibly well for the future and we wish him all the very best for his own next chapter as he explores new opportunities. The search for a new CEO is being led by the Committee and remains underway.

The Committee also accepted the resignation of Tim Thompson, Chief Operating Officer, in May 2025 and I would like to also extend a thank you on behalf of the Board for all of Tim's hard work, dedication and contribution during his time at Hodge. The Committee considered the requirements of the Executive Committee because of Tim's leaving and I am delighted to welcome Scott Hill as our Interim Chief Technology Officer. Scott brings with him a wealth and diverse breadth of experience in Technology leadership roles across many sectors, more recently at Target Group, and we look forward to the innovation Scott will bring to our technology stack over the coming months.

I am also delighted to welcome John Carter as our Head of Real Estate Finance. John joins Hodge from Aldermore, where he successfully repositioned the Commercial Real Estate business as Commercial Director. John has had a stretching career in Commercial Real Estate roles, and we are thrilled to be working with him to expand our Real Estate portfolio.

### Wider Leadership Development

Investment into our wider leadership talent pool and, ensuring the continual development of our leaders to provide a robust succession plan for our Executives and the Board, continues to be a key area of focus for the Committee. This year, we have continued to ensure a central area of focus for the Committee and for the Executive's is the continuation of our internal development leadership program in partnership with Levati. The program has seen great success in stretching and growing our future senior leadership team members through training, coaching and mentoring and 360 feedback over a

12-month period which has successfully cultivated a high-performing talent pool and, has significantly complimented the succession plans for the future strategic senior leadership of the Bank.

More broadly, an internal 'Passport to Leadership' framework has also been developed and launched by our People team, to provide colleagues with an opportunity to develop skills, knowledge and experience across the business to identify career pathways for our high-performing colleagues. This activity, partnered with the launch of our internal mentoring scheme, allows our colleagues to grow to full potential at Hodge. A key focus for the Committee as we move forward into 2026 will be measuring the success of these initiatives in view of the strength of our succession plans to continue to future proof the longevity of our high-performing leadership at Hodge.

### Equality, Diversity and Inclusion

In conjunction with investing in our leadership and wider talent, on behalf of the Board, the Committee gives due consideration to the equality, diversity and inclusion elements of our leadership team in addition to ensuring the Bank is meeting its objectives and commitments against our ED&I strategy. The Committee reviewed the ED&I strategy in March 2025 and continue to hold the Executive Leadership to account against continuing to build and foster an inclusive, equitable culture for our colleagues.

I am delighted to confirm that, once again, this year we have seen continuous and sustainable improvements against our median gender pay gap and have seen good progress against the wider ED&I strategy objectives with great support from the initiatives led by our Colleague Committee. We have sponsored the 2025 Cardiff Pride Parade and SheWho events, both of which colleagues from across the business were actively involved in taking part, representing the business as allies within the community.

I am also pleased to confirm that we remain on track to achieving our Women in Finance Charter target of reaching a female representation within senior leadership of 45-50% by October 2026, with 41% of senior leadership roles currently held by women as at the end of 2025

### Our Wider Culture

A delegated responsibility from the Board to the Committee is to frequently review and monitor the wider culture in the business to ensure honesty and integrity against our core purpose and values. This year, the committee frequently reviewed and monitored progress against our internally developed culture balanced score card which provides oversight to a range of metrics across equality, inclusivity, risk culture, retention and reward. The Committee was delighted to see positive and upwards trending results across most elements of the scorecard, signalling the focus and progress on our culture. The reviews also resulted in a re-design of our recognition scheme, the 'GEM Awards', allowing our colleagues to be more frequently recognised and rewarded during the moments of success and the moments that matter to them and to our customers.

The review of our culture, in both the successes and further opportunities for improvements, will remain a key priority for the Committee throughout 2026.

**Graeme Hughes**  
Chair of the Nominations and Governance Committee  
8 December 2025





## Report by Penny Bickerstaff

### Acting Chair of the Remuneration Committee

The Remuneration Committee has remained committed to ensuring our remuneration strategy and policies support the long-term success of Hodge.

#### Letter from the Acting Chair of the Remuneration Committee.

**On behalf of the Board, I am pleased to present the Remuneration Committee report for this year.**

Subject to regulatory approval, I will be appointed as the new Chair of the Remuneration Committee. Firstly, I would like to add my personal thanks to Aileen Wallace for her stewardship of this Committee over the past four years.

In a year that has continued to present economic uncertainty, alongside evolving regulatory expectations, the Remuneration Committee has remained committed to ensuring our remuneration strategy and policies support the long-term success of Hodge while also ensuring alignment between performance and fair, transparent reward. The external landscape for remuneration has continued to provide challenges, with inflation continuing to impact UK households.

Therefore, all remuneration discussions have considered the interests of our colleagues, customers and shareholder to ensure appropriate in-year decisions while maintaining a strong foundation for future colleague reward and recognition in conjunction with business growth.

All eligible colleagues received a base pay increase in November 2025 of 3.5% in consideration of the inflation pressures of 2025. Having conducted thorough external benchmarking and considered the performance of the year, we are satisfied that the Executive Directors pay increase was reasonable and ensured the total reward package remained competitive in the market.

As I look in the year ahead, a key area of focus for the Committee in 2026 will be the review and reshaping of its variable reward plan, notably long term incentive arrangements to ensure the Bank is able to continue to attract, retain and reward key talent while ensuring continual alignment of the Executive Committee reward to Hodge's strategic priorities.

**Penny Bickerstaff**  
Acting Chair of the Remuneration Committee  
8 December 2025



• Report by Penny Bickerstaff (continued)

The Remuneration Committee

Committee Membership and Attendees 2025

During the year, our Committee comprises exclusively of independent non-executive directors including the Chair of the Board. Members are as follows:

Member	Membership Date
Penny Bickerstaff	September 2022
Graeme Hughes	September 2019
Iain Laing	July 2020
Aileen Wallace (resigned 30 November 2025)	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 where appropriate. The Chief Risk Officer is also invited to attend meetings to provide a risk assessment when required. Deloitte LLP, our external remuneration advisors, are sometimes invited to attend Committee meetings 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 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 2025

The Committee met on 4 occasions during 2025, operating under our Remuneration Committee schedule. Key activities and matters considered by the Committee were:

- Review and annual approval of our Remuneration Policy, ensuring the policy outlines our approach of maintaining a competitive reward package for colleagues aligned with the market;
- A review of the core and flexible benefits package offering, reviewing engagement with the package and ensuring the total reward package continued to meet its objectives of motivating and retaining colleagues;
- Review of the gender pay gap and contributory factors driving the pay gap and the assessment of the pay gap action plan. This year, this review also considered pay gaps in relation to ethnicity, disability and pension in alignment with the Committees intent to achieve pay parity and to continue to foster an inclusive working environment with fair and equitable reward for colleagues;
- A review of the variable reward plans with particular focus on the efficacy of the current Annual Reward Plan to motivate senior leadership to achieve the firm's strategic intentions. This resulted in the Committee reviewing a long-term incentive plan for the Executive Committee and enhancements to the Annual Reward Plan to appropriately incentivise retail volumes and balance sheet growth;
- The principles underpinning the annual pay review, ensuring that appropriate consideration was given to external benchmarks and the continuing uncertain and difficult economic conditions.

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 considers 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.

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

The main elements of Executive Director remuneration

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

Component	Purpose	Execution and Application
Basic Salary	To be at a level which is sufficiently competitive to recruit and retain people of the necessary calibre, who have the required skills and experience to meet the demands and complexity of the role.	Executive salaries are normally reviewed annually, with any increases typically taking effect from 1 November. A number of factors are taken into consideration when reviewing salaries, including but not limited to: <ul style="list-style-type: none"><li>The scope and size of the role</li><li>Equal pay principles</li><li>The experience, skills and level of responsibility of the role executive manager</li><li>Company strategy and performance</li><li>Market benchmarking</li><li>The annual pay review increase awarded to the wider employees of the Bank.</li></ul> 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. Also to 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: <ul style="list-style-type: none"><li>Private Medical Insurance</li><li>Permanent Health Insurance (Income Protection)</li><li>Life cover</li><li>Health screening</li><li>Company car or car allowance</li></ul>
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.	<b>Annual Reward Plan (ARP)</b> 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 that 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. <b>Long-Term Incentive Plan (LTIP)</b> The key performance areas and measures will be reviewed annually to ensure performance against the Bank's strategic objectives and an award will only vest and remain payable if the Committee deems the acceptable standards to enable payment have been achieved. 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.



• Report by Penny Bickerstaff (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, customers, 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 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 2025 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 2025. 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 2025 took place in December 2025 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. In the 2025 review, the Committee considered the number of performance targets that are deemed to be above or below target to 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 Bank. During this year’s review, it was concluded that not all of the underpinning conditions reached our Annual Reward Plan (ARP) gateway requirements, therefore this did not enable any variable awards to be made. While it was disappointing the financial gateway conditions and all anticipated targets were not met, the business performed very well in 12 out of the 16 performance targets which typically determine the variable pay. The business and its colleagues have delivered significant progress against our strategy, including delivery of new capabilities with new technology, launching new products which cater to the needs of the market we serve and, delivered strong foundations for the success of the business in the coming years.

	Fixed			Variable		Total
	Base Salary (1)(2) £000	Taxable Benefit £000	Pension Allowance (3) £000	Total Fixed £000	Annual Reward Plan £000	Total Remuneration £000
David Landen, Chief Executive Officer	348	1	50	399	-	399
Jan Preece, Chief Finance Officer	280	-	41	321	-	321
Total	628	1	91	720	-	720

(1) Base salary refers to the actual salary earned in the year  
(2) David Landen will recieve a payment for Compensation of Loss of Office amounting to £402,000.  
(3) Pension allowance includes both contributions to the Company's pension scheme of £10,000 per director 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 met the deferral threshold in previous financial years 2023 and 2024 and therefore, their variable remuneration was deferred in the instalments as set out below. All deferred payments are awarded in cash and are subject to malus and clawback provisions.

2025 Performance Period £000	2025	2026
David Landen, Chief Executive Officer	-	-
Jan Preece, Chief Finance Officer	-	-
2024 Performance Period £000		
David Landen, Chief Executive Officer	15	15
Jan Preece, Chief Finance Officer	11	11
2023 Performance Period £000		
David Landen, Chief Executive Officer	25	-
Jan Preece, Chief Finance Officer	21	-
Total	72	26



• Report by Penny Bickerstaff (continued)

Remuneration for 2025

The base salary for Executive Directors was reviewed with any increases applied prior to December 2025, 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 Long-Term Incentive Scheme 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 2026 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 Fee £000	Total Fees £000
Graeme Hughes (1)	149	6	155
Penny Bickerstaff (2)	92	-	92
Aileen Wallace (3)	63	14	77
Iain Laing (4)	63	11	74
John Barbour (5)	63	11	74
Graham Wheeler (6)	63	-	63
Total	493	42	535

(1) Chair of the Board from 1/5/2020 and Chair of the Nomination Committee from 1/5/2020  
(2) Senior Independent Director from 22/9/2022  
(3) Non-Executive Director from 1/4/2020 to 30/11/2025. Chair of the Innovation and Change Committee from 1/9/2020 to 30/11/2025 and Chair of the Remuneration Committee from 1/1/2022 to 30/11/2025.  
(4) Non-Executive Director from 1/7/2020 and Chair of the Board Risk Committee from 1/7/2020  
(5) Non-Executive Director from 16/3/2017 and Chair of the Audit Committee from 1/8/2017  
(6) Non-Executive Director from 1/06/2024

The fees for Non-Executive Directors were reviewed and increased in April 2025 in accordance with the Remuneration Policy. The fees are made up of basic fees for the 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 the Innovation and Change Committee

On behalf of the Board, I am pleased to present our annual report.

**Transforming our capabilities**

Since the Bank started preparing this report in 2021, it has been with a real sense of pride that the Bank has been able to showcase our journey as we modernised our technology estate, leveraging this estate to deliver organisational capabilities and as a result, delivered digital services for our customers in line with the Bank’s purpose to make life better for customers and society. We have now cemented the key building blocks of our future ensuring the Bank is well positioned to capitalise on market opportunities to underpin sustainable growth. Whilst we have in our language, “built our bank”, we remain alert to ensuring we invest time and resource into keeping our customers and colleagues safe

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

from ever increasing threats against their data and information security. Our industry, although not alone, remains alert to the ever-present threat of cyber-attack. Against the backdrop of such an environment, we remain diligent, in communicating the importance of, and in controlling our security protocols.

**2025: A Year in Review**

Our key areas of focus in 2025 were directed towards the end state of technological simplification, removing legacy platforms and implementing key enablers to support our continuous delivery matching customer needs and behaviours. We have continued to embed our Dy Arian digital savings platform, simultaneously developing additional functionality to support new business and migrating existing customers onto the enhanced functionality. We have been pleased that a small number of historical offline customers engaged positively with us as we showcased the functionality of our savings proposition by moving their accounts online. We know from feedback that these customers now benefit from enhanced operational processes and have unlocked the full benefits of digital usage.

We have delivered further product enhancement across both mortgages and savings with the launch of our Easy Access savings product, underpinned by the launch of our new savings marketing functionality, with our expanded mortgage proposition continuing to focus on our core market segments. These areas of product enhancement would not have been available without the strong foundations of technical enablement that we have worked so hard on over the last few years. Seeing our customers benefit from products that allow them to save money, protect money and grow their financial strength for the future is at the core of our purpose. Having simultaneously invested in deepening our data capability in prior years, we have been able to innovative and automate manual capabilities to drive organisational benefits and mitigate risks. Both outcomes ensure we are delivering simpler, accurate and streamlined services to our customers.



At this point in our organisational journey, with a simplified and updated technology environment and more digitally enabled capabilities, we can be more impactful in the agility of new and enhanced product offerings, responding to intermediary and customer feedback. In doing so, we also support our colleagues in their day to day activities and make their interaction, such as “voice of the customer” more valuable and tangible. In a holistic banking approach, we developed our savings platform to enable our distribution teams to be able to act quickly, capitalise on opportunities in our core savings markets, and use these activities to provide appropriate funding to ensure we support key growth generation across our real estate finance and motor sectors. In summary, and as we look forward to 2026, we are excited to continue to innovate our proposition enhancements and know that all of our focused activity has brought us to this exciting stage. We can now move at pace with our strategic growth as a specialist banking provider, and in doing so, move away from our prior years agendas of building a future and channel our resources into living and innovating in the future we have created. From the start of FY26, the work of this Committee will be subsumed into either the Board or the Board Risk Committee and accordingly, the Committee is being disbanded.

**Graeme Hughes**  
Chairman  
8 December 2025



# Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 September 2025. 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

**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 – resigned 30 November 2025)**

**Iain Laing\* (Non-Executive Director)**

**Penny Bickerstaff\* (Non-Executive Director)**

**John Barbour\* (Non-Executive Director)**

**Graham Wheeler\* (Non-Executive Director)**

\* All non-executive directors are deemed to be independent by the Board.

None of the Directors held any interests in the shares of any group companies.

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

**Political contributions**

The Bank made no political contributions during either year.

**Post balance sheet events**

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

**Results and dividends**

The loss for the year after taxation from continuing activities amounted to £3.9m (2024: loss of £1.7m).

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 third 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. These plans have also been assessed on a 'stressed' basis.

The Directors confirm that they are satisfied that the Bank will continue in business for a period to 31 December 2026. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

By order of the Board.



**David Landen**  
Director  
8 December 2025

# 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 they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

By order of the Board.



**David Landen**  
Director  
8 December 2025



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# 3 Independent Auditor's Report

to the Members 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 2025 which comprise the Income Statement, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and the related notes 1 to 34 (except for note 34 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 2025 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 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 2026.

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 10 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 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 1.6. 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 10 and the significant judgements and estimates disclosed in note 1.6 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 judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.



Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>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: £12.9m; (2024: £7.2 m).</b></p> <p>Refer to the accounting policy for measurement of ECL and notes 13 and 27 to the financial statements.</p> <p>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:</p> <ul style="list-style-type: none"><li>- Staging - The qualitative and quantitative criteria applied by management may not completely and accurately identify a significant increase in credit risk or credit impairment on a timely basis in accordance with IFRS 9;</li><li>- Multiple Economic Scenarios (MES) - ECLs may be inaccurate because the range of scenarios considered and the probability weightings applied to them are not sufficient or appropriate to capture all relevant factors required; including the continued uncertain economic outlook, or because the MES may not be incorporated appropriately into the estimation of PD, LGD, and EAD.</li><li>- Modelling - Models that calculate the ECLs, including Probability of Default ("PD"), Loss Given Default ("LGD"), and exposure at default ("EAD") models, may not appropriately apply accounting interpretations, modelling assumptions, or data, or may not be appropriately implemented.</li><li>- Post-model adjustments ('PMAs') - PMAs could be inappropriate and incomplete. These adjustments are inherently uncertain and subjective.</li><li>- Individually impaired assets (including collateral valuation) – Individual impairment within the commercial and Portfolio Buy-to-Let portfolios may not be identified on a timely basis or the provisions recognised may be incorrectly measured considering exit strategies, collateral valuation and time to collect.</li></ul>	<ul style="list-style-type: none"><li>- We performed a walkthrough of the IFRS 9 ECL process to understand methodology, governance, and key controls.</li><li>- We tested controls over credit risk assessment, including review of scorecard ratings and other indicators used to identify significant increases in credit risk.</li><li>- 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.</li><li>- We assessed loan portfolios for receivables aging, credit scores, payment status, and litigation or counterparty issues.</li><li>- We confirmed that significant increases in credit risk and stage classifications are appropriately identified.</li><li>- We engaged EY economists to 1) challenge management's economic assumptions and scenario weightings, 2) benchmark assumptions against market participants, and 3) review updates to scenarios and their weightings for reasonableness.</li><li>- We engaged our IFRS 9 modelling specialists to 1) assist in the qualitative and quantitative risk assessment of the models, and to perform a combination of model design reviews, model implementation testing, model assumptions testing and model sensitivity analysis, based on the risk designated to each model and 2) benchmark ECL coverage against peers for reasonableness.</li><li>- 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.</li><li>- We evaluated management's rationale for PMAs or the absence thereof, including adjustments for curing periods, coverage uplifts, or observed deterioration in arrears.</li><li>- For secured portfolios, we engaged valuation specialists to evaluate property valuations for Stage 3 loans.</li></ul>	<p>Overall, based on the procedures performed to respond to the risks identified, we concluded that the ECL provision is reasonably stated. We have highlighted certain model recommendations, which for the motor portfolio are important for management to consider as the portfolio matures and volume of new business increases.</p>

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 £2.7m (2024: £2.7m), which is 1.5% (2024: 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% (2024: 75%) of our planning materiality, namely £2.0m (2024: £2.0m).

We have set performance materiality at this percentage due to 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 (2024: £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.

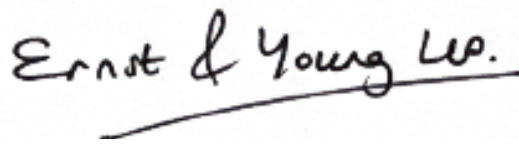
**Other matters we are required to address**

- Following the recommendation from the audit committee we were appointed by the Company on 22 April 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 10 years, covering the years ending 31 October 2016 to 30 September 2025.
- 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 members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Robin Enstone**

(Senior statutory auditor)

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

Bristol

8 December 2025



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# 4 Financial Statements



# Income Statement

For the year ended 30 September 2025

	Notes	Year ended 30 September 2025 £m	Restated Year ended 30 September 2024 £m
Interest revenue calculated using the EIR method	3	122.9	109.4
Interest expense calculated using the EIR method	4	(81.1)	(69.7)
Net interest income		41.8	39.7
Fees and commission income		1.0	2.9
Fees and commission expense		(3.6)	(1.2)
Net fee and commission (expense)/income		(2.6)	1.7
Investment income		0.6	0.5
Net operating income		39.8	41.9
Administrative expenses	5	(33.7)	(36.4)
Depreciation and Amortisation	14/15	(3.1)	(2.9)
Impairment losses on loans and advances to customers	13	(6.5)	(2.2)
Net operating (loss)/income		(3.5)	0.4
Loss arising from the derecognition of financial assets managed at amortised cost	11	-	(1.0)
Other fair value losses	6	(2.3)	(1.5)
Loss before taxation for the financial year		(5.8)	(2.1)
Tax credit on loss before taxation	8	1.9	0.4
Loss for the financial year		(3.9)	(1.7)

The comparative figures for interest revenue and interest expense have been restated as explained in Note 33.

# Statement of Other Comprehensive Income

For the year ended 30 September 2025

	Notes	Year ended 30 September 2025 £m	Year ended 30 September 2024 £m
Loss for the financial year		(3.9)	(1.7)
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit pension plan	23	0.7	1.7
Deferred tax thereon		(0.2)	(0.4)
Movement of pension scheme reimbursement liability (2024: liability)	18/22	-	(0.3)
Deferred tax thereon		-	0.1
Total other comprehensive income		0.5	1.1
Total comprehensive loss for the year		(3.4)	(0.6)

The results for the year ended 30 September 2025 relate entirely to continuing operations.  
The notes on pages 42 to 77 form part of the financial statements of the Bank.



# Balance Sheet

As at 30 September 2025

	Notes	30 September 2025 £m	30 September 2024 £m
<b>Assets</b>			
Cash and balances held with central bank		69.5	151.3
Loans and advances to financial institutions	9	7.9	4.5
Derivative financial instruments	21	16.8	27.9
Government bonds	10	27.9	27.7
Debt securities	11	135.8	70.7
Loans and advances to customers	12	1,839.7	1,699.3
Intangible assets	14	14.5	15.1
Property and equipment	15	0.6	1.0
Investment properties	16	0.2	1.5
Deferred tax assets	17	2.2	3.7
Other assets	18	6.6	5.9
Pension asset	23	0.9	0.2
<b>Total assets</b>		<b>2,122.6</b>	<b>2,008.8</b>
	Notes	30 September 2025 £m	30 September 2024 £m
<b>Liabilities</b>			
Deposits from banks	19	67.0	167.7
Deposits from customers	20	1,860.3	1,639.4
Derivative financial instruments	21	5.1	5.6
Other liabilities	22	10.4	12.9
<b>Total liabilities</b>		<b>1,942.8</b>	<b>1,825.6</b>
<b>Share capital and reserves</b>			
Share capital	24	130.0	130.0
Other reserves		49.8	53.2
<b>Total equity</b>		<b>179.8</b>	<b>183.2</b>
<b>Total equity and liabilities</b>		<b>2,122.6</b>	<b>2,008.8</b>

These financial statements of the Bank were approved by the Board of Directors on 8 December 2025 and were signed on its behalf by:



**David Landen**  
Director

# Statement of Changes in Equity

As at 30 September 2025

	Called up share capital £m	Retained earnings £m	Pension reserve £m	Total £m
<b>2025</b>				
At beginning of the financial year	130.0	52.1	1.1	183.2
Loss for the financial year	-	(3.9)	-	(3.9)
Other comprehensive income	-	-	0.5	0.5
<b>At end of the financial year</b>	<b>130.0</b>	<b>48.2</b>	<b>1.6</b>	<b>179.8</b>
	Called up share capital £m	Retained earnings £m	Pension reserve £m	Total £m
<b>2024</b>				
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	-
<b>At end of the financial year</b>	<b>130.0</b>	<b>52.1</b>	<b>1.1</b>	<b>183.2</b>



# Notes to the Financial Statements

For the year ended 30 September 2025

## 1. Material accounting policies

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

### 1.1 Basis of preparation

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

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.

The financial statements of the Bank are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Bank applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006, applicable to companies reporting under IFRS (Schedule 2 of The Large and Medium-sized Companies and Banks (Accounts and Reports) Regulations 2008) and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

- A Cash Flow Statement and related notes;
- Reconciliation between carrying amounts of investment properties at the beginning and at the end of the year;
- Disclosures in respect of transactions with members of a group;

- Disclosures in respect of the compensation of key management personnel and related parties.

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

### 1.2 Functional currency

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

### 1.3 Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

### 1.4 Foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to other operating income/expense in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

### 1.5 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. These plans have also been assessed on a 'stressed' basis.

The Directors confirm that they are satisfied that the Bank will continue in business for a period to 31 December 2026. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

### 1.6 Climate Risk

The Bank has assessed the impact of climate risk on the financial statements. As set out on page 23, the Bank has considered the impact of both physical and transition risks from climate change as an emerging risk. The potential areas this could impact are loans and advances to customers and investment properties. As part of this assessment, three scenarios were considered: flood, subsidence and coastal erosion and the estimated time horizon for the impact is considered to be between 2030 and 2060. Under each scenario, the Bank assessed the financial impact on the valuation of collateral held, which supports the carrying value of loans and advances to customers, and the fair value of investment properties. The Bank considered the underlying loan to value and energy performance certificate profiles of the portfolio as part of this assessment. Based on the Bank's current assessment, the exposure to financial risk from climate change is not considered to be material based on the Loan to Value profile and the profile of the Energy Performance Certificates. Consequently, 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.

### 1.7 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 (including UK GAAP) effective for the year ended 30 September 2025. They are either not relevant to the Bank or do not have a significant impact on the Bank's financial statements.

### 1.8 Standards and interpretations effective for the Company in future periods

New and amended standards and interpretations that are issued but not yet effective are being assessed by the Bank to determine the impact on the consolidated financial statements.

#### 1.8.1 Amendments to the Classification and Measurement of Financial Instruments—Amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date.
- Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed.
- Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments.
- The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

The Amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Bank is currently not intending to early adopt the Amendments.

In addition, the Bank is assessing the impact of the Amendments on its financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features, as well as on non-recourse financing and contractually linked instruments. Based on the initial assessment performed, the amendments in these areas are not expected to have a material impact on the financial statements, however, the assessment is yet to be concluded. These amendments will apply to the Bank's financial statements for the year ending 30 September 2027 and hence an assessment of their impact has not yet been carried out.

#### 1.8.2 IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new. There are specific presentation requirements and options for entities, such as the Bank, that have specified main business activities (either providing finance to customers or investing in specific type of assets, or both). In addition, there are consequential amendments to several other standards. IFRS 18 will apply to the Bank's financial statements for the year ending 30 September 2028 and hence an assessment of its impact has not yet been carried out.



Material accounting policies (continued)

1.9 Measurement convention

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

1.10 Interest income and expense calculated using the effective interest rate method

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. In respect of Commercial loans, the Bank performs an annual assessment of the prepayment history and has concluded that any adjustment for prepayments would be highly immaterial.

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

If the status of the asset subsequently recovers, the amount by which the provision has increased due to suspended interest is recognised as a reversal of impairment loss allowance rather than interest income.

The reversal of impairment loss allowance will not be recognised until any recovery is completed.

1.11 Interest income/expense on derivatives

Interest income/expense on derivatives accounted for at fair value through profit or loss is included in interest revenue or interest expense as appropriate.

1.12 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 income

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.

1.13 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 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.

1.14 Financial instruments

1.14.1 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.

1.14.2 Financial assets - classification

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 financial 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 (interest rate swaps).
- 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.

1.14.3 Financial assets – business model

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.

1.14.4 Financial liabilities

Amortised cost is the default category for financial liabilities.

1.14.5 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 reported gross in the statement of financial position unless they satisfy the offsetting criteria in IFRS accounting standards.

1.14.6 Reclassification of financial assets and financial liabilities

The Bank does not reclassify its financial assets subsequent to 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.

1.14.7 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 and this determines whether transfers between levels are required.

1.14.8 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.



Material accounting policies (continued)

1.15 Retirement mortgages

On initial recognition, the fair value of retirement mortgages is calculated by discounting the future expected cash flows at swap rates together with an allowance for illiquidity. The illiquidity spread is informed by examining the pricing of new originations amongst other market participants, creating a market consistent discount rate for the asset. On subsequent measurement, the value of retirement mortgages is calculated by projecting the cash flows expected to be generated by the portfolio on redemption, allowing for credit losses caused by the no-negative equity guarantee ("NNEG") 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.

1.16 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.

**1.16.1 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.

1.16.2 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.

1.16.3 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.

1.16.4 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.

1.16.5 Post model adjustments

At 30 September 2025 and 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 2025 as it considers that its forward looking ECL models adequately capture current economic conditions. Further information is provided in note 13.

1.17 Derivative financial instruments and hedge accounting

The Bank uses derivatives only for risk management purposes. It does not use derivatives for trading purposes. Derivatives are measured at fair value in the Statement of Financial Position. Fair values are determined using discounted cashflow models calibrated with observable market rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9 for macro fair value hedge accounting associated with fixed rate loans and advances to customers and savings accounts.

As a part of its risk management, the Bank has identified exposure to interest rate risk as a risk category with a corresponding hedging strategy using derivative instruments.

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, the Bank applies hedge accounting using fair value hedges.

Transactions that are entered into in accordance with the Bank's hedging objectives, but do not qualify for hedge accounting, are referred to in these financial statements as economic hedge relationships.

At inception, the Bank formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic 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.

In order to qualify for hedge accounting, a hedging relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was highly effective in the previous designated period (i.e., one month).

A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%. It is also necessary to assess, retrospectively, whether the hedge was highly effective over the previous one-month period. The hedge accounting documentation includes the method and results of the hedge effectiveness assessments. If derivatives are not designated as hedges, then changes in their fair values are recognised immediately in the Income Statement in the period in which they arise.

The Bank looks to designate derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank documents formally the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Hedge ineffectiveness is recognised in the Income statement in other fair value gains and losses (see Note 6).

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 on a straight line basis 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.

1.17.1. Fair value hedges

In accordance with its wider risk management, it is the Bank's strategy to apply fair value hedge accounting to keep interest rate sensitivities within its established limits. Applying fair value hedge accounting enables the Bank to reduce fair value fluctuations of fixed rate financial assets as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the Bank designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability or an unrecognised firm commitment, or an identified portion of such financial assets, liabilities or firm commitments that is attributable to a particular risk and could affect profit or loss. The Bank only hedges changes due to interest rates such as benchmark rates, which are typically the most significant component of the overall fair value change.

The Bank assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these benchmark rates using the hypothetical derivative method as set out above.

In accordance with its hedging strategy, the Bank manages its interest rate risk by matching the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations.



Material accounting policies (continued)

The Bank uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and loans and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments;
- Derivatives used as hedging instruments having a non-zero fair value at the time of designation;
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

Additionally, for portfolio (macro) fair value hedges of the Bank's fixed rate mortgage and Real Estate portfolios, ineffectiveness also arises from the disparity between expected and actual prepayments (prepayment risk).

1.17.2 Portfolio (macro) fair value hedges

The Bank applies macro fair value hedging to its fixed rate Loans and Advances to Customers. The Bank determines hedged items by identifying portfolios of homogenous loans based on their contractual interest rates, maturity and other risk characteristics. Loans within the identified portfolios are allocated to repricing time buckets based on the residual term, rather than contractual, repricing dates. The hedging instruments (pay fixed/receive floating rate interest rate swaps) are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range. Should hedge effectiveness testing highlight that movements for a

particular bucket fall outside the 80-125% range (i.e., the hedge relationship was ineffective for the period), no fair value hedge accounting adjustment is recorded for that month for that particular bucket. Regardless of the results of the retrospective hedge effectiveness testing, at the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Bank voluntarily de-designates the hedge relationships and re-designates them as new hedges. At de- designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the original hedged life. The Bank has elected to commence amortisation at the date of de-designation.

1.18 Intangible assets

Purchased software and costs and internal time directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Bank which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred. Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the Income Statement on a straight-line basis over the estimated useful life of the software, which is generally between 5 to 10 years. The amortisation periods used are reviewed annually. Assets are reviewed for impairment at each Statement of Financial Position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is

greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1.19 Property and equipment

Additions and improvements to the office premises and equipment, including costs directly attributable to the acquisition of the asset are capitalised at cost. The property and equipment value in the statement of financial position represents the original cost less cumulative depreciation.

The cost of assets is depreciated on a straight line basis over their estimated useful economic lives as follows:-

- Computer equipment: 3-5 years
- Office improvements: 5-10 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e. at the date the recipient gains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Assets are reviewed for impairment at each Statement of Financial Position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1.20 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% (2024:25%).

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.

1.21 Post employment  
benefits - Pensions

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

1.21.1 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.

1.21.2 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.

1.21.3 Reimbursement asset/  
liability on pension deficit

The Bank has recognised a reimbursement liability (2024: liability) to its parent company in respect of its pension scheme deficit which relates to retired employees that were contracted to the Bank's ultimate parent, The Carlyle Trust Limited ('TCT') (note 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.

1.22 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.



## 2. Judgement in applying material 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*

**2.1 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*

**2.2 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.

**2.3 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.

**2.4 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*

**2.5 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.

**2.6 Hedge Accounting**

Hedge accounting involves judgment / estimation. The Bank's hedge accounting policies include an element of judgement and estimation 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.

**2.7 Effective Interest Rate (EIR) method**

The Bank's EIR method, as explained in Note 1.10, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of Loans and Advances to Customers and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments, penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the Bank of England base rate and other fees that are integral parts of the instrument.



3. Interest revenue calculated using the EIR method

	Year ended 30 September 2025 £m	Restated Year ended 30 September 2024 £m
<b>Interest revenue calculated using the EIR method</b>		
Loans and advances to customers	98.3	81.0
Loans and advances to financial institutions	5.3	7.9
Interest on government bonds & debt securities	6.7	3.2
<b>On instruments held at amortised cost</b>	<b>110.3</b>	<b>92.1</b>
On derivatives hedging of financial assets	12.6	17.3
<b>Total interest revenue calculated using the EIR method</b>	<b>122.9</b>	<b>109.4</b>

4. Interest expense calculated using the EIR method

	Year ended 30 September 2025 £m	Restated Year ended 30 September 2024 £m
<b>Interest expense calculated using the EIR method</b>		
On customer accounts	76.3	59.0
On defined benefit pension scheme (note 23)	-	0.1
On term funding scheme	4.6	10.3
Other interest expense	0.2	0.3
<b>Total interest expense calculated using the EIR method</b>	<b>81.1</b>	<b>69.7</b>

5. Administrative expenses

	Year ended 30 September 2025 £m	Year ended 30 September 2024 £m
<b>Staff costs</b>		
Wages and salaries	16.8	19.0
Social security	2.0	2.1
Pension costs – defined contribution scheme	2.0	2.1
	<b>20.8</b>	<b>23.2</b>
Computer related costs	5.3	5.4
Legal and professional fees	2.7	2.8
Third party servicing costs	1.0	1.8
Property costs	1.5	1.2
Other staff related costs	1.3	0.9
Marketing	0.5	0.5
Sundry costs	0.6	0.6
	<b>33.7</b>	<b>36.4</b>

Directors and employees

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

	Year ended 30 September 2025	Year ended 30 September 2024
Provision of finance and banking	288	321
	<b>288</b>	<b>321</b>

Staff costs include remuneration in respect of Directors as follows:

	Year ended 30 September 2025 £m	Year ended 30 September 2024 £m
Fees	0.5	0.5
Aggregate emoluments as executives	1.0	0.8
	<b>1.5</b>	<b>1.3</b>

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

	Year ended 30 September 2025 £000	Year ended 30 September 2024 £000
Aggregate emoluments	390	445
Compensation for loss of office	402	-
	<b>792</b>	<b>445</b>

The pension accrued for the highest paid director was £128,000 (2024: £161,000).

One director has accrued benefits in the defined benefit scheme (2024: One).



6. Other fair value (losses)/gains

	Year ended 30 September 2025 £m	Year ended 30 September 2024 £m
Movement in fair value of retirement mortgages	(0.4)	0.1
Reversal of unrealised gains on disposal of investment properties	(0.6)	(0.5)
Movement in fair value of investment properties (note 16)	(0.1)	(0.2)
Movement in fair value of derivatives held within an effective macro hedge relationship	7.0	15.8
Movement in fair value of hedged items attributable to hedged risk	(8.2)	(16.7)
	(2.3)	(1.5)

7. Loss on ordinary activities before taxation

	Year ended 30 September 2025 £000	Year ended 30 September 2024 £000
<b>Loss on ordinary activities before taxation is stated after charging:</b>		
Remuneration of the auditor and its associates		
Audit of the financial statements of the Bank		
- Current year	406	420
- Prior year	19	-
Audit of the financial statements of the pension scheme		
Amortisation (note 14)	2,624	2,541
Depreciation (note 15)	443	444
Impairment provision and write offs	6,483	2,200

8. Tax credit on loss before taxation

	Year ended 30 September 2025 £m	Year ended 30 September 2024 £m
<b>Analysis of credit in the financial year</b>		
<b>UK corporation tax</b>		
Current tax on income for the year	3.4	1.8
Prior period adjustment	(0.2)	0.2
<b>Total current tax</b>	<b>3.2</b>	<b>2.0</b>
<b>Deferred tax</b>		
Origination/reversal of timing differences:		
Current year	(2.0)	(1.3)
Prior period adjustment	0.7	(0.3)
<b>Total deferred tax</b> (note 17)	<b>(1.3)</b>	<b>(1.6)</b>
<b>Tax credit on loss before taxation</b>	<b>1.9</b>	<b>0.4</b>

The total tax credit for the year is higher than the blended rate of corporation tax in the UK of 25% (2024:lower than 25%). The differences are explained below.

	Year ended 30 September 2025 £m	Year ended 30 September 2024 £m
<b>Total tax reconciliation</b>		
Loss on ordinary activities before tax	(5.8)	(2.1)
<b>Current tax at 25.00% (2024: 25.00%)</b>	<b>(1.4)</b>	<b>(0.5)</b>
Adjustments in respect of previous years - deferred tax	(0.7)	0.3
Adjustments in respect of previous years – current tax	0.2	(0.2)
<b>Total tax charge</b>	<b>(1.9)</b>	<b>(0.4)</b>

	Year ended 30 September 2025 £m	Year ended 30 September 2024 £m
<b>Tax relating to other comprehensive income</b>		
Temporary difference in relation to the defined benefit pension scheme	0.2	0.4
Temporary difference in relation to the pension reimbursement asset	-	(0.1)
<b>Tax charge relating to other comprehensive income</b>	<b>0.2</b>	<b>0.3</b>



9. Loans and advances to financial institutions

	2025 £m	2024 £m
Repayable on demand	7.9	4.5
	7.9	4.5

There are no provisions held in respect of loans and advances to financial institutions (2024: £nil).

10. Government bonds

	2025 £m	2024 £m
Government bonds – at amortised cost	27.3	27.9
Fair value adjustment for hedged risk	0.6	(0.2)
	27.9	27.7

The movement in government bonds is summarised as follows:

	2025 £m	2024 £m
At start of year	27.7	61.7
Additions	30.0	-
Redemptions and interest received	(30.6)	(35.0)
Gain from hedge accounting – Income Statement	0.8	1.1
Premium unwind	-	(0.1)
At end of financial year	27.9	27.7

There are no provisions held in respect of Government Bonds (2024: £nil).

11. Debt securities

	2025 £m	2024 £m
Debt securities – at amortised cost	137.8	71.2
Fair value adjustment for hedged risk	(2.0)	(0.5)
	135.8	70.7

The movement in debt securities is summarised as follows:

	2025 £m	2024 £m
At start of year	70.7	82.0
Additions	80.0	66.1
Redemptions and interest received	(12.0)	(50.6)
Disposals due to restructuring exercise	-	(28.7)
(Loss)/Gain from hedge accounting - Income Statement	(1.5)	1.8
Discount unwind	(1.4)	0.1
At end of financial year	135.8	70.7

There are no provisions held in respect of Debt securities (2024: £nil).

During 2024, 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 was 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

	2025 £m	2024 £m
Loans and advances – classified at amortised cost		
Retail	1,371.8	1,315.9
Real estate - Commercial	218.1	189.7
Real estate – Portfolio Buy-to-Let	37.3	70.3
Motor receivables	183.1	96.3
	1,810.3	1,672.2
Fair value adjustment for hedged risk	(7.4)	(16.5)
Loans and advances (retirement mortgages) – classified as FVTPL – see note 25(d)	36.8	43.6
At end of financial year	1,839.7	1,699.3

Of this amount, at 30 September 2025, £385.9m (2024: £351.5m) has been pledged as collateral under the Bank of England's ILTR or TFSME schemes. Collateral that has been pledged is restricted.

	2025 £m	2024 £m
Loans and advances to customers at amortised cost		
Gross balances	1,811.1	1,671.4
Less: Provision for impairment	(13.8)	(7.7)
Add: Net loan fee deferral	13.0	8.5
Net balance	1,810.3	1,672.2

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
2025					
At start of year	2.4	1.2	4.2	(0.1)	7.7
Utilised in year	-	-	(0.4)	-	(0.4)
Income Statement					
Impairment expense	1.2	0.5	4.5	0.3	6.5
At 30 September 2024	3.6	1.7	8.3	0.2	13.8

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 expense/(reversal of expense)	1.1	(1.9)	3.5	(0.5)	2.2
At 30 September 2023	2.4	1.2	4.2	(0.1)	7.7

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

In the current financial year, the Bank's PMA relates to the Motor portfolio and is a £0.2m increase to the ECL model output (FY24: a net £0.1m decrease). The additional ECL provision 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 which resulted in an additional provision requirement of £0.2m (FY24: £0.1m). The prior year PMA position included an amount of £0.2m which reduced the ECL model-based provision. This amount was recorded to address a small cohort of receivables where the ECL model was over-providing. In the current financial year, the ECL model was corrected to address this issue hence no current year equivalent PMA is required.

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

Post Model Adjustments	2025 £m	2024 £m
Motor receivables – model under/(over) provision	0.2	(0.1)
	0.2	(0.1)

14. Intangible assets

	2025 £m	Computer software 2024 £m
Cost:		
At start of year	26.5	21.6
Additions	2.0	4.9
At end of financial year	28.5	26.5
Amortisation:		
At start of year	(11.4)	(8.9)
Amortisation	(2.6)	(2.5)
At end of financial year	(14.0)	(11.4)
Net book value:		
At end of financial year	14.5	15.1

£2.1m (2024: £2.5m) 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 and equipment

	Fixtures, fittings and equipment 2025 £m	2024 £m
Cost:		
At start of year	3.1	3.1
Additions	0.1	0.2
Disposals	(0.3)	(0.2)
At end of financial year	2.9	3.1
Depreciation:		
At start of year	(2.1)	(1.9)
Depreciation	(0.5)	(0.4)
Disposals	0.3	0.2
At end of financial year	(2.3)	(2.1)
Net book value:		
At end of financial year	0.6	1.0



16. Investment properties

	Reversionary Interests £m
At start of year	1.5
Disposals	(0.6)
Fair value adjustments	(0.7)
At end of financial year	0.2

The historical cost of the reversionary interest in properties is £23k at 30 September 2025 (2024: £671k). 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.

17. Deferred tax assets

	2025 £m	2024 £m
At start of year	3.7	5.6
Charge to the Income Statement – current year	(2.0)	(1.3)
Charge to the Income Statement – prior year	0.7	(0.3)
Charge to the Statement of Other Comprehensive Income – reimbursement asset	-	0.1
Charge to the Statement of Other Comprehensive Income – defined benefit pension scheme	(0.2)	(0.4)
At end of financial year	2.2	3.7

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

	2025 £m	2024 £m
Accelerated capital allowances	(0.3)	(0.2)
Other timing differences	0.2	1.3
Tax losses	2.3	2.6
At end of financial year	2.2	3.7

The Company has tax losses of £9.3m (2024: £10.8m) that are available indefinitely for offsetting against future taxable profits of the company. On an annual basis, up to £5m of these losses can be surrendered to other companies within The Carlyle Trust Limited's group.

18. Other assets

	2025 £m	2024 £m
Prepayments and accrued income	2.3	2.8
Group relief debtor	3.5	1.8
Amounts receivable in relation to mortgages administered by third parties	0.8	0.6
Corporation tax	-	0.2
Other assets	-	0.5
At end of financial year	6.6	5.9



19. Deposits from banks

	2025 £m	2024 £m
Bank of England Term Funding Scheme	-	155.0
Bank of England Indexed Long Term Repo Scheme	60.0	-
Collateral held on behalf of swap counterparties	7.0	12.7
At end of financial year	67.0	167.7

20. Deposits from customers

	2025 £m	2024 £m
Deposits from customers	1,858.3	1,636.7
Amounts owed to parent and fellow subsidiaries (note 29)	1.5	2.2
Fair value adjustment for hedged risk	0.5	0.5
At end of financial year	1,860.3	1,639.4

The amounts owed to 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 2025 £m	Fair value 2025 £m
Derivative assets		
Interest rate swaps held at fair value	61.8	5.1
Derivatives held in fair value hedges	842.8	11.7
Total recognised derivative assets	904.6	16.8
Derivative liabilities:		
Interest rate swaps held at fair value	(61.8)	(5.1)
Total recognised derivative position	842.8	11.7

	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

At 30 September 2025, the fixed interest rates vary from 0.0% to 4.9% (2024: 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. The average rate of interest on swap contracts is 2.59%.

The maturity profile of the notional amount of derivative contracts is set out below.

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	Hedged Items More than five years	Total
As at 30 September 2025	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	10.0	89.0	172.9	597.9	34.8	904.6
Liabilities						
Derivative financial instruments	-	-	(7.9)	(19.1)	(34.8)	(61.8)
Total	10.0	89.0	165.0	578.8	-	842.8

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	Hedged Items More than five years	Total
As at 30 September 2024	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	30.0	45.0	33.9	674.8	39.8	823.5
Liabilities						
Derivative financial instruments	-	-	(8.9)	(27.0)	(34.8)	(70.7)
Total	30.0	45.0	25.0	647.8	5.0	752.8



• Derivative financial instruments (continued)

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/Hedging instrument	Risk	Activity
Fair value hedges - 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:

Balance Sheet Item	Book Value £m	2025 Hedged Items £m	Hedged Fair Value £m	Book Value £m	2024 Hedged Items £m	Hedged Fair Value £m
<b>Hedged Assets</b>						
Government bonds	27.3	16.4	0.6	27.7	25.1	(1.5)
Debt securities	137.8	107.6	(2.0)	70.7	63.1	(0.6)
Loans and advances to customers	1,810.3	471.2	(7.4)	1,672.2	568.8	(16.9)
Deposits from customers	(1,859.8)	(208.4)	(0.5)	(1,639.4)	(115.5)	0.8
	<b>115.6</b>	<b>386.8</b>	<b>(9.3)</b>	<b>131.2</b>	<b>541.5</b>	<b>(18.2)</b>

The hedged fair value amounts are included as adjustments to the carrying value in notes 10,11,12 and 20.

At 30 September 2025, the hedge ineffectiveness on the hedged asset portfolio amounted to £1.2m (2024: £2.5m). A hedge ineffectiveness loss of £1.2m has been recognised within the Income Statement in the year ended 30 September 2025 (2024: loss £0.8m). This loss is included within Other fair value losses in the income statement (also see note 6).

At 30 September 2025, the hedge ineffectiveness on the hedged liability portfolio amounted to £nil (2024: £nil). A hedge ineffectiveness gain of £nil has been recognised within the Income Statement in the year ended 30 September 2025.

The table below sets out the outcome of the Bank’s hedging strategy to changes in the fair value of hedged items and hedging instruments used as a basis for recognising hedge ineffectiveness.

Balance Sheet Item	2025 Gains/(losses) attributable to hedged risk			2024 Gains/(losses) attributable to hedged risk		
	Hedged items £m	Hedging instruments £m	Hedge ineffectiveness £m	Hedged items £m	Hedging instruments £m	Hedge ineffectiveness £m
<b>Hedged Assets</b>						
Government bonds	0.8	(0.8)	-	1.1	(1.3)	(0.2)
Debt securities	(1.5)	1.2	(0.3)	1.8	(2.1)	(0.3)
Loans and advances to customers	9.1	(10.0)	(0.9)	24.4	(26.5)	(2.1)
Deposits from customers	-	-	-	1.5	(1.4)	0.1
	<b>8.4</b>	<b>(9.6)</b>	<b>(1.2)</b>	<b>28.8</b>	<b>(31.3)</b>	<b>(2.5)</b>

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.



• Derivative financial instruments (continued)

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.

	2025 £m	2024 £m
Movement in fair value of interest rate swaps	0.6	-
	0.6	-

<b>Offsetting</b> In accordance with IAS32 Financial Instruments – Presentation, 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.
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	Amounts subject to netting arrangements		
	Gross amounts £m	Amounts offset £m	Net amounts reported on Balance Sheet £m
2025			
Derivative financial assets	16.8	-	16.8
Impact on total assets	16.8	-	16.8
Derivative financial liabilities	(5.1)	-	(5.1)
Impact on total liabilities	(5.1)	-	(5.1)
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)

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

22. Other liabilities

	2025 £m	2024 £m
<b>Due within one year:</b>		
Accruals	4.5	5.5
Amounts owed to fellow subsidiaries	3.2	2.9
Other creditors	1.8	2.9
Amounts owed in relation to mortgages administered for third parties	-	0.9
Other taxation and social security	0.6	0.6
Corporation tax	0.2	-
Pension reimbursement liability (note 29)	0.1	0.1
	10.4	12.9

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



23. Post employment benefits

The Carlyle Trust Limited group operates a defined contribution pensions scheme for directors and employees which is provided through the Legal and General Mastertrust. Under this scheme members contribute a percentage of salary from 3% upwards and the employer "match funds" contributions from 11% to a maximum of 15% (at which point the employee is contributing 7%).

Contributions made by the Bank to this scheme amounted to £2.0m (2024: £2.1m)

The Carlyle Trust Limited group also operates 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 20 years (2024: 21 years).

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

The calculations are based upon an assessment of the scheme's liabilities as at 30 September 2025. 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 carried out as at 1 April 2025.

The Bank's total expense for the year amounted to £0.0m (2024: £0.2m). Following an additional contribution to the pension scheme during the previous year of £3.0m, the Bank has successfully eliminated the pension scheme deficit that it had reported.

The IAS 19 valuation as at 30 September 2025 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:

Movements in fair value of plan assets

	2025 £m	2024 £m
Market value of assets at the beginning of the year	30.1	24.0
Interest income	1.6	1.3
Actuarial (loss)/gain	(2.4)	2.8
Employer contributions	-	3.0
Benefits paid	(1.0)	(1.0)
Market value of assets at the end of the financial year	28.3	30.1

Movements in present value of defined benefit obligations

	2025 £m	2024 £m
Present value of scheme liabilities at the beginning of the year	29.9	28.3
Interest cost	1.6	1.5
Actuarial (gain)/loss on defined benefit obligation of which:		
due to experience	0.7	(0.1)
due to demographic assumptions	0.1	(0.2)
due to financial assumptions	(3.9)	1.4
Benefits paid	(1.0)	(1.0)
Present value of scheme liabilities at end of the financial year	27.4	29.9

	2025 £m	2024 £m
Fair value of plan assets	28.3	30.1
Present value of defined benefit obligations	(27.4)	(29.9)
Surplus	0.9	0.2



• Post employment benefits (continued)

Expense recognised in the Income Statement

	2025 £m	2024 £m
Net interest expense – other finance costs	-	0.2
	-	0.2

The total amount recognised in the Statement of Other Comprehensive Income in respect of actuarial gains and losses is a gain £0.7m (2024: gain 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 £2.6m (2024: losses of £3.3m) after deferred tax.

Plan assets

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

	Fair Value	
	2025 £m	2024 £m
Quoted equity investments	9.6	8.5
Alternative funds	4.8	4.5
Bonds	4.5	5.1
Liability Driven Investments	8.8	10.2
Cash	0.6	1.8
Total market value of assets	28.3	30.1

The actual return on assets was a loss of £2.4m (2024: gain £2.8m).

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.

Major assumptions

The major assumptions underpinning the defined benefit obligation are:

	2025 %	2024 %
Rate of increase for pensions in payment – RPI capped at 5.0% per annum	3.1	3.3
Discount rate applied to scheme liabilities	5.8	5.0
RPI inflation assumption	3.2	3.4

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:

	2025	2024
Current pensioners age 65 – male	86.5	86.1
Current pensioners age 65 – female	88.7	88.6
Future pensioners age 65 (current age 45) - males	87.4	87.1
Future pensioners age 65 (current age 45) - females	89.8	89.7

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%	0.4
Rate of inflation (RPI or CPI)	0.1%	0.2
Life expectancy	1 year	0.6

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



• Post employment benefits (continued)

History of the scheme Balance Sheet position

	2025 £m	2024 £m	2023 £m	2022 £m	2021 £m
Fair value of plan assets	28.3	30.1	24.0	25.5	37.9
Present value of funded defined benefit obligations	(27.4)	(29.9)	(28.3)	(30.0)	(52.1)
Surplus/(Deficit)	0.9	0.2	(4.3)	(4.5)	(14.2)

History of experience gains and losses

	2025	2024	2023	2022	2021
Difference between the expected and actual return on scheme assets:					
Amount	£(2.4)m	£2.8m	£(3.7)m	£(12.9)m	£2.7m
Percentage of year-end scheme assets	8.5%	9.3%	(15.4)%	(50.6)%	7.1%
Experience (gains)/losses on scheme liabilities:					
Amount	£0.7m	£(0.1)m	£0.4m	£1.5m	£(0.3)m
Percentage of year-end present value of scheme liabilities	2.6%	(0.3)%	1.4%	5.0%	(0.6)%
Total amount recognised in statement of comprehensive income:					
Gain/(loss) before tax	£0.7m	£1.7m	£(1.7)m	£9.0m	£2.6m
Percentage of year-end present value of scheme liabilities	2.6%	5.7%	(6.0)%	30.0%	5.0%

24. Called up share capital

	2025 £m	2024 £m
Authorised, allotted, called-up and fully paid:		
130,000,000 (2024:130,000,000) ordinary shares of £1 each	130.0	130.0
At end of financial year	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 2025	At amortised cost £m	FVTPL £m	Total £m
Assets			
Cash and balances held at central bank	69.5	-	69.5
Loans and advances to financial institutions	7.9	-	7.9
Derivative financial instruments	-	16.8	16.8
Government bonds	27.9	-	27.9
Debt securities	135.8	-	135.8
Loans and advances to customers	1,802.9	36.8	1,839.7
Other assets	4.4	-	4.4
Total financial assets	2,048.4	53.6	2,102.0
Liabilities			
Deposits from banks	67.0	-	67.0
Deposits from customers	1,860.3	-	1,860.3
Derivative financial instruments	-	5.1	5.1
Other liabilities	10.4	-	10.4
Total financial liabilities	1,937.7	5.1	1,942.8

As at 30 September 2024	At amortised cost £m	FVTPL £m	Total £m
Assets			
Cash and balances held at central bank	151.3	-	151.3
Loans and advances to financial 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



• 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:

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 £36.8m (2024: £43.6m) of assets which have been classed as FVTPL and represent retirement mortgages.

	Fair Value		Book Value	
	2025 £m	2024 £m	2025 £m	2024 £m
Loans and advances (retirement mortgages) – classified as FVTPL	36.8	43.6	37.9	44.3
	36.8	43.6	37.9	44.3

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

	2025 £m	2024 £m
At start of year	43.6	49.4
Fair value (loss)/gain in the Income Statement	(0.3)	0.1
Redemptions	(6.5)	(5.9)
At end of financial year	36.8	43.6

As at 30 September 2025	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	-	-	36.8	36.8
Derivative financial instruments	-	16.8	-	16.8
Total financial assets at FVTPL	-	16.8	36.8	53.6
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	5.1	-	5.1
Total financial liabilities at FVTPL	-	5.1	-	5.1

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



• 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. The CMI 2023 mortality improvement model was retained for year-end 2025.

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 2025, the year end 2024 mortality scalar assumption has been retained.

Voluntary redemptions

Unlike with mortality, there are no published industry tables that can be used to reference the rate of voluntary redemptions. This assumption is therefore derived from the Bank's own experience on this product. The fair value for retirement mortgages is materially insensitive to the choice of early redemption 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 retirement mortgage portfolio, the expense inflation rate is 3.89% as at September 2025 (2024: 4.33%).

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 (2024:4.5-year point) on the yield curve based on the average duration of our business) at 30 September 2025 was 6.26% (2024: 6.07%) - including an illiquidity spread of 2.44% (2024: 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 average future property growth (net of underperformance) for the portfolio (based on the 4.5-year point on the RPI inflation curve) at 30 September 2025 was 2.80% p.a. (2024: 3.22% p.a.). This includes an adjustment for an excess of wage vs price growth assumption of 0.26% p.a. at 30 September 2025 (2024: 0.24% p.a.), and an adjustment for underperformance of 0.60% p.a. (2024: 0.60% p.a.).

The value of the no-negative equity guarantee as at 30 September 2025 is £0.01m (2024: £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:

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 to the left.

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 2025	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances held at central bank	69.5	-	-	-	-	69.5
Loans and advances to financial institutions	7.9	-	-	-	-	7.9
Derivative financial instruments	-	0.5	1.9	10.4	4.0	16.8
Government bonds	-	-	-	27.9	-	27.9
Debt securities	4.6	29.0	9.7	92.5	-	135.8
Loans and advances to customers	123.1	77.1	185.1	1,176.7	277.7	1,839.7
Other financial assets	4.4	-	-	-	-	4.4
Total financial assets	209.5	106.6	196.7	1,307.5	281.7	2,102.0
Liabilities						
Deposits from banks	32.0	35.0	-	-	-	67.0
Deposits from customers	269.3	295.3	555.3	740.4	-	1,860.3
Derivative financial instruments	-	-	0.1	1.0	4.0	5.1
Other financial liabilities	10.4	-	-	-	-	10.4
Total financial liabilities	311.7	330.3	555.4	741.4	4.0	1,942.8
Interest sensitivity gap	(102.2)	(223.7)	(358.7)	566.1	277.7	159.2

	Interest rates +100 BP	Maintenance expenses +10%	Property inflation -100bps	Increase in illiquidity premium +1%
	£m	£m	£m	£m
30 September 2025	(0.4)	(0.1)	-	(1.5)
30 September 2024	(0.1)	(0.1)	-	(1.8)



• Financial instruments (continued)

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

As at 30 September 2024	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances held at central bank	151.3	-	-	-	-	151.3
Loans and advances to financial 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 financial 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 financial 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
Loan commitments liabilities - 2025	32.9	2.9	4.2	2.9	-	42.9
Loan commitments liabilities -2024	46.5	-	6.0	6.0	-	58.5

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 2025	Book value	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities							
Deposits from banks	67.0	32.5	35.7	-	-	-	68.2
Deposits from customers	1,860.3	269.7	297.9	565.9	775.6	-	1,909.1
Derivative financial instruments	5.1	-	-	0.1	3.7	8.5	12.3
Other financial liabilities	10.4	10.4	-	-	-	-	10.4
Total financial liabilities	1,942.8	312.6	333.6	566.0	779.3	8.5	2,000.0
As at 30 September 2024	Book value	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities							
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 financial 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

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 financial 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 £46.5m (fair value less than book value) (2024 £75.1m fair value greater than book value) and for deposits from customers £81.6m (2024:£70.2m) (fair value is less than book value). In addition, the Bank estimates that the fair values of Government Bonds and Debt securities is £11.7m less than book value (2024: £8.1m 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 2025 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, Real Estate Finance 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 for the Retail, Real Estate and Motor receivables portfolios are as follows:

Economic Assumption	Y1 %	Y2 %	Y3 %	Y4 %	Y5 %
UK GDP Growth					
Upside	1.69	1.76	1.77	1.84	1.95
Baseline	1.28	1.57	1.63	1.65	1.75
Downside	0.50	1.17	1.26	1.27	1.38
Scenario weighted forecasts	1.17	1.51	1.56	1.59	1.70
UK Unemployment Rate					
Upside	4.18	4.15	3.98	3.72	3.55
Baseline	4.89	4.79	4.57	4.34	4.17
Downside	6.46	5.71	5.45	5.25	5.09
Scenario weighted forecasts	5.14	4.88	4.66	4.43	4.26
The following assumptions only impact the Real Estate portfolio					
% Change in S&P 500 Index <sup>1</sup>	14.4				
% Change in Energy Index	(5.05)	(17.44)	(5.85)	n/a	n/a
% Change in Non-Energy Index	2.09	(3.29)	(3.12)	n/a	n/a
% Change in Proportion of Downgrades <sup>1</sup>	19.3				
The following assumption only impacts Motor receivables					
Bank of England Base rate					
Upside	2.32	2.36	2.62	2.62	2.61
Baseline	3.58	3.50	3.50	3.50	3.50
Downside	5.39	4.31	4.22	4.22	4.21
Scenario weighted forecasts	3.75	3.40	3.45	3.45	3.45
The following assumption only impacts the Retail portfolio for the year ending 30 September 2025					
UK Mortgage interest rates					
Upside	2.61	2.71	2.94	2.91	2.89
Baseline	3.9	3.85	3.82	3.79	3.78
Downside	5.78	4.78	4.64	4.62	4.60
Scenario weighted forecasts	4.08	3.79	3.80	3.77	3.76

<sup>1</sup> - 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 2025 are:-

Scenario	Scenario assumptions	Weighting
Upside	<div><div>- The end of the conflict and the possible lifting of curbs on Russian gas and oil exports to Europe remains the most significant upside risk to the forecast. This would provide renewed downward pressure on inflation and allow interest rates to drop back more swiftly.</div><div>- The emergence of a lasting peace could boost global trade and bring stability to energy markets, supporting lower inflation in the UK.</div><div>- The inactivity rate has continued to ease back in recent quarters, though remains higher than the pre-pandemic rate. '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. Government infrastructure plans to reduce the NHS waiting-list backlog could help.</div><div>- The recently announced deals on trade with the US, India and the EU are encouraging, though will have a negligible impact on growth. The former leaves tariffs on imports of UK goods at a higher rate than when the latest US Presidency began. A broadening in the EU deal which was limited in its coverage represents a significant upside risk.</div><div>- The savings ratio has been trending up, though fell modestly in Q1 2025, the first decline in two years. Should consumer confidence rebound, this could pave the way for stronger consumer spending as households begin to draw down their savings.</div><div>- Bank of England rate setters are treading a line between tackling above-target inflation and offering support for a weak economy. A swifter easing of interest rates than in the base case would support output expansion.</div></div>	30.0%
Central	<div><div>- No Covid-19 related restrictions are reimposed.</div><div>- Conflict in Gaza continues as does the Russia-Ukraine conflict. There is no re-emergence of an Israel-Iran conflict. Related sanctions on and from Russia persist, but no new sanctions are introduced.</div><div>- The global oil price remains choppy around a flat trend. Forecast dynamics and outputs</div><div>- Some of the increase in cost to businesses related to the employers' NICs change announced in the Autumn Budget is passed on to consumers through a rise in the price of goods and services, with hiring intentions also softening (cost saving).</div><div>- CPI inflation is projected to rise a peak of 4.0% in Q3 2025. Inflation drops back to target in the second half of next year as one-off factors such as the increase in the OFGEM energy price cap in April drop out of the annual comparison.</div><div>- The unemployment rate rises to a peak of 4.9% in 2026.</div><div>- We expect further cuts to Bank Rate next year, with the rate settling at 3.5%.</div><div>- Real household disposable income growth slows in the coming quarters as inflation accelerates and the rate of increase in pay slows.</div><div>- GDP is expected to grow by 1.4% this year, supported by favourable base effects given the strong quarterly increase in Q1. On a quarterly basis growth is relatively subdued through the remainder of 2025 and into 2026 as consumer spending is constrained by slowing real personal disposable income growth and businesses grapple with elevated costs.</div><div>- Nonetheless, both consumer and business confidence are in better shape than has been the case in recent years, tariff related headwinds have diminished given a deal struck with US, and trade deals with India and the EU will offer support at the margin. Against this backdrop the rate of economic expansion through 2025/27 exceeds the 2023/24 average.</div></div>	40.0%
Downside	<div><div>- The primary risks to the UK economy stemming from the Middle East conflict is the potential for one or more major oil-producing nations to restrict supply as a political response to the situation in Gaza, or for a re-emergence of the Israel-Iran conflict. Either of these events would likely see the global oil price rise and supply chains disrupted. This would exert upward pressure on domestic inflation.</div><div>- The UK-US tariff agreement has reduced some trade-related risks, though a 10% base tariff on UK exports to the US remains. Broader global risks persist, with the US imposing a 15% tariff on most EU goods and a 25% tariff on Indian imports. As an open economy, the UK remains exposed to the inflationary and growth impacts of rising global trade barriers.</div><div>- Gilt yields remain elevated, raising the cost of servicing government debt. As a result, the likelihood of tax increases or spending cuts in the upcoming Autumn Budget has grown. These measures, aimed at meeting fiscal rules, pose a key downside risk to the economic outlook, as well as to business investment and confidence.</div></div>	30.0%



• 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 were:-

Scenario	Scenario assumptions	Weighting
Upside	<div>- 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.</div> <div>- 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.</div> <div>- '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.</div> <div>- 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.</div> <div>- 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.</div>	30.0%
Central	<div>- Continued conflict in Ukraine. Current sanctions remain, but no new sanctions are introduced.</div> <div>- 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.</div> <div>- The global oil price remains choppy around a flat trend.</div> <div>- 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.</div> <div>- The unemployment rises slightly to a peak of 4.5% in 2024/2025.</div> <div>- 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.</div> <div>- GDP grows by 1.2% in 2024, and 1.5% in 2025 supported by real income rises and moderate expansion in consumer spending.</div> <div>- Growth in 2025 would be stronger if not for elevated interest rates and high tax rates.</div> <div>- No Covid-19 related restrictions are reimposed.</div> <div>- 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.</div>	40.0%
Downside	<div>- 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.</div> <div>- 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.</div> <div>- 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.</div>	30.0%

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



• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

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

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

Portfolio	Methodology for determining the LGD
Retail mortgages	Calculated by using the Black Scholes model to reflect that the portfolio is secured against the underlying property as this will calculate the theoretical value of the total loss, should all policies default.
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:

	£m	2025	%
Fully secured by a first charge on residential property	1,409.7		100.0
	1,409.7		100.0
Fair value adjustments	(1.1)		
Total retail loans	1,408.6		
Analysed as	£m		
Total retail loans carried at FVTPL	36.8		
Total retail loans carried at amortised cost	1,371.8		
Total retail loans	1,408.6		
		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		

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

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Satisfactory	1,201.6	(0.2)
Stage 2	Watchlist	158.7	(0.4)
Stage 3	Default	9.8	(0.3)
		1,370.1	(0.9)
Plus: Loan fee deferral		2.6	
Provisions for impairment		(0.9)	
Total		1,371.8	(0.9)

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.

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 2025 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	(0.5)

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:



• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

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

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 30 September 2024	1,225.7	83.0	4.4	1,313.1
Advances	124.7	58.9	0.5	184.1
Stage transfers	(30.8)	24.4	6.4	-
Repayment and settlement	(118.0)	(7.6)	(1.5)	(127.1)
At 30 September 2025	1,201.6	158.7	9.8	1,370.1

Arrears

Performance risk is measured by those accounts in arrears. The total loan balances in arrears at 30 September 2025 amounted to £10.9m (2024: £10.6m).

Past due but not impaired

As at 30 September 2025 there were no retail exposures that were past due but not impaired (2024: £nil).

Forbearance

At 30 September 2025, there were 10 loans in forbearance (2024: 11 loans).

Amounts written off in the year

There were no amounts (2024: None) written off in the year that are still subject to enforcement activity.

Sensitivity

A 100% weighting for a negative scenario produces an additional ECL provision for Stage 1 and 2 of £0.2m (2024: £nil).

Credit risk: Commercial lending

Commercial: analysis of risk concentration

Loans secured on commercial property are as follows:

	2025		2024	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
Commercial mortgage	10.0	16.1	10.1	16.1
Development finance	28.1	64.4	18.5	28.9
Investment loans	182.5	372.4	161.7	315.9
Renewable energy	2.7	-	4.2	-
	223.3	452.9	194.5	360.9
Less: Loan fee deferral	(1.9)		(1.9)	
Provisions for impairment	(3.3)		(2.9)	
At end of financial year	218.1	452.9	189.7	360.9

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:

	2025		2025	
	£m	%	£m	%
Wales	25.7	11.5	24.3	12.5
London	66.4	29.8	66.5	34.3
Southeast & East of England	42.9	19.2	26.5	13.6
Midlands – England	29.3	13.1	28.1	14.4
Southwest of England	37.8	16.9	38.3	19.7
Northwest & Northeast of England	20.2	9.1	9.4	4.8
Scotland	1.0	0.4	1.4	0.7
	223.3	100.0	194.5	100.0

The average LTV in respect of Commercial loans is estimated to be 58.7% (2024: 56.5%). 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.

£3.5m (2024: £5.7m) of exposures have an LTV of greater than 100%. Of these, £1.8m (2024: £4.2m) are already classified as in default.

The largest exposure to one counterparty is £12.7m (2024: £13.6m) or 6% (2024: 7.0%) 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:

	2025		2024	
	£m	%	£m	%
Stage 1	207.1	92.7	171.1	88.0
Stage 2 – significant increase in credit risk	9.5	4.3	12.7	6.5
Stage 3 – default	6.7	3.0	10.7	5.5
	223.3	100.0	194.5	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	Total £m
At 30 September 2024	171.1	12.7	10.7	194.5
Advances and interest	66.7	0.2	0.3	67.2
Stage transfers	1.8	(1.8)	-	-
Repayment and settlement	(32.5)	(1.6)	(4.3)	(38.4)
At 30 September 2025	207.1	9.5	6.7	223.3

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 2025 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	13.5	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	79.6	(0.2)
3.2	Moderate risk	Stage 1 or 2	B+ to B-	98.4	(0.7)
4.1	Watch	Stage 1 or 2	B- to CCC	24.2	(0.2)
6	Default	Stage 3	CCC-	4.9	(0.7)
7	Loss	Stage 3	CCC-	1.8	(1.5)
Total				223.3	(3.3)

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 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	-
6	Default	Stage 3	CCC-	9.2	(1.2)
7	Loss	Stage 3	CCC-	1.5	(1.0)
Total				194.5	(2.9)



• Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Arrears

As at 30 September 2025 there were 3 Commercial loans in arrears (2024 3). The arrears total £0.9m (2024: £0.5m) and are fully provided for.

Past due but not impaired

As at 30 September 2025 and 30 September 2024 there were no Commercial loan balances that were past due but not impaired.

Forbearance

There were 2 (2024:2) instances of forbearance during the year on loans with a balance at 30 September 2025 of £4.9m.(2024: £6.6m).

Amounts written off in the year

£0.4m (2024 £nil) was written off in the year that is still subject to enforcement activity.

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and Stage 2 of £0.2m (2024:£0.4m).

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

	2025		2024	
	£m	%	£m	%
Wales	1.6	4.0	3.7	5.2
London – England	14.6	37.0	42.1	58.8
Southeast & East of England	11.7	29.6	13.4	18.7
Midlands – England	7.1	18.0	7.6	10.6
Northwest - England	1.3	3.4	1.3	1.8
Southwest of England	3.2	8.0	3.5	4.9
	39.5	100	71.6	100

The average LTV in respect of PBTL loans is 63.8% (2024:64.3%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term/tenant as well as geographical location. One exposure has an LTV of greater than 100% (2024:None).

The largest exposure to one counterparty is £4.5m (2024: £10.4m) or 11.5% (2024:14.5%) of gross balances.

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

PBTL: analysis of risk concentration

Loans secured on PBTL property are as follows:

	2025		2024	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
PBTL lending	39.5	60.8	71.6	107.7
At end of financial year	39.5	60.8	71.6	107.7

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

The Bank's PBTL loan portfolio comprises the following:

	2025		2024	
	£m	%	£m	%
Loans secured on PBTL property	39.5	100.0	71.6	100.0
	39.5	100.0	71.6	100.0
Less: Loan fee deferral	-		(0.1)	
Provisions for impairment	(2.2)		(1.2)	
At end of financial year	37.3		70.3	



• 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:

	2025		2025	
	£m	%	£m	%
Stage 1	28.1	71.1	37.1	51.8
Stage 2 – significant increase in credit risk	4.6	11.7	30.3	42.3
Stage 3 – default	6.8	17.2	4.2	5.9
At end of financial year	39.5	100	71.6	100

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

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 30 September 2024	37.1	30.3	4.2	71.6
Interest added	-	-	0.4	0.4
Stage transfers	3.3	(5.5)	2.2	-
Repayment and settlement	(12.3)	(20.2)	-	(32.5)
At 30 September 2025	28.1	4.6	6.8	39.5

PBTL: lending provisions

Exposure by credit rating

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

30 September 2025

Risk grade	Description	Stage	Credit Rating	Gross Loan Balance £m	ECL Provision £m
2.2	Low risk	Stage 1	BB+ to BB	8.6	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	9.0	-
3.2	Moderate risk	Stage 1 or 2	B+ to B-	12.0	(0.1)
4.1	Watch	Stage 1 or 2	B- to CCC	3.1	(0.1)
6	Default	Stage 3	CCC-	2.3	(0.3)
7	Default	Stage 3	CCC-	4.5	(1.7)
Total				39.5	(2.2)

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)

Arrears

As at 30 September 2025 there were 2 PBTL loans in arrears (2024: £Nil). The arrears totalled £0.2m and are fully provided for.

Past due but not impaired

As at 30 September 2025 there were no PBTL loans that were past due but not impaired (2024: None).

Forbearance

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

Amounts written off in the year

There were no amounts (2024: None) written off in the year that are still subject to enforcement activity.

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and 2 of £NIL (2024: £0.3m).



• 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:

	£m	2025	%
Fully secured by a first charge against a used motor vehicle	177.9		100.0
	177.9		100.0
	£m	2024	%
Fully secured by a first charge against a used motor vehicle	96.3		100.0
	96.3		100.0

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 2025 is disclosed below:

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Performing	158.0	(2.4)
Stage 2	Non-performing	11.6	(0.8)
Stage 3	Default	8.3	(4.0)
Post Model Adjustment		-	(0.2)
		177.9	(7.4)
Plus: Loan fee deferral		12.6	
Provisions for impairment		(7.4)	
Total		183.1	

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

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 30 September 2024	84.0	5.7	2.8	92.5
Advances and interest	132.1	0.1	0.1	132.3
Stage transfers	(16.3)	8.4	7.9	-
Repayment and settlement	(41.8)	(2.6)	(2.5)	(46.9)
At 30 September 2025	158.0	11.6	8.3	177.9



• Financial risk management objectives and policies (continued)

Credit risk: Motor receivables

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. 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	Non-performing	5.7	(0.3)
Stage 3	Default	2.8	(1.3)
		<b>92.5</b>	<b>(3.1)</b>
Plus: Loan fee deferral		6.9	
Provisions for impairment		(3.1)	
<b>Total</b>		<b>96.3</b>	

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 2025 amounted to £13.2m (2024: £4.5m).

Past due but not impaired

As at 30 September 2025 there were no Motor exposures that were past due but not impaired (2024: none).

Forbearance

There were 434 (2024:155) instances of forbearance during the year on loans with a balance at 30 September 2025 of £3.6m (2024: £1.4m).

Amounts written off in the year

There were no amounts (2024: None) written off in the year that are still subject to enforcement activity.

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and 2 of £1.3m (2024:£0.2m).

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:

	2025 £m	2024 £m
Cash and balances held at central banks	69.5	151.3
Loans and advances to credit institutions	7.6	4.5
Government bonds	27.9	27.7
Debt securities	135.8	70.7
	<b>240.8</b>	<b>254.2</b>
Provision for impairment	-	-
<b>At end of financial year</b>	<b>240.8</b>	<b>254.2</b>

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:

	2025 £m	2024 £m
AAA to AA-	240.8	254.2
	<b>240.8</b>	<b>254.2</b>

Concentration of credit risk

The geographical exposure is as follows:

	2025 £m	2024 £m
UK	236.2	249.8
Other	4.6	4.4
	<b>240.8</b>	<b>254.2</b>

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 defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. Funding risk arises when the Bank does not maintain a diversified and stable funding base, while minimising its cost.

To limit these risks, management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. The Assets and Liabilities Committee (“ALCO”) is responsible for managing the Bank’s liquidity risk through comprehensive policies, governance and review procedures, stress testing, monitoring of limit sets to ensure these are in line with the overall liquidity risk appetite and strategy of the Bank. The treasury department of the Bank is responsible for working with other departments within the Bank to ensure the liquidity risk strategy is executed. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required.

The Bank maintains a portfolio of highly

marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Bank also has lines of credit that it can access to meet liquidity needs. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows:

Advances to deposits ratio	2025 %	2024 %
Year end	99.8	103.7
Maximum	103.0	113.6
Minimum	97.7	103.7
Average	99.5	108.6

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 bonds, 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.

The maturity analysis of assets and liabilities is disclosed in notes 25 (e) & (f) to the financial statements.

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 2025. The principal risk management tool to mitigate interest rate risk is the use of interest rate swaps (“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 for hedging purposes, 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 and the related hedging position. Further details of the Bank’s hedging strategy are contained in the Accounting Policies on pages 44 to 45, note 1.17.

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.

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.

	£m	2025	%	£m	2024	%
Wales	1.8		4.9	2.2		5.2
East Anglia	-		-	1.8		4.2
East Midlands	1.8		4.9	1.9		4.4
Greater London	1.6		4.4	1.5		3.5
Yorkshire & Humberside	2.6		7.1	2.9		6.8
Northwest	4.2		11.4	4.8		11.2
Scotland	7.2		19.7	9.0		21.0
Outer Metropolitan	3.7		10.0	9.2		21.5
Outer Southeast	5.4		14.6	-		-
Southwest	4.5		12.1	4.6		10.8
West Midlands	3.0		8.2	3.0		7.0
North	1.0		2.7	1.9		4.4
	36.8		100.0	42.8		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 2025 (2024: £nil).

g) Pension risk

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

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.

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

	2025 £m	2024 £m
Loan Commitments		
Expiring in less than one year	40.0	52.5
Expiring in more than one year	2.9	6.0
At end of financial year	42.9	58.5

Capital commitments

The Bank had contracted capital commitments amounting to £nil at 30 September 2025 (2024: £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 2025 and 30 September 2024:

	2025 £m	2024 £m
Amounts due/(owed) from parent and fellow subsidiaries		
Reimbursement liability due to The Carlyle Trust Limited	(0.1)	(0.1)
Swap collateral liability due to Hodge Reversions Limited	(3.4)	(3.4)
Amount due from The Carlyle Trust Limited	0.2	0.5
Group relief debtor	3.3	1.8
At end of financial year	-	(1.2)
Deposits owed to parent and fellow subsidiaries		
Sterling House Limited	(0.6)	(0.2)
Wingwest (Fountain Lane) Limited	(0.1)	(0.4)
The Carlyle Trust Limited – parent	(0.2)	(1.1)
Carlyle Property Development Company Limited	(0.3)	-
Hodge Reversions Limited	(0.3)	(0.5)
At end of financial year	(1.5)	(2.2)



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 2025	Due within 12 months £m	Due after 12 months £m	Total £m
Assets			
Cash and balances held at central banks	69.5	-	69.5
Loans and advances to financial institutions	7.9	-	7.9
Derivative financial instruments	2.4	14.4	16.8
Government bonds	-	27.9	27.9
Debt securities	43.3	92.5	135.8
Loans and advances to customers	385.3	1,454.4	1,839.7
Intangible assets	2.6	11.9	14.5
Property and equipment	0.5	0.1	0.6
Investment properties	0.2	-	0.2
Deferred tax assets	1.4	0.8	2.2
Other assets	6.6	-	6.6
Pension assets	-	0.9	0.9
Total assets	519.7	1,602.9	2,122.6
Liabilities			
Deposits from banks	67.0	-	67.0
Deposits from customers	1,119.9	740.4	1,860.3
Derivative financial instruments	0.1	5.0	5.1
Other liabilities	10.4	-	10.4
Total liabilities	1,197.4	745.4	1,942.8

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 financial 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

31. Contingent assets and liabilities

There are no contingent assets or liabilities at 30 September 2025 (2024: None).



32 . Post balance sheet event (non adjusting)

On 1 December 2025, the Bank entered into a portfolio purchase transaction with Blue Motor Finance acquiring the cashflow rights to a portfolio of Hire Purchase lease assets that were previously originated by Blue Motor Finance. The Bank paid a total consideration for the portfolio of £99.5m with the assets to be reported as part of the Motor Receivables portfolio from December 2026 onwards. The purchase is expected to improve the financial performance of the Bank, notably across FY26 and FY27.

33 Restatement

The Bank has made a restatement in respect of the classification of interest revenue on derivative financial instruments. In the prior year, interest revenue on derivative financial instruments was incorrectly offset against interest expense. The Bank now considers that such interest should be presented as part of Interest revenue and due to the materiality of the adjustment has restated the comparative figures accordingly. As this is a reclassification, there is no impact on Net interest income and the Loss before taxation for the financial year as set out below:-

	As previously submitted 2024 £m	Prior year adjustment	Restated 2024 £m
Interest revenue calculated using the EIR method	92.1	17.3	109.4
Interest expense calculated using the EIR method	(52.4)	(17.3)	(69.7)
Net interest income	39.7	-	39.7
Loss before taxation for the financial year	(2.1)	-	(2.1)

34 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.

	2025 Unaudited £m	2024 Unaudited £m
Common Equity Tier 1 capital	162.8	166.2
Total risk weighted assets	930.2	841.1
Common Equity Tier 1 capital ratio	17.5%	19.8%
Total own funds	162.8	166.2
Total risk weighted assets	930.2	841.1
Total capital ratio	17.5%	19.8%

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: 2025: £NIL (2024: £14,000).

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 Shareholder 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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