

The Carlyle Trust Limited

**Annual report and financial
statements**

30 September 2021

**Registered number
00361131**

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Officers and professional advisers

Directors	Jonathan Hodge	Chairman
	David Landen	Chief Executive Officer F.C.C.A., B.Sc.
	Graeme Hughes	A.C.I.B., M.B.A.
	Helen Molyneux	LLD (Hons), LLB (Hons).
	John Barbour	M.B.A., B.Sc.
Company Secretary	Kirsty Williams	LLB (Hons).
Registered Office	One Central Square Cardiff CF10 1FS	
Auditor	Ernst & Young LLP Bristol	
Principal bankers	Lloyds Bank Plc London	

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Chairman's Statement

I am pleased to present the financial statements of The Carlyle Trust Limited group (the "Group") and the separate entity financial statements of The Carlyle Trust Limited (the "Company") for the year ended 30 September 2021.

The main trading entity within the Group is Julian Hodge Bank Limited (the "Bank").

The focus of the year has been one of continued strategic alignment of the Group behind our retail ambitions whilst the management team provided excellent leadership and direction to colleagues to deliver improved service during the extended challenge presented by COVID-19 and its impact on customers and markets alike. The response from colleagues across all of our teams was exemplary and the Board would like to place on record our sincere appreciation to all colleagues who stepped up to the challenge with such tremendous professionalism.

At a Group level, the Board agreed with the shareholders to sell Hodge Life Assurance Company Limited ("Hodge Life"), which has been part of the Group for 55 years. Following an extensive assessment of the Group's longer-term options, it was decided that the sale would provide an opportunity to access capital to facilitate ambitious growth plans, which will ultimately create significant value and a greatly enhanced customer experience. The sale will provide the Group with significant funds to continue to grow our specialist business and enable us to focus, going forward, on our core business areas of specialist lending and savings.

During the year, the Group undertook a deep dive into the 5-year strategic plan, led by the executive management with support and challenge from Fenchurch Advisory, a respected corporate finance consultancy. The focus of the plan is to grow the retail balance sheet, primarily in specialist mortgages, building on the experience and expertise that exists in the Group, alongside creating a truly digitally-enabled savings franchise, which will see Hodge offering a broader range of savings propositions to a wider customer market. The Group is also exploring options involving the experience and skillsets that exist within our commercial lending team that could employ additional capital to enhance shareholder value.

Whilst the goals are ambitious, benchmarking confirms that the outcomes of balance sheet growth, return on capital and profitability are achievable and realistic, and so the Board and shareholders were happy to endorse the plan and to provide the investment and resources needed to deliver the strategy.

The Board also agreed the strategic direction of the Group in respect of our environmental, social and governance ("ESG") goals for the 5-year plan, following an extensive review led by the executive team with the added expertise and insight of specialists from KPMG.

Our initial commitment made to support ESG was for Hodge to achieve carbon neutrality for direct emissions from operations by the end of 2021. Following support from the Carbon Trust, in understanding our footprint, a further commitment has been made to progress work in understanding downstream emissions such as scope 3 financed emissions. In doing so, this will then allow a credible transition plan to be developed, ensuring that the social initiatives of Hodge continue to develop and mature. We will show more public disclosure of these through the Hodge website and ensure they are supported through our purpose.

Returning to focus on the current year, there has been encouraging progress made in improving the customer experience and in growing the mortgage balances despite the continued challenge presented by COVID-19.

A key deliverable under the 5-year strategy is to provide a high level of customer experience, one that benchmarks as top quartile against our key competitors. In order to enable this, we have created a dedicated customer experience team who have introduced the tools and technology to assess how and when the experience falls short of our standards and to work across the business to make immediate and sustainable changes. This has seen some very immediate results, nowhere better illustrated than in our savings proposition where we have seen nearly 80% of customers rating the Bank as 5* via Trustpilot.

The growth in mortgages has been very promising, with a series of record new business levels month-on-month, reflected in the growth in the residential mortgages held at amortised costs of over £332m, a 95.7% increase year-on-year.

Chairman's Statement

The management team has delivered on our plans to start servicing mortgages in-house, with a new business operations team and mortgage servicing platform. This is a critical step in improving the customer experience, increasing agility & flexibility as managing our operational costs.

Alongside this, new capability has been delivered to enable repayment facilities as well as the launch of the holiday let product range, both key to our growth strategy.

Whilst there is still a considerable amount of investment necessary in the savings business, we have seen a 16.8% increase in balances during the year. The direction is clear; to develop the digital proposition, and the investment in this has begun with a raft of improvements to the savings journey, all driven by feedback from our customers.

The expertise and capabilities in the technology team has meant that in many cases these changes went from 'ideation' to 'live' in a matter of weeks, as the teams have developed their ability to deliver change quickly and without disruption.

Looking forward, we have started to build the foundations for our future savings proposition, through deciding to replace one of a very few remaining legacy parts of our application estate with Mambu, a modern 'software as a service' cloud native core banking platform. Mambu will allow us to move ahead at a far greater pace and deliver the customer experience and product offerings needed to support the business strategy.

Behind the scenes, we have continued to invest heavily in making sure that our customers' data continues to be protected from the ever-changing cyber security threat landscape, along with a heavy focus on the risks presented through our supply chain.

In light of the revised business strategy, we have revised our information systems strategy for the business plan period ahead, setting out how we will leverage technology to augment and free up the human element in those customer interactions where intervention from our colleagues can add the most value.

The revised strategy was subjected to an external review, which confirmed it sets out a direction that aligns with 'best of breed' strategies within the market and clearly aligns with Hodge's strategic intent. The Board and shareholders were happy to approve the strategy.

Our continued improvements in risk management have seen further investment into first line risk management in the retail area, strengthening of credit risk capability across both first line and second line of defence, refinement of risk taxonomy, and an overhaul of supporting principal risk management frameworks, also embedding and maturing our understanding and assessment of risks associated with climate change.

Our business

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

We continue to offer a range of later life products assisting our customers prior to, at and post-retirement, a market we have been in since 1965. Our unrivalled expertise enables us to develop solutions for customers based on a clear understanding of their needs. Alongside our later life proposition, we operate in other specialist mortgage markets offering professional and holiday buy-to-let products. In addition, through our commercial lending business, we offer real estate finance to property developers and investors.

We use our considerable experience to ensure that we have ample liquidity and capital to safeguard our customers' savings and to meet all regulatory requirements.

Residential mortgages

The Group's specialist mortgage business is focused on complex income, later life lending and holiday buy-to-let mortgages.

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

Our range of residential mortgages allow customers to either repay the capital or choose interest only. Our interest-only mortgages allow customer to repay the mortgage with or

without a fixed term end. Our later life mortgages are available to those over 50, a growing market that we are committed to serving.

2021 has been a year of focus, continuing to build on the service delivery improvements we made in 2020 and continuing to place our customers at the heart of everything we do. We continue to grow, with new lending up 95.7% on the prior year, and in 2022 we will continue to launch into new specialist areas. We will continue to invest in the intermediary experience with the launch of our retention platform during this year. We continue to engage, value and respond to feedback from the broker community, delivering a range of product updates and service enhancements throughout the year. We work closely with them to ensure that the products we offer deliver for our customers, whilst providing flexibility in a notoriously rigid market. This is essential as we continue to evolve our product offering in 2022.

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

Commercial lending

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

2021 has been a year of challenge impacted by the ongoing uncertainty around the COVID-19 pandemic. Nevertheless, we have delivered an operating profit in line with our forecasts of £3.9m, despite closing to new business for Q1 and Q2 as market uncertainty prevailed.

During that downtime, we made significant changes to our business model to sustain our growth, both during and after the pandemic. This has involved revising our credit policy in line with our updated strategic direction, reconfiguring our products, and refreshing the team structure to align to our proposition and client needs. To secure sustained growth, we have created a proposition function and product pipeline to deliver our future plan volumes.

In the second half of the year, as the wider economy reopened and confidence levels rebounded, we opened up to new business. We're pleased that our updated offering has proved attractive to our target market to date. We are growing our lending volumes and securing new clients, whilst continuing to service our existing client base.

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

Savings

Customer savings are, and will remain, the most important part of our funding base. Throughout 2021 we have continued our commitment to support more customers through our online channels. Continued investment in digital capabilities, simplifying processes and leveraging technology to quicken our service is driving positive feedback from current and new customers evidenced in our 'excellent' Trust Pilot score.

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

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

The Group is a participant in the Bank of England's Term Funding Scheme ("TFSME"), which provides a cost-effective source of funding in the form of central bank reserves to support additional lending to the real economy. The TFSME balance represents 10% of the overall funding from deposits with banks and customers at 30 September 2021.

Financial performance

Despite 2021 being a challenging year, with the ongoing economic environment caused by COVID-19, the Bank increased its loans and advances to customers by 25.8% and its deposits from customers by 16.8%.

Key performance indicators

The Group monitors several key performance indicators to measure progress against objectives and to demonstrate financial soundness.

During 2020, the Group changed its reporting period from 31 October to 30 September as Hodge staff have previously been operating under pressure to complete the financial statements in the lead up to the December holiday season. Hence the 2021 period below is comparing a 12-month period with an 11-month period for continued operations:-

	2021	2020
Financial performance	£m	£m
Net interest income	17.5	15.4
Net operating income	31.3	21.4
Operating profit / (loss)	1.0	(8.8)
Profit / (loss) before tax	7.2	(22.2)
Group financial ratios	%	%
Net interest margin ¹	1.0	0.7
Cost income ratio ²	87.5	104.2
Financial soundness	%	%
Common Equity Tier 1 ratio ³	20.2	19.7
Leverage ratio ⁴	8.3	9.6
Liquidity Coverage Ratio ⁵	349.6	272.9

¹ Net interest income / average gross loans as a proportion of total asset

² Cost income ratio = total administrative expenses as a proportion of net operating income

³ Common Equity Tier 1 Capital divided by off-balance sheet assets

⁴ Common Equity Tier 1 Capital divided by total debt and off-balance sheet exposures

⁵ High quality liquid assets divided by net cash outflows over 30 days calculated in line with the SBC Act

The Group's performance at a net interest income level improved during the year as the Group continued with its planned growth in residential mortgages. The residential mortgages increase has been offset slightly by the reduction in commercial lending balances and the sale of the equity release mortgage portfolio.

The Group's performance at an operating profit level improved as a result of the planned growth in residential mortgages, noted above, but also due to decreases in provisions as the economy recovers from the initial shock of COVID-19.

The Group's operating profit has further benefitted from the disposal of two parcels of land for residential development, generating a profit on disposal of £3.7 million. There has also been an improvement in investment income during the year as a result of the residential property market reopening, leading to increased sales of reversionary assets.

The Group has continued with a planned increase in overheads due to substantial investment in people and systems to enable the Group to deliver on its growth aspirations over the coming years. The Group continues to make significant investment, particularly on automating key operating platforms and in first and second line risk and compliance activities, recognising that any successful financial services business must invest to stay relevant and to meet the aspirations and expectations of its customers.

The Group made the decision to sell its last remaining portfolio of equity release mortgages during the year, generating a loss of £5.5 million. The disposal of this portfolio significantly reduces the Group's susceptibility to both house price and interest rate risk.

Fair value gains of £11.7 million, driven by an increase in the house price index and an increase in interest rates, results in an overall profit before tax of £7.2 million from continued operations.

Chairman's Statement

The impact on the financial results for the year ended 30 September 2021 from Hodge Life amounts to a loss of £13.2 million. The results of Hodge Life have been presented as a discontinued operation as this subsidiary was sold during the year. The prior period figures have been restated to present the impact of Hodge Life on the Consolidated Income Statement separately from the continuing operations.

Our shareholders' funds were further improved due to a £2.0m positive movement in the actuarial position of the defined benefit pension scheme.

Loans and advances to customers

The Group continues to focus on its core markets of residential and commercial mortgages. The net lending figure has been driven by record gross lending of residential mortgages which has been offset by redemptions and the successful exit of a number of legacy commercial lending exposures and the disposal of the equity release mortgage portfolio.

Liquidity

The Group holds liquid assets to meet its financial obligations in both business-as-usual and stressed situations. As at the year-end, the Group held £530.6 million of liquid assets (2020: £467.9 million) which are available to protect it from liquidity stresses. Liquidity levels have, therefore, continued to be within board risk appetite and regulatory requirements throughout the period. This includes the liquidity coverage ratio ("LCR"), which ensures that sufficient high-quality liquid assets are held to survive a short term severe, but plausible, liquidity stress. The Bank's LCR as at 30 September 2021 was above the regulatory minimum of 100% at 349.6% (2020: 272.9 %), this being driven mainly by the increase in liquid assets.

Capital and leverage

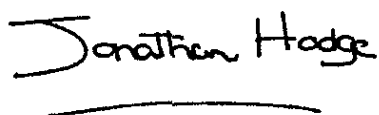
The Group holds capital to protect itself and its depositors against unexpected losses. The amount of capital required to be held is determined as part of the Group's capital risk appetite which assesses the material risks to which the Group is exposed, how those risks are managed, and the level of capital 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 2021 the Bank's CET1 ratio stood at 20.2% (2020: 19.7%).

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 2021 was 8.3% (2020: 9.6%). At present, we are not captured under the Financial Policy Committee's leverage ratio framework. However, the leverage ratio will become a binding requirement in 2022, albeit the Bank comfortably meets the requirements.

Governance and the Board

The NEDs have provided a high level of support and challenge during the year and I am confident that we have a highly professional and effective Board which will ensure that the strategy is subject to robust and prudent oversight.

The end of this calendar year will see the retirement of Helen Molyneux from the Board after many years of invaluable insight, challenge, mentoring and counselling support. Helen leaves with the thanks and appreciation of all Board members but from me in particular as Chair.



Jonathan Hodge
Chairman
6 December 2021

Strategic Report

Principal activities

The Company is a holding company of a financial services group which contains a bank and until the sale of Hodge Life in July 2021, a life assurance entity. The Bank is an Authorised Institution under the Financial Services and Markets Act 2000.

Business review, future developments and key performance indicators

A review of business, future developments and key performance indicators is included in the Chairman's statement on pages 1 to 5. The key performance indicators are considered to be net operating income and operating profit.

Results and dividends

The profit for the year after taxation from continuing activities amounted to £9.0m (2020: loss of £17.1m). The loss for the year after taxation from discontinued activities amounted to £13.2m (2020: profit of £6.7m).

Dividends of £6.6m (2020: £nil) were declared and paid during the year.

Corporate Social Responsibility

Throughout 2021 we have deepened our commitment to helping older people live safely. Working closely with Hourglass, the only UK charity committed to preventing abuse against older people, we are working together to raise awareness and provide better support where it's needed, including helping our teams understand more around the particular issue of financial abuse, how to spot it and how we help.

Stakeholder Engagement – S172 Statement

The Companies Act 2006 requires the directors of the Group to act in the way he or she considers, in good faith, would be most likely to promote the success of the Group for the benefit of its stakeholders as a whole. In doing so, s172 requires a director to have regard, amongst other matters, to the:

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

In discharging its s172 duties, the directors of the Group have regard to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. The Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all of the Group's stakeholders. By considering the Group's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board does, however, aim to make sure that its decisions are consistent.

The Board delegates authority for the day-to-day running of the business to the Group's CEO and, through him, to the Executive Committee to set, approve and oversee the execution of the Group's strategy and related policies. The Board reviews matters relating to financial and operational performance, business strategy, key risks, stakeholder-related matters, compliance and legal and regulatory matters, over the course of the financial year. This is supported through the consideration of reports and presentations provided at board meetings and reviewing aspects of the Group's strategy at least twice a year. A high-level summary of the Group's strategy can be found in the Chairman's Statement on page 1.

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

A summary of how the Board engages with customers, employees, suppliers, the community, and the Shareholder is provided on the subsequent pages.

Our Customers

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

The Group has an established a Customer Experience function to drive customer obsession and continues to work closely with our broker community to ensure the products we design are needed and add value for customers. We capture feedback through a variety of surveys and capture reviews through Trust Pilot as an independent measure of our service and experience as and when customers interact with the Group.

2021 has been a year of continued progress as we accelerate our commitment to putting the customer at the heart of everything we do. We have engaged our customer and broker communities in the evolution of our product and service offerings, continuing to champion the needs of our audiences in helping them achieve their goals and ambitions.

Hodge continues to invest heavily in technology to improve our operational and digital capability which is vital in delivering great service to our customers. This investment brings efficiency and scalability to our operations. In 2021, the Group has invested in a new banking platform that will underpin our entire business model, improving efficiencies and capabilities for our teams, whilst delivering first class experiences to our customers. Together with a new online savings application journey that we've invested in, 2022 will see further enhancements to our offering.

Our Employees

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

Throughout 2021, continued uncertainty surrounding the COVID-19 pandemic has reinforced our efforts in building colleague engagement through a range of communication channels, as well as via several colleague representative groups. Keeping our teams safe and empowering them to continue to provide for our customers remains our priority through.

During the year, a consultation with employees of the Group was held around the pension scheme. Following the consultation, it was decided to close the defined benefit scheme to further accrual and to replace it with a new defined contribution scheme for all employees.

The Board has appointed a designated non-executive director to assist with providing a link between employees and the Board. Helen regularly attends colleague engagement meetings as a board representative and provides a summary to the other directors on the output of such meetings.

Our Suppliers

Our suppliers play an important role in the operation of the Group's business to enable the delivery of an effective and efficient business model. We continue to see benefits from investing in a new procurement system in 2020, improving the due diligence, procurement process and the management of the relationship with our suppliers.

During 2021 several material contracts were presented to the Board for approval, covering both new relationships and contract renewals. In approving these contracts, the Board considered the strategic value of the relationships as well as looking at the customer impacts, risk exposure, legal and compliance considerations and financial implications. The Group has a framework in place which provides a consistent and proportionate approach to the procurement and management of suppliers to ensure that it can effectively engage, manage and terminate, where appropriate, supplier relationships.

Our Shareholder

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

During the year, the Board agreed with the Shareholder to sell Hodge Life in order for the Group to access capital to facilitate its ambitious growth plans.

The Board provides updates to and engages with the Shareholders of the Group regularly to obtain a clear understanding of their views and requirements.

Our Community

Throughout 2021 we have continued to make a difference to the lives of others through our corporate social responsibility commitment. The Group has a focus on supporting older people live safe lives through partnering with Hourglass. Additionally, every member of our team benefits from up to four days off work per year to support good causes with the Group's 'Four to do More' initiative.

The Environment

A climate change policy is being developed outlining governance structures, disclosures, risk management approach and the SMF responsibility in the business. An internal working group is also being established to develop the Group's approach and understanding of the risk posed by climate change. Climate change is also being addressed specifically as part of the regulatory risk management documents; Internal Capital Adequacy Assessment Process ('ICAAP') & Internal Liquidity Adequacy Assessment ('ILAAP').

The Group is reporting Green House Gas ('GHG') emissions for the first time in 2021 to comply with the Streamlined Energy & Carbon Reporting (SECR) initiative. We tasked The Carbon Trust 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 Group a more sustainable organisation, both in terms of our carbon footprint and the products that we offer. The figures are for the year to June 2021.

Scope 1 – direct GHG emissions

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

Scope 2 – energy indirect emissions

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

Scope 3 – other indirect emissions

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

The Group is compliant with the Streamlined Energy and Carbon Reporting standard ("SECR").

Scope	GHG Emissions Source	2021
Scope 1 (tCO ₂ e)	Fuel (Buildings)	5.0
	Fuel (Owned vehicles)	-
Scope 2 (tCO ₂ e)	Electricity	17.0
	Company electric vehicles	-
Scope 3 (tCO ₂ e)	Business Travel	2.6
	Employee Commuting	144.8
	Other	0.1
Total location based GHG emissions (tCO ₂ e)		169.5
Average number of employees		321
GHG per employee (tCO ₂ e)		0.53
GHG use per £m income (tCO ₂ e)		28.3

All of the Group's operations are UK based. The Group'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.

Corporate Governance

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

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

The Board's agenda during 2021 was focused on overseeing and supporting executive management to deliver on the Group's strategic objectives. It is during periods of significant change, which the Group is currently undergoing, that leadership and good governance are more important than ever.

The Group's Board comprises one executive and four 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 Group'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 Group's business and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group'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 Group outsources its internal audit function to Deloitte. The primary purpose of this function is to review the effectiveness of controls and procedures established to manage risk. An audit programme is agreed annually in advance with the Audit Committee and the Head of Internal Audit attends each meeting to present a summary of audit reports completed during the period and to provide any explanations required by the Committee.

Governance framework

With the sale of Hodge Life, a key focus has been simplifying and strengthening the governance framework to support the ambitious growth plans of the Group in the coming years.

COVID-19

The impact of COVID-19 continued to be a key area of focus during the year, with the Board continuously reviewing our response to the pandemic throughout our business and governance, protecting the health and well-being of our colleagues as well as maintaining the financial and operational integrity of the Group.

The Board

The Board has ultimate responsibility for the proper stewardship of the Group in all its undertakings. It meets regularly throughout the year to discharge its responsibilities for all important aspects of the Group'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 Group's shareholders to ensure a clear understanding of their views and requirements. A shareholders' covenant has been agreed detailing the Shareholders' expectations of the Group.

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 and was updated during the year which describes the high-level policy and decision-making arrangements within the Group. 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.

Jonathan Hodge - Chair

Jonathan is the son of the Group's founder, Sir Julian Hodge, and represents the family's interest on the Board. Jonathan joined the Group in 1983, was appointed Group Managing Director in 1985 and held that position until reverting to a non-executive role in 2011. He continues to chair the Company and the Board of Trustees of the Hodge Foundation.

Graeme Hughes – Non-Executive Director

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

John Barbour - Non-Executive Director

John joined the Board in March 2017 and is also Chair of the Audit Committee. John was previously Managing Director of Treasury at ICBC Standard Bank, the London-based financial markets and commodities bank, owned by China-based ICBC and South African-based Standard Bank. He has spent his entire career in treasury and financial markets-related roles, having previously worked at Investec and Bank of New York.

Helen Molyneux - Non-Executive Director

Helen joined the Board in June 2015 and is the Chair of the Remuneration Committee. Until November 2016, Helen was the CEO of New Law Legal, a business she established from scratch, which now employs over 400 people. She is also a non-executive director of the EUI board of the Admiral Insurance Group.

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

David Landen – Director

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

Board Committees

Audit Committee

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

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

The Board has established the following standing committees at a Hodge Bank level:

Remuneration Committee

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.

Innovation and Change Committee

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 Group's product and services. It monitors investment and management of risk associated with the delivery of change associated with the Group's strategic initiatives.

Risk and Conduct Committee

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

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

Nomination and Governance Committee

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

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

Risk appetite

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

Risk management

As a financial services provider in the UK managing risk effectively is fundamental to our strategy, long term resilience and to operating successfully day to day. This is supported by a business model with a medium to low risk profile which over the past year has seen a number of initiatives reduce volatility of some key risks by removing elements of exposure not easily mitigated through management actions.

Over the past year, the COVID pandemic has persisted and whilst the business impacts and disruption have been managed and the economic impact, so far, less than initially suggested the ongoing uncertainty remains as the government support measures are withdrawn, but there are positive signs emerging and therefore the Group is taking cautious steps whilst seeking to fulfil its strategy.

Set-out below are the most significant risks faced by Hodge which could impact the viability of the Group 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 Risk and Conduct Committee to support it in its duties. During 2021 the principal risks have been slightly revised from last year to support better flow and escalation of risk for the business.

CREDIT RISK

The risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group when it falls due.

The Group assesses its exposure to and management of credit risk with reference to three sub-categories:

- **Retail credit risk** – the risk of financial loss from residential mortgages due to the customer's failure to service interest or repay capital.
- **Commercial credit risk** – the risk of financial loss from a commercial lending customer's failure to settle financial obligations as they fall due or movements in commercial real estate prices.
- **Treasury credit risk** – the risk that a debt issuer or counterparty will fail to make payments (either interest or principal) in a timely manner or the credit worthiness of borrowers deteriorate reducing the value of investments.

FINANCIAL RESILIENCE RISK

The risk that the Group 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.

The Group assesses its exposure to and management of financial resilience risk with reference to the following sub-categories:

- **Capital risk** – The risk that the Group fails to maintain sufficient capital to meet regulatory requirements, absorb volatility and losses through economic cycles, and to maintain the confidence of customers, investors and regulators.
- **Liquidity risk** – The risk that the Group is unable to meet its financial obligations as they fall due or unable to maintain customer and stakeholder confidence or can only do so at an uneconomic cost.
- **Interest rate risk** – The risk of loss in the value of, or net income arising from, assets and liabilities due to changes in the market level of interest rates.
- **Market risk** – The risk that the net value of, or net income arising from, assets and liabilities is impacted because of market price or rate changes.

STRATEGIC RISK

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

Our approach is to closely manage and monitor the strategic plan along with in-depth stress testing reported regularly through the Group's committee structure to the Board and senior management. This is supported through additional risk reporting and monitoring of the key threats to the business on risk registers and horizon scanning to ensure the business can respond appropriately.

CONDUCT RISK

The risk that the Group's behaviour will result in poor/unfair outcomes for customers. Our approach is to monitor:-

- **Product design** – a product governance policy is in place to ensure that all new products are subject to an appropriate level of scrutiny and that existing products are subject to regular review to identify any risk of poor customer outcome. Product Committee oversees the new product launches and annual product reviews to ensure product remains suitable for their respective target markets
- **Distribution and sales** – all customer lending products are distributed via independent brokers to ensure that customers receive independent advice. Deposits and commercial lending products are offered on an execution-only basis. Approval processes are in place to ensure that product literature is clear, fair and not misleading and complies with relevant regulation and legislation. Oversight on distribution and sales is provided by the Conduct Committee
- **Product servicing** – performance against service levels is monitored and customer feedback used to determine whether good outcomes are achieved. Internal quality assurance is undertaken. All complaints are thoroughly investigated and responded to promptly. Monitoring is in place to identify and quickly address any trends or systemic issues.
- **Culture and governance** – reward strategies and incentives are not based on sales targets and mandatory conduct risk and customer outcomes training is in place for all new and existing employees.

OPERATIONAL RISK

The risk of loss from control failures or external events, which result in unexpected or indirect loss to the Group.

Our operational policies and procedures, supported by staff training, are in place to govern the way in which these risks are managed across the business. Senior management are responsible for understanding the nature and magnitude of risks within each business area, and for implementing appropriate controls to mitigate those risks. Operational losses and near-misses are recorded and analysed to determine whether there are any systemic issues that need to be addressed by the business.

Horizon scanning is conducted to identify emerging regulatory and legal developments to ensure that the business can respond appropriately. This is supported by a horizon scanning working group with representatives from across the business.

Oversight on operational risk is provided by committees and governance forums. The Board is mindful that, as the digital capability of the Group increases, the risk associated with cyber-attacks also increases. As such, particular focus continued to be given to this area throughout the year to ensure a robust cyber response.



David Landen

Director

6 December 2021

Directors' Report

The directors present their report together with the audited financial statements for the year ended 30 September 2021. 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:

Business review and future developments	- page 1
Results and dividends	- page 4
Risk management policies	- page 13
Financial instruments	- note 32

Directors and directors' interests

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

Jonathan Hodge* (Chairman)
David Landen
Alun Bowen* (Resigned December 2020)
Helen Molyneux*
John Barbour*
Graeme Hughes*

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

* All non-executive directors excluding Jonathan Hodge are deemed to be independent by the Board. Jonathan Hodge is the holder of 45,724 ordinary shares in the Company. None of the other directors held any interests in the shares of any Group companies.

Political contributions

The Group made no political contributions during either year.

Post Balance Sheet events

There were no post Balance Sheet events to disclose.

Dividend

Dividends of £6.6m (2020: £nil) were declared and paid during the year.

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

Re-appointment of auditors

A resolution for the re-appointment of EY as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Going concern

The directors have considered the appropriateness of the going concern basis of preparation of the financial statements taking into account the Group's current and projected performance, including consideration of projections incorporating the impact of the COVID-19 pandemic on the Group's capital and funding position. As part of this assessment the Board considered:

- The impact on the Group's profits from an expected reduction in income from residential and commercial lending combined with increased credit impairment charges;
- The sufficiency of the Group's capital base, which is expected to be sufficient to weather even a severe COVID-19 downturn; and
- The adequacy of the Group's liquidity.

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

The directors confirm that they are satisfied that the Group will continue in business for a period of fifteen months to 31 December 2022. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

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 Group's financial statements in accordance with International Financial Reporting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) in conformity with the requirements of the Companies Act 2006. The Company has 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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

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

Directors' Report

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 Group and parent Company financial statements prepared in accordance with IFRS and FRS 101, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company.
- The Strategic Report includes a fair view of the development and performance of the business and the position of the Group 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 Shareholders' to assess the Group'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 Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

By order of the Board



David Landen
Director
6 December 2021

Independent Auditor's Report to the Members of The Carlyle Trust Limited

Opinion

We have audited the financial statements of The Carlyle Trust Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2021 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated and the Parent Company's Balance Sheet, the Consolidated and the Parent Company's Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 38 (except for the sections of 38 which are marked as unaudited), including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements 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 Group's and of the Parent Company's affairs as at 30 September 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities 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 Group 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, 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 Group and Parent 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 reviewed the future profit forecasts, including assessing the reasonableness of assumptions, and historical forecasting accuracy; 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 Group and Parent Company's ability to continue as a going concern for a period of fifteen months to 31 December 2022.

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 Group's ability to continue as a going concern.

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 there is 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 Group and the Parent 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent 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 Group or the Parent 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 entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the Parent Company and determined that the most significant are those that related to the reporting framework (IFRS, FRS 101 and the Companies Act 2006), supervisory requirements under 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 Group and the Parent Company are complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and regulators; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- We assessed the susceptibility of the Group and the Parent Company's financial statements to material misstatement, including how fraud might occur, by considering the controls established to address the risks identified to prevent or detect fraud. We made enquiries of management and those charged with governance to supplement our assessment of how fraud might occur. We also considered risk of management override and by assuming revenue, specifically topside manual adjustments to revenue, to be subject to fraud risk. Our audit procedures included testing 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 Group's methods of enforcing and monitoring the compliance with such policies, reviewing complaints logs, and inspecting correspondence with regulators.

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.

Auditor's Report

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Andy Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
7 December 2021

Consolidated Income Statement

For the year ended 30 September 2021

	Notes	Year ended 30 September 2021 £m	Restated 11-month period ended 30 September 2020 £m
Continued operations			
Interest receivable and similar income	4	40.0	38.6
Interest payable and similar charges	5	(22.5)	(23.2)
Net interest income		17.5	15.4
Fees and commissions receivable		2.0	1.8
Investment income		7.0	3.3
Other operating income		1.1	0.9
Profit on sale of inventory	23	3.7	-
Net operating income		30.7	21.4
Administrative expenses	6	(27.4)	(22.3)
Depreciation and amortisation	17/18	(2.8)	(2.2)
Impairment losses on loans and advances to customers	16	(0.1)	(5.7)
Operating profit/ (loss)		1.0	(8.8)
Other fair value gains / (losses)	7	11.7	(17.5)
(Losses) / gains arising from the derecognition of financial assets held at amortised cost	12/13	-	4.1
Loss on disposal of loans and advances to customers held at fair value	15	(5.5)	-
Profit/(loss) before taxation from continued operations	8	7.2	(22.2)
Tax credit on profit / (loss)	9	1.8	5.1
Profit/(loss) for the financial period from continued operations		9.0	(17.1)
Discontinued operations			
(Loss)/ Profit after tax for the year/ period from discontinued operations	10	(13.2)	6.7
Loss for the financial period from operations		(4.2)	(10.4)

The prior period figures have been restated to only include continued operations due to the sale of a subsidiary called the Hodge Life Assurance Company Limited in July 2021. Please review note 10 for additional detail.

Consolidated Statement of Other Comprehensive Income

For the year ended 30 September 2021

	Notes	Year ended 30 September	11-month period ended 30 September
		£m	£m
Loss for the financial period		(4.2)	(10.4)
Re-measurement of defined benefit pension plan	29	2.6	(4.4)
Deferred tax thereon	21	(0.6)	0.8
Total other comprehensive income		2.0	(3.6)
Total comprehensive income for the period		(2.2)	(14.0)

The results for the year ended 30 September 2021 relate to both continuing and discontinued operations. The notes on pages 31 to 89 form part of these financial statements.

Consolidated Balance Sheet

As at 30 September 2021

	Notes	30 September 2021	30 September 2020
		£m	£m
Assets			
Cash and balances held at central banks	11	412.2	147.9
Government bonds	12	29.8	77.9
Debt securities	13	42.3	124.8
Loans and advances to credit institutions	14	46.3	117.3
Loans and advances to customers	15	1,061.1	1,431.3
Intangible assets	17	7.4	7.3
Property, plant and equipment	18	5.6	6.4
Investment properties	19	103.2	179.9
Investments	20	23.8	6.4
Reinsurance asset		-	0.9
Deferred tax assets	21	11.4	6.8
Other assets	22	14.6	11.9
Inventory	23	0.1	7.7
Total assets		1,757.8	2,126.5
Liabilities			
	Notes	30 September 2021	30 September 2020
		£m	£m
Deposit from banks	24	145.0	87.5
Deposits from customers	25	1,248.3	1,068.9
Derivative financial instruments	26	15.3	82.8
Provisions for long term business - liabilities arising from insurance contracts		-	528.0
Lease liabilities	27	4.2	4.5
Other liabilities	28	10.7	4.9
Pension scheme deficit	29	14.2	21.0
Total liabilities		1,437.7	1,797.6
Share capital and reserves			
Called-up share capital	30	1.1	1.1
Other reserves		319.0	327.8
Total equity		320.1	328.9
Total equity and liabilities		1,757.8	2,126.5

These financial statements were approved by the Board of directors on 6 December 2021 and were signed on its behalf by:


David Landen
Director

Company Balance Sheet

As at 30 September 2021

	Notes	30 September 2021	30 September 2020
		£m	£m
Assets			
Loans and advances to credit institutions	14	129.1	1.5
Property, plant and equipment	18	4.0	4.5
Investments	20	23.8	6.4
Deferred tax asset	21	-	0.5
Other assets	22	1.2	0.8
Shares in group undertakings and participating interests	35	73.0	86.5
Total assets		231.1	100.2

	Notes	30 September 2021	30 September 2020
		£m	£m
Liabilities			
Lease liabilities	27	4.2	4.5
Deferred tax liabilities	21	0.2	-
Other liabilities	28	0.5	6.4
Total liabilities		4.9	10.9
Share Capital and reserves			
Called-up share capital	30	1.1	1.1
Other reserves		225.1	88.2
Total equity		226.2	89.3
Total equity and liabilities		231.1	100.2

These financial statements were approved by the Board of directors on 6 December 2021 and were signed on its behalf by:



David Landen
Director

Consolidated Statement of Changes in Equity

For the year ended 30 September 2021

Group	Called up share capital	Retained earnings	Pension reserve	Total
	£m	£m	£m	£m

2021

At beginning of year	1.1	344.8	(17.0)	328.9
Loss for the financial year	-	(4.5)	0.3	(4.2)
Other comprehensive income	-	-	2.0	2.0
Pension additional contribution	-	(4.0)	4.0	-
Dividend payments	-	(6.6)	-	(6.6)
At end of the financial period	1.1	329.7	(10.7)	320.1

Group	Called up share capital	Retained earnings	Pension reserve	Total
	£m	£m	£m	£m

2020

At beginning of year	1.1	354.9	(13.9)	342.1
IFRS 16 adoption impact	-	0.8	-	0.8
Restated Balance	1.1	355.7	(13.9)	342.9
Loss for the financial year	-	(10.9)	0.5	(10.4)
Other comprehensive income	-	-	(3.6)	(3.6)
At end of the financial period	1.1	344.8	(17.0)	328.9

Company Statement of Changes in Equity

For the year ended 30 September 2021

Company	Called up Share Capital	Profit and loss account	Total
	£m	£m	£m
2021			
At beginning of period	1.1	88.2	89.3
Profit for the financial year	-	143.2	143.2
Other comprehensive income	-	0.3	0.3
Dividends	-	(6.6)	(6.6)
At end of the financial period	1.1	225.1	226.2

Company	Called up Share Capital	Profit and loss account	Total
	£m	£m	£m
2020			
At beginning of period	1.1	87.9	89.0
IFRS 16 adoption impact	-	0.8	0.8
Restated Balance	1.1	88.7	89.8
Loss for the financial year	-	(0.5)	(0.5)
Dividends	-	-	-
At end of the financial period	1.1	88.2	89.3

Consolidated Statement of Cash Flows

For the year ended 30 September 2021

	Notes	Year ended 30 September	11 months ended 30 September
		2021	2020
		£m	£m
Cash flows from operating activities		100.7	(126.0)
Taxation receives / (paid)		0.4	(0.3)
Net cash inflow / (outflow) from operating activities		101.1	(126.2)
Cash flows from investing activities			
Purchase of government bonds	12	-	(124.5)
Proceeds from sale of government bonds	12	18.1	92.1
Disposals due to restructuring exercise	12	-	7.6
Disposals due to sale of Hodge Life	12	29.3	-
Proceeds from sale of debt securities	13	8.3	34.5
Disposals due to restructuring exercise	13	-	5.4
Disposals due to sale of Hodge Life	13	74.1	-
Purchase of debt securities	13	-	(29.1)
Additions to intangible assets	17	(1.9)	(2.8)
Additions to property, plant and equipment	18	(0.2)	(0.5)
Purchase of investments	20	(18.8)	(0.6)
Proceeds from sale of investments	20	1.8	0.7
Net cash inflow / (outflow) from investing activities		110.7	(17.2)
Cash flows from financing activities			
Payments on lease liability	27	(0.5)	(0.6)
Dividends paid	37	(6.6)	-
Net (outflow) from financing activities		(7.1)	(0.6)
Net increase in cash and cash equivalents		204.7	(144.1)
Decrease due to disposal of Hodge Life		(11.4)	-
Cash and cash equivalents at start of year		265.2	409.3
Cash and cash equivalents at end of period		458.5	265.2
Cash held at central banks repayable on demand	11	412.2	147.9
Loans and advances to credit institutions repayable on demand (1)	14	46.3	117.3
Cash and cash equivalents at period end		458.5	265.2

(1) Loans and advances to credit institutions includes collateral held by swap counterparties of £22.5m (2020: £86.3m) which is pledged against the market value of derivative instruments and comprises interest-bearing cash deposits. Collateral that has been pledged and held is not restricted and is returned at the end of the contract.

A Analysis of the balance of cash and cash equivalents

2021	Notes	At 30 September 2020	Cash flow	At 30 September 2021
		£m	£m	£m
Cash held at central banks repayable on demand	11	147.9	264.3	412.2
Loans and advances to credit institutions repayable on demand	14	117.3	(71.0)	46.3
		265.2	193.3	458.5

2020	Notes	At 30 October 2019	Cash flow	At 30 September 2020
		£m	£m	£m
Cash held at central banks repayable on demand	11	321.9	(174.0)	147.9
Loans and advances to credit institutions repayable on demand	14	87.4	29.9	117.3
		409.3	(144.1)	265.2

B Reconciliation of operating profit to operating cash flows

	Notes	Year ended 30 September	11 months ended 30 September
		2021	2020
		£m	£m
Cash flows from operating activities			
Profit / (loss) before tax		7.2	(13.4)
Net Income Statement losses on government bonds	12	0.7	2.4
Net Income Statement gains on debt securities	13	0.1	(0.7)
Net change in loans and advances to customers	15	370.2	(196.8)
Impairment provision charge for losses on loans	16	0.1	5.7
Amortisation of intangible assets	17	1.8	1.3
Depreciation of plant property and equipment	18	1.0	0.9
Net change in investment property	19	76.7	(0.1)
Net Income Statement (gains) / losses on investments	20	(0.4)	0.3
Net change in reinsurance asset		0.9	(0.9)
Net change in other assets	22	(3.1)	(0.9)
Net change in inventory	23	7.6	0.1
Net change in deposits from banks	24	57.5	15.0
Net change in deposits from customers	25	179.4	29.4
Net change in derivatives	26	(67.5)	1.5
Net change in provision for long term business liabilities		(528.0)	29.3
Finance expense on lease liability	27	0.2	0.2
Net change in other liabilities	28	5.8	0.7
Net change in pension scheme deficit	29	(9.5)	-
Net cash inflow / (outflow) from operating activities		100.7	(126.0)

Notes to the Financial Statements

1 Accounting policies

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board in conformity with the requirements of the Companies Act 2006.

The preparation of the Group's financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

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

The Company's financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

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

- A Cash Flow Statement and related notes;
- Disclosures in respect of transactions with members of a group;
- Disclosures in respect of the compensation of Key Management Personnel and related parties.

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

The parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own Income Statement in these financial statements. The Parent Company profit for the year after taxation was £143.2m (2020: loss of £0.5m) which is dealt with in the consolidated financial statements.

Going concern

The directors have considered the appropriateness of the going concern basis of preparation of the financial statements taking into account the Group's current and projected performance, including consideration of projections incorporating the impact of the COVID-19 pandemic on the Group's capital and funding position. As part of this assessment the Board considered:

- The impact on the Group's profits from an expected reduction in income from residential and commercial lending combined with increased credit impairment charges;
- The sufficiency of the Group's capital base, which is expected to be sufficient to weather even a severe COVID-19 downturn; and
- The adequacy of the Group's liquidity.

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

The directors confirm that they are satisfied that the Group will continue in business for a period of fifteen months to 31 December 2022. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

1 Accounting policies (continued)

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

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

The Group has considered a number of amendments to published International Financial Reporting Standards and interpretations effective for the year ended 30 September 2021. They are either not relevant to the Group or do not have a significant impact on the Group's financial statements.

Standards and interpretations effective for the Group in future periods:

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

Summary of Significant Accounting Policies

Interest receivable and interest payable

Interest income and expense are recognised in the Income Statement for all instruments measured at amortised cost using the effective interest rate method. The Group 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 residential and buy-to-let portfolios. An allowance is made for prepayments for the residential portfolios, but no adjustment is made for the commercial and portfolio buy-to-let portfolios.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance. For credit-impaired financial assets i.e. Stage 3, a credit-adjusted effective interest rate is calculated using estimated future cash flows including loss allowance. The Group 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 the reversal of the impairment is fulfilled.

Revenue Recognition

Investment income

Investment income consists of realised gains on financial assets and liabilities held at fair value through profit and loss ('FVTPL').

Realised gains and losses on financial assets and liabilities held at fair value represent the difference between the proceeds received, net of transaction costs, and the original cost.

Fees and commissions

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

Premium income

Premiums received in respect of pension annuity insurance contracts are recognised as revenue when they become payable by the policyholder when the policy commences and are shown before deduction of commission. All premium revenue is in respect of single premium insurance business.

Insurance contracts

Prior to the sale of Hodge Life, the Group offered insurance products in the form of annuities and also held one reinsurance contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly over time. As the Hodge Life's products are single premium contracts, acquisition expenses are expensed to the Income Statement as incurred.

1 Accounting policies (continued)

Profit on sale of inventory

Profit on sale of inventory relates to the sale of land for development. The profit on sale is equal to the revenue generated of the sale less the costs related to the sale.

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. All such revenue is reported net of discounts, and value added and other sales taxes.

Cost of sale comprises land, direct materials and direct labour costs that have been incurred in bringing the inventories to their location and condition prior to sale.

Financial Instruments

Recognition

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

Financial assets

The Group has classified its financial assets as follows:

- **Amortised cost:** Cash and balances held with central bank, Residential, Portfolio Buy-to-Let and Commercial loans, Loans and advances to credit institutions, Government bonds, Debt securities and Other assets. These assets are held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the loans are solely payments of principal and interest on the principal amount outstanding.
- **FVTPL:** Lifetime mortgages including Retirement and Equity release mortgages, Reinsurance asset and Government bonds/Debt securities recognised at fair value to prevent an accounting mismatch. Lifetime 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 these products.

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

The 'business model assessment' is performed at a portfolio level and determines whether the Group'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 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 Group 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 Group may irrevocably designate a financial asset as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

1 Accounting policies (continued)

Financial liabilities

The Group has classified its financial liabilities as follows:

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

De-recognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is de-recognised when:

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

(ii) Financial liabilities

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

Fair value of financial instruments

On initial recognition, the best evidence of the fair value of a financial instrument is normally transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the Group 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 Group uses a fair value hierarchy that categorises financial instruments into three different levels as detailed in note 32. Levels are reviewed at each reporting date and this determines whether transfers between levels are required.

Equity release and retirement mortgages

On initial recognition, the fair value of equity release and 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.

For equity release mortgages, if the difference between the fair value at transaction date and the transaction price is a gain, it is not recognised but deferred. This difference will be a short-lived effect and is deferred over one year and recognised uniformly over this period into the Income Statement. If the difference between the fair value and the transaction price is a loss upon initial recognition, it is expensed to the Income Statement.

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

1 Accounting policies (continued)

Embedded derivatives

The NNEG is an embedded derivative. The Group does not separate the NNEG embedded derivative from the host instrument. The fair value of lifetime mortgages takes into account an explicit provision in respect of the NNEG which is calculated using a variant of the Black Scholes option pricing model. Further details are disclosed in note 32(d).

Measurement of Expected Credit Loss (ECL)

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

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

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

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

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

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

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

Significant increase in credit risk

The Group 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 160 points for residential mortgages. The quantitative criteria for which our commercial, portfolio buy-to-let and residential mortgages 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 Group considers 30-days past due to be an appropriate backstop measure and does not rebut this presumption. The granting of a short-term payment holiday of up to 60-days during the Covid-19 outbreak does not by itself represent a significant increase in credit risk.

Definition of default and credit-impaired assets

The Group's definition of default is fully aligned with the definition of credit-impaired. The Group 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 Group.

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 Accounting policies (continued)

Presentation of loss allowances in the Balance Sheet

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

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery.

Hedge accounting

The Group has elected to continue to apply the hedge accounting requirements of IAS 39. All derivatives entered into by the Group are for the purposes of providing an economic hedge. Where the criteria set out in IAS 39 are met, the Group uses hedge accounting and designates the hedging derivative as hedging fair value risks.

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

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

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

Derivatives are 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 macro fair value hedge portfolio. Any gain or loss is amortised over the period to the date of maturity of the derivative. If a derivative no longer meets the criteria for hedge accounting, the cumulative fair value hedging adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the underlying hedged item is sold or repaid, the unamortised fair value adjustment is recognised in the Income Statement.

Intangible assets

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

Intangible assets have finite lives and are assessed for indicators of impairment at each Balance Sheet date.

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

1 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

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

- | | |
|------------------------------------|-----------------------------------------|
| - Fixtures, fittings and equipment | 3-10 years |
| - Right-of-use asset | Remaining term of the lease – 11 years. |

Leases

(i) Right-of-use assets

The right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and is adjusted for any remeasurement of the lease liability. The cost of the right-of-use asset includes the amount of the lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

(ii) Lease liabilities

The lease liability is measured at the present value of the lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date, unless the interest rate implicit in the lease is readily determinable. After the commencement date, lease liabilities are classified as financial liabilities measured at amortised cost.

Investment properties – reversionary interests in properties

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

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

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

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

Inventories

Inventories are held at the lower of cost and net realisable value. Inventories comprise land held for development that has planning permission and is being developed for onward sale. Cost comprises land, direct materials and direct labour costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal.

1 Accounting policies (continued)

Long term business provision - liabilities under insurance contracts

The long-term business provision has been determined by the Board, on advice from the Chief Actuary. The estimation process used in determining the long-term business provision involves projecting annuity payments and the costs of maintaining the contracts.

Reinsurance asset

The Group transferred certain risks arising on its underlying insurance contracts through entering into contracts with reinsurers. Such contracts are classified as reinsurance contracts within the scope of IFRS 4 where significant insurance risk is transferred from the Group to the reinsurer. Reinsurance assets are the net contractual rights arising from cashflows due from and to reinsurers regarding ceded insurance liabilities.

The present value of the cash flows under the reinsurance contract comprises the expected cash flows receivable from the counterparty (i.e. the "floating" leg), net of the expected cash flows payable by the Group (i.e. the "fixed" leg) and reinsurance fees, all discounted at a rate consistent with that used for the gross insurance liabilities.

Gains on purchasing reinsurance are deferred and recognised as income within 'Reinsurance recoveries' in the Income Statement by amortising the initial day 1 gain over the lifetime of the reinsurance asset and through the revaluation of the cash flows from the present value element based on experience and economic assumptions.

The movement in the expected cash flows receivable are disclosed within Note 10 Discontinued Operations. 'Reinsurance recoveries' and the movement in the expected cash flows payable and the reinsurance fees paid are disclosed within 'Movement in Reinsurance Asset' in the Income Statement in Note 10 Discontinued Operations.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a measurable impact on the amounts that the Group will receive from the reinsurer. The impairment charge is recorded within 'Reinsurance recoveries' as an expense in the Income Statement.

1 Accounting policies (continued)

Taxation including deferred tax

Corporation tax on profits for the year comprises current and deferred taxation. Where group relief is received or surrendered from or to a group company, the corresponding liability or asset is settled in full.

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

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

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

Corporation tax is charged to the Income Statement.

Employee benefits

i) Pensions

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

Defined Benefit Pension

The Group operated a defined benefit pension scheme which is now closed to new entrants and to further accrual. The Company's subsidiary undertaking Julian Hodge Bank Limited is a participating employer 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 Group.

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

Defined Contribution Scheme

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

ii) Reimbursement asset / liability on pension deficit

The Company has recognised a reimbursement asset in respect of its pension scheme deficit which relates to retired employees that were contracted to the Parent Company (note 29). The movement in the reimbursement asset / liability each year is recognised in the Income Statement to the extent that the reimbursement relates to a charge or a gain in the Company's Income Statement. The defined benefit pension scheme liabilities are split between the Company and its subsidiary the Julian Hodge Bank Limited 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. 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 Company's defined benefit pension scheme assets less its share of the scheme's liabilities.

2 Judgement in applying accounting policies and critical accounting estimates

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

Judgements

Fair values of financial instruments

The Group 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 notes 26 and 32.

The availability of observable market prices and model inputs reduces the need for management judgement and estimation 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.

Where observable market data is unavailable, unobservable inputs are used in the actuarial valuation models to value equity release and retirement mortgages. The key assumptions used, and the related sensitivities are outlined in note 32.

Reinsurance deferred reserve up to sale of Hodge Life on 1 July 2021

Judgement is applied in amortising the day 1 gain recognised as a result of the reinsurance trade. The Group's policy is to amortise the deferred gain to the Income Statement over the lifetime of the reinsurance contract.

Estimates and assumptions

Impairment losses on loans and advances to customers

IFRS 9 has a single impairment model that applies to all financial instruments in its scope. Under this model, an entity must recognise either a 12-month or lifetime expected credit loss. ECLs are the present value of all cash shortfalls over the expected life of the financial instrument. The key assumptions used, and the related sensitivities, are outlined in note 33.

Value of reversionary investment properties

There is significant judgement applied in setting the assumptions used in calculating the fair value of reversionary interests in property. Further information on the following assumptions is provided in note 19.

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

Pension scheme assumptions

Estimation uncertainty surrounds the measurement of the pension scheme liabilities. The assumptions used as part of the valuation include the rate of salary increase, the discount rate applied to scheme liabilities and inflation. The assumptions used are disclosed in note 29.

Value of equity release and retirement mortgages including the value of the no-negative equity guarantee

There is significant judgement applied in setting the assumptions used in calculating the fair value of lifetime mortgages and the liability arising from the no-negative equity guarantee. Further information on the following assumptions is provided in note 32.

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

2 Judgement in applying accounting policies and critical accounting estimates (continued)

Measurement of insurance liabilities arising from annuity insurance contracts up to sale Hodge Life on 1 July 2021

The estimation of the ultimate liability arising from insurance contracts is Hodge Life's most critical accounting estimate.

For insurance contracts, the liabilities are calculated using a projection of cash flows after making assumptions about matters such as mortality and expenses. Discount rates used to value the liabilities are set with reference to the risk adjusted yields on the underlying assets. The most critical non-economic assumptions are mortality rates in respect of annuity business written and levels of future expenses. Such assumptions are based on recent actual experience, supplemented by industry information where appropriate.

At each reporting date, the estimates and assumptions referred to above are reassessed for adequacy and changes will be reflected in adjustments to the liability, through the Income Statement.

Measurement of reinsurance asset up to sale of Hodge Life on 1 July 2021

The reinsurance asset as a result of the longevity swap held by the Company represents the present value of the contractual cash flows less the carrying value of the deferred reserve.

Change in accounting estimates

There is significant judgement in the methodologies and assumptions applied in estimating the fair value of lifetime mortgages and reversions. The methodologies and assumptions contain unobservable inputs resulting in the fair value being classified as a Level 3 estimate within the IFRS 13 fair value hierarchy. Changes have been made during the period to the methodology used to discount the anticipated cash flows associated with the reversion and lifetime mortgage portfolios. The change in methodology results in a valuation approach that is more consistent with the approach used by many other financial institutions that hold these types of assets. The impact of these changes is disclosed within note 32 and are recognised prospectively as a change in accounting estimate.

Notes to the Financial Statements

For the period ended 30 September 2021

3 Segmental information

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

The Group operates within the banking sector wholly within the United Kingdom. The Group previously operated in the annuity life assurance services sector before disposing of Hodge Life in 2021.

Year ended 30 September 2021	Hodge Bank	Other Investments	Consolidation Adjustments & Reclassification	Total
	£m	£m	£m	£m
Interest receivable and similar income	39.6	0.4	-	40.0
Interest payable and similar charges	(22.0)	(0.5)	-	(22.5)
Fees and commissions receivable	2.5	-	(0.5)	2.0
Dividend income receivable	-	155.4	(155.4)	-
Investment income	6.0	1.0	-	7.0
Other operating income	0.1	0.9	0.1	1.1
Profit on sale of inventory	-	3.7	-	3.7
Administrative expenses	(25.9)	-	(1.5)	(27.4)
Depreciation and amortisation	(2.4)	(0.4)	-	(2.8)
Impairment losses on loans and advances to customers	-	(0.1)	-	(0.1)
Impairment losses relating to investments in subsidiaries	-	(13.5)	13.5	-
Operating profit/(loss)	(2.1)	146.9	(143.8)	1.0

Total assets by business segments	2021	2020
	£m	£m
Hodge Bank	1,713.4	1,409.2
Hodge Life	-	697.8
Other investments	177.1	36.3
Consolidation adjustments and reclassification	(132.7)	(16.8)
	1,757.8	2,126.5

Notes to the Financial Statements

For the period ended 30 September 2021

3 Segmental information (continued)

Restated as at 11-month period ended 30 September 2020	* Hodge Bank	Other Investments	Consolidation Adjustments & Reclassification	Total
	£m	£m	£m	£m
Interest receivable and similar income	38.4	0.3	(0.1)	38.6
Interest payable and similar charges	(22.8)	(0.5)	0.1	(23.2)
Fees and commissions receivable	1.8	-	-	1.8
Fees and commissions payable	-	-	-	-
Investment income	3.5	0.1	(0.3)	3.3
Other operating income	-	0.9	-	0.9
Administrative expenses	(22.3)	-	-	(22.3)
Depreciation and amortisation	(1.8)	(0.4)	-	(2.2)
Impairment losses on loans and advances to customers	(5.4)	(0.3)	-	(5.7)
Operating profit/(loss)	(8.6)	0.1	(0.2)	(8.6)

4 Interest receivable and similar income

	Year ended 30 September	Restated 11-months ended 30 September
	2021	2020
	£m	£m
Loans and advances to customers	39.1	36.3
Loans and advances to credit institutions	0.3	1.0
On other loans	0.1	-
Interest and other income on government bonds and debt securities	0.5	1.3
	40.0	38.6

5 Interest payable and similar charges

	Year ended 30 September	Restated 11 months ended 30 September
	2021	2020
	£m	£m
On customer accounts	13.9	14.5
On defined benefit pension scheme	0.3	0.4
On term funding scheme	0.1	0.2
On derivative financial instruments	8.0	7.9
Lease interest expense	0.2	0.2
	22.5	23.2

Notes to the Financial Statements

For the period ended 30 September 2021

6 Administrative expenses

	Year ended 30 September	Restated 11-months ended 30 September
	2021	2020
	£m	£m
Staff costs		
Wages and salaries	14.5	10.6
Social security	1.4	1.2
Pension costs – defined benefit scheme (note 29)	1.4	3.0
Pension costs – defined contribution scheme	0.8	-
Curtailment gain (note 29)	(0.7)	-
	17.4	14.8
Other administrative expenses	10.0	7.5
	27.4	22.3

Directors and employees

The average number of employees of the Group during the period was as follows:

	2021	2020
Provision of finance and banking	321	277
Provision of life assurance services	-	11
	321	288

Staff costs include remuneration in respect of directors as follows:

	Year ended 30 September	11-months ended 30 September
	2021	2020
	£m	£m
Fees	0.5	0.4
Aggregate emoluments as executives	0.9	0.7
	1.4	1.1

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

	Year ended 30 September	11-months ended 30 September
	2021	2020
	£m	£m
Aggregate emoluments	0.3	0.3
	0.3	0.3

The pension accrued for the highest paid director was £23,072 (2020: £61,362).

Retirement benefits accrued for two directors in 2021 (2020: two) in the defined benefit scheme.

Notes to the Financial Statements

For the period ended 30 September 2021

7 Other fair value gains / (losses)

	Year ended	Restated
	30 September	11-months ended
	2021	2020
	£m	£m
Movement in fair value of derivatives (note 26)	22.4	(4.5)
Movement in fair value of equity release and retirement mortgages	(11.5)	6.2
Reversal of unrealised gains on disposal of investment properties	(6.1)	(8.1)
Movement in fair value of investment properties (note 19)	6.2	(8.7)
Movement in fair value of debt securities and government bonds (notes 12 & 13)	-	2.2
Movement in fair value of equity investments (note 20)	0.4	(0.3)
Movement in fair value of hedged items attributable to hedged risk	0.3	(4.2)
	11.7	(17.5)

8 Profit / (loss) on ordinary activities before taxation

	Year ended	Restated
	30 September	11-months ended
	2021	2020
	£000	£000

Profit / (loss) on ordinary activities before taxation is stated after charging:

Remuneration of the auditor and its associates

Audit of these financial statements	25	25
Audit of discontinued operations	30	-
Audit of financial statements of subsidiaries	298	236
Audit of pension scheme	11	11
Other assurance fees	-	29
Impairment provision expense (note 16)	7	5,714
Amortisation (note 17)	1,855	1,308
Depreciation (note 18)	940	855

Notes to the Financial Statements

For the period ended 30 September 2021

9 Tax on profit/(loss)

	Year ended 30 September		11-months ended 30 September	
	2021		2020	
	£m	£m	£m	£m
Analysis of charge in year				
UK corporation tax				
Current tax on income for the year	-		(2.4)	
Prior period adjustment	-		(0.7)	
Total current tax		-		(3.1)
Deferred tax (note 21)				
Original reversal/timing difference				
Current year	1.5		(1.2)	
Prior period adjustment	(0.3)		0.1	
Effect of tax rate change on opening balance	(3.0)		(0.9)	
Total deferred tax		(1.8)		(2.0)
Tax on profit on ordinary activities		(1.8)		(5.1)

The total tax charge for the year is lower (2020: lower) than the blended rate of corporation tax in the UK. The differences are explained below.

	Year ended 30 September		11-months ended 30 September	
	2021		2020	
	£m	£m	£m	£m
Total tax reconciliation				
Profit / (loss) on ordinary activities before tax	7.2		(22.2)	
Current tax at 19.00% (2020: 19.00%)	1.4		(4.2)	
Expenses not deductible	0.5		0.2	
Rate differences	(3.0)		(0.9)	
Adjustments in respect of previous years	(0.3)		(0.5)	
Other	(0.4)		0.3	
Total tax charge (see above)	(1.8)		(5.1)	

In the current period the UK government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The closing deferred tax assets and liabilities have been calculated at 25% and accordingly a rate change adjustment has arisen as the opening deferred tax had been calculated taking into account the previously enacted rate of 19%.

10 Discontinued Operations

Disposal of Hodge Life Assurance Company Limited

On 1 July 2021, following regulatory approval, the Group sold its shareholding in the Hodge Life Assurance Company Limited to RGA Americas Reinsurance Company Limited for £152.0m.

The disposal is in line with the Group's strategy to focus on the main trading entity Julian Hodge Bank Limited. The principal activity of Hodge Life Assurance Company Limited was the provision of pension annuities and lifetime mortgage products. With Hodge Life being classified as discontinued operations, their results are no longer presented in the segmental note. The results of Hodge Life Assurance Company Limited up until the date of disposal on 1 July 2021 are presented below:-

	9-month period ended 30 June	11-month period ended 30 September
	2021	2020
	£m	£m
Earned premiums	19.3	22.8
Investment income	9.3	7.9
Unrealised (losses) / gains on investments	(33.2)	38.6
Total income	(4.6)	69.3
Gross claims and benefits paid	(21.2)	(25.4)
Movement in long-term business provision	27.7	(29.2)
Reinsurance premium	(0.4)	(0.3)
Movement in reinsurance asset	(1.4)	0.9
Administrative expenses	(4.2)	(6.5)
(Loss)/ Profit before taxation	(4.1)	8.8
Tax on profit	0.3	(2.1)
(Loss)/ Profit for the financial period	(3.8)	6.7
(Loss) on disposal of discontinued operation	(9.4)	
Tax on disposal of discontinued operation	-	
(Loss) after tax for the period from discontinued operations	(13.2)	

The net cashflows of Hodge Life were as follows:

	9-month period ended 30 June	11-month period ended 30 September
	£m	£m
Operating	44.5	2.7
Investing	(40.2)	7.0
Financing	-	-
Net cash inflow	4.3	9.7

11 Cash and balances held at central banks

	2021	2020
	£m	£m
Repayable on demand:		
Deposits with central banks	412.2	147.9
	412.2	147.9

12 Government bonds

	2021	2020
	£m	£m
Government bonds – at amortised cost	29.8	48.6
Government bonds – fair value through profit and loss	-	29.3
	29.8	77.9

The movement in government bonds is summarised as follows:

	2021	2020
	£m	£m
At start of period	77.9	55.5
Additions	-	124.5
Redemptions and interest received	(18.1)	(92.1)
Disposals due to restructuring exercise	-	(7.6)
Disposals due to sale of Hodge Life	(29.3)	-
Gains / (losses) from hedge accounting – Income Statement	-	(3.3)
Premium / discount unwind	(0.7)	-
Gain from changes in fair value – Income Statement	-	0.9
At 30 September	29.8	77.9

Of this amount £nil (2020: £12.0m) has been pledged as collateral under the Term Funding Scheme ('TFS').

Notes to the Financial Statements

For the period ended 30 September 2021

13 Debt securities

Group	2021	2020
	£m	£m
Debt securities – at amortised cost	42.3	50.7
Debt securities – fair value through profit and loss	-	74.1
	42.3	124.8

The movement in debt securities is summarised as follows:

Group	2021	2020
	£m	£m
At start of period	124.8	134.9
Additions	-	29.1
Disposals due to maturity	(8.3)	(34.5)
Redemptions and interest received	-	(5.4)
Disposals due to sale of subsidiary	(74.1)	-
Losses from hedge accounting – Income Statement	(0.1)	(0.6)
Gain from changes in fair value – Income Statement	-	1.3
	42.3	124.8

Of this amount £Nil (2020: £32.8m) has been pledged as collateral under the TFS. Collateral pledged is restricted.

14 Loans and advances to credit institutions

Group	2021	2020
	£m	£m
Repayable on demand	23.8	31.0
Collateral held by swap counterparties	22.5	86.3
	46.3	117.3

The collateral is pledged against the market value of derivative instruments and comprises interest-bearing cash deposits (note 26). Collateral that has been pledged and held is not restricted and is returned at the end of the contract. There are no provisions held in respect of loans and advances to credit institutions (2020: £nil).

Company	2021	2020
	£m	£m
Repayable on demand	129.1	1.5
	129.1	1.5

15 Loans and advances to customers

	2021	2020
	£m	£m
<i>Loans and advances – classified at amortised cost</i>		
Commercial	233.9	291.2
Residential	679.0	347.0
Portfolio buy-to-let	70.5	63.1
	983.4	701.3
Amounts owed from parent and fellow subsidiaries	-	-
Fair value adjustment for hedged risk	(1.0)	0.3
Loans and advances (equity release and retirement mortgages) – classified as FVTPL (note 32)	78.7	729.7
	1,061.1	1,431.3

Of this amount £190.4m (2020: £68.6m) has been pledged as collateral under the TFS. Collateral that has been pledged is restricted. During the year the Bank disposed of a portfolio of equity release mortgages for strategic purposes leading to a £5.5 million loss on disposal.

	2021	2020
	£m	£m
Loans and advances to customers held at amortised cost		
Gross balances	989.9	712.0
Less: Provision for impairment	(8.4)	(9.9)
Less: Loan fee deferral	1.9	(0.8)
Net balance	983.4	701.3

16 Impairment provisions on loans and advances to customers

	Stage 1	Stage 2	Stage 3	Total
	* £m	£m	£m	£m
2021				
At start of period	1.5	1.7	6.7	9.9
Utilised in the period	-	-	(2.1)	(2.1)
Income Statement				
Charge for loan impairment	(0.2)	0.3	0.3	0.4
Interest reduction for credit-impaired financial assets	-	-	0.2	0.2
At 30 September 2021	1.3	2.0	5.1	8.4

During the year, the Group has recovered £0.3m (2020: £nil) on a bad debt previously written off, this recovery has been recognised within the 'charge for loan impairment' line on the face of the Income Statement, reducing the charge for loan impairment to £0.1m (2020: £5.7m).

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
2020				
At start of period	2.4	0.1	9.0	11.5
Utilised in the period	-	-	(7.3)	(7.3)
Income Statement				
Charge for loan impairment	(0.9)	1.6	5.0	5.7
At 30 September 2020	1.5	1.7	6.7	9.9

The impact of modifications to contractual cash flows that has not resulted in derecognition is immaterial in 2021.

The methodology and assumptions used to calculate the IFRS 9 ECL provision is disclosed in note 33.

Notes to the Financial Statements

For the period ended 30 September 2021

17 Intangible assets

	Computer software	
	2021	2020
	£m	£m

Cost:

At start of period	10.1	7.4
Disposals	-	(0.1)
Additions	1.9	2.8

At 30 September	12.0	10.1
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Amortisation:

At start of period	(2.8)	(1.6)
Disposals	-	0.1
Amortisation	(1.8)	(1.3)

At 30 September	(4.6)	(2.8)
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Net book value:

At 30 September	7.4	7.3
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£1.5m (2020: £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.

18 Property, plant and equipment

Group and the Company	Right-of-use leasehold property	Fixtures, fittings and equipment	Total
	£m	£m	£m

Cost:

At start of period	4.9	3.5	8.4
Disposals	-	(0.8)	(0.8)
Additions	-	0.2	0.2

At 30 September 2021	4.9	2.9	7.8
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Depreciation:

At start of period	0.4	1.6	2.0
Disposals	-	(0.8)	(0.8)
Depreciation	0.5	0.5	1.0

At 30 September 2021	0.9	1.3	2.2
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Net book value:

At 30 September 2021	4.0	1.6	5.6
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At 1 October 2020	4.5	1.9	6.4
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The right-of-use asset sits on the Balance Sheet of the Company with all other property, plant and equipment held on the Balance Sheet of the Company's subsidiaries.

19 Investment properties

Group	Freehold	Reversionary Interest	Total
	£m	£m	£m
At start of period	9.0	170.9	179.9
Disposals due to sale of subsidiary	-	(73.5)	(73.5)
Additions	-	-	-
Disposals	-	(9.4)	(9.4)
Fair value adjustments	(0.4)	6.6	6.2
At 30 September 2021	8.6	94.6	103.2

The historical cost of the reversionary interests in properties is £38.1m at 30 September 2021 (2020: £65.5m).

The amounts recognised in the Income Statement in respect of rental income from freehold investment properties were as follows:

Group	2021	2020
	£m	£m
Rental income from investment properties	0.7	0.7
	0.7	0.7

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

Reversionary interests - principal assumptions

All gains and losses arising from reversionary interests are largely dependent on the longevity of the tenant. Principal assumptions underlying the calculation of reversionary interests include the following:

Mortality or entry into long term care

This is based on the expected death or entry into long term care of the tenant or the last remaining tenant in relation to a joint contract. Mortality assumptions have been derived by reference to the PCMA00/PCFA00 mortality tables and include an allowance for mortality improvements. This table is adjusted from 2000 to 31 December 2018 for mortality improvements based on the CMI 2017 mortality projection model. The table is further adjusted from 31 December 2018 to 31 December 2020 using the CMI 2018 mortality projection model, and mortality improvements from 31 December 2020 onwards are based on the CMI 2018 mortality projections model. Finally, the mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor. Given that the CMI 2018, 2019 and 2020 mortality projection models produce similar life expectancies, the mortality improvement assumptions for the 2021 year-end is unchanged; in particular, in light of the high level of uncertainty associated with the impact of COVID-19 on mortality improvements over the medium to long-term we have assumed no impact of COVID-19 on future mortality improvements, but this will continue to be monitored.

Early redemptions are expected to be very infrequent, and therefore the voluntary redemptions rate is included in the mortality assumption.

Expenses

Assumptions for future policy expense levels are based on the Group's recent expense analysis. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.59% p.a. as at 30 September 2021 (2020: 4.09% p.a.). This rate is equal to the market implied rate of RPI inflation (appropriate for the average duration of the reversion portfolio) plus an allowance for expenses increasing faster than the market expectation of prices.

19 Investment properties (continued)

Discount rate

The discount rate applied to the reversion cash flows comprises two parts: a risk-free yield curve plus a spread referred to as the illiquidity spread.

The risk-free yield curve is based on the PRA's Solvency II curve methodology, which uses SONIA swap rates. An internal tool developed by Milliman is used to derive the expected PRA curve for use in each month's valuation; this is then validated against the actual PRA curve when it is published.

The average discount rate for the portfolio (assumed to be the 8-year point on the yield curve based on the average expected duration remaining) at 30 September 2021 was 3.03% - including an illiquidity spread of 2.17% (2020: 2.27%).

Property prices

The value of a property is based on the value at the last survey increased to the current valuation date using the Nationwide Regional House Price Index. This is then adjusted down by a 10% haircut to reflect the expectation that property prices underperform the house price index due to the older age of the policyholders and a disincentive to maintain the property when it is subject to a reversion. For properties that have been subject to a physical or drive-by valuation, the 10% haircut is not applied as these valuations already reflect the condition of the property. No future property price inflation is assumed beyond the valuation date.

Sensitivity analysis

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

	Freehold	Reversionary Interests			
	Net initial yield -1%	Delay in mortality or entry into long term care by 10%	Expenses +10%	Property prices -10%	Interest rate +1%
	£m	£m	£m	£m	£m
At 30 September 2021	(0.9)	(1.5)	(0.4)	(8.6)	(5.3)
At 30 September 2020	(1.0)	(1.8)	(0.3)	(14.9)	(8.2)

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.

20 Investments

Group and the Company	2021	2020
	£m	£m
Equity investments	23.8	6.4
At 30 September	23.8	6.4
Group and the Company	2021	2020
	£m	£m
At start of period	6.4	6.8
Additions	18.8	0.6
Disposals	(1.8)	(0.7)
Fair Value Adjustments	0.4	(0.3)
At 30 September	23.8	6.4

21 Deferred tax

Group	2021	2020
	£m	£m
At start of period	6.8	3.7
Discontinued operations	3.4	-
Adjusted opening balance	10.2	3.7
Credit to the Income Statement – current period	1.5	2.3
Credit to the Income Statement – prior period	0.3	-
(Charge)/ Credit to the Statement of Other Comprehensive Income	(0.6)	0.8
	11.4	6.8

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

Group	2021	2020
	£m	£m
Accelerated capital allowances	(0.5)	(0.3)
Other timing differences	4.4	0.9
Defined benefit pension scheme	3.6	4.0
Tax Losses	3.9	2.2
Deferred tax asset	11.4	6.8

Company	2021	2020
	£m	£m
At 1 November	0.5	0.6
Charge to the Income Statement	(0.1)	(0.1)
Credit to the Statement of Other Comprehensive Income	(0.6)	-
Deferred tax (liability) / asset	(0.2)	0.5

Notes to the Financial Statements

For the period ended 30 September 2021

22 Other assets

Group	2021 [£]	2020 [£]
	£m	£m
Due within one year		
Prepayments and accrued income	3.0	3.3
Corporation tax debtor	0.8	1.2
Other assets	4.5	1.7
Due greater than one year		
Deferred consideration	6.3	5.7
	14.6	11.9

The Group entered into an agreement with a third-party in the year ended 31 October 2019 to dispose of land for a minimum consideration of £7.0m. This contract contains a significant financing arrangement where the deferred consideration is to be received over the 19-month period remaining to the 30th of April 2023.

The Group entered into a further agreement with a third-party in the year ended 30 September 2021 to dispose of land for a minimum consideration of £2.2m. This contract contains a significant financing arrangement where the deferred consideration is to be received over the 64-month period remaining to January 2027.

The initial revenue was calculated by discounting the minimum consideration using the prevailing interest rate in the market at the time of entering the agreement. The finance income component will be unwound over the remaining 19 and 64 months and recognised separately from the contract revenue in the Income Statement as interest receivable and similar income.

Company	2021	2020
	£m	£m
Amounts due from group undertakings	0.7	-
Group relief	0.4	-
Other debtors	0.1	0.8
	1.2	0.8

23 Inventory

	2021	2020
	£m	£m
At start of period	7.7	7.8
Additions	-	-
Disposals	(7.6)	(0.1)
	0.1	7.7

In November 2020, the Group entered into a sale agreement with an independent third party to dispose of land at an agreed sales price of £10.8m, less costs to sell of £1.4m. The land was held at a carrying value of £7.5m on the Balance Sheet and generated a profit on disposal of £1.9m.

In August 2021, the Group entered into a sale agreement with an independent third party to dispose of land for a minimum sales price of £2.2m. The land was held at a carrying value of £0.1m on the Balance Sheet and generated a profit on disposal of £1.8m after accounting for costs.

Notes to the Financial Statements

For the period ended 30 September 2021

24 Deposits from banks

	2021	2020
	£m	£m
Repurchase agreement	-	2.5
Term funding scheme	145.0	85.0
	145.0	87.5

25 Deposits from customers

	2021	2020
	£m	£m
Deposits from customers	1,243.1	1,066.7
Amounts owed to a shareholder of the Company	5.3	1.8
Fair value adjustment for hedged risk	(0.1)	0.4
	1,248.3	1,068.9

The amounts owed to a shareholder of the Company are deposit accounts which accrue a market rate of interest.

26 Derivative financial instruments and hedge accounting

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

	Contract/notional amount		Fair value	
	2021	2020	2021	2020
	£m	£m	£m	£m

Derivative liabilities held for hedging purposes and designated fair value hedges:

Interest rate swaps	161.2	270.8	(16.4)	(82.7)
Derivatives held in fair value hedges	164.0	152.7	1.1	(0.1)
Total recognised derivative liabilities	325.2	423.5	(15.3)	(82.8)

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

Type of Hedge	Risk	Activity
Interest rate swap	Sensitivity to changes in interest rates	Fixed rate savings products, Fixed rate residential mortgages, Fixed rate debt securities, Fixed rate government bonds and Fixed rate commercial loans.

At 30 September 2021, the fixed interest rates vary from 0.0% to 4.9% (2020: 0.2% to 5.4%) and the main floating rates are LIBOR. Gains and losses recognised on interest rate swap contracts are credited/(charged) to the Income Statement.

26 Derivative financial instruments and hedge accounting (continued)

	2021	2020
	£m	£m
Movement in fair value of interest rate swaps	22.4	(4.5)
	22.4	(4.5)

The Group agreed to exit a number of interest rate swaps during the year which were held at fair value of £45.0m (2020: £0.7m), £0.3m (2020: £nil) profit or loss was incurred on disposal.

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

	2021		2020	
	Book Value £m	Hedged Fair Value £m	Book Value £m	Hedged Fair Value £m
Government bonds	29.8	-	48.6	-
Debt securities	42.3	-	50.7	-
Loans advances to customers	983.4	(0.8)	701.3	0.4
Deposits from customers	(1,243.1)	0.2	(1,066.7)	(0.4)
		(0.6)		-

Offsetting

In accordance with IAS 32 Financial Instruments; the Group reports derivative financial instruments on a net basis as there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. A table is provided below which demonstrates the amounts which have been offset in the Balance Sheet:

	Amounts subject to netting arrangements		
	Gross amounts	Amounts offset	Net amounts reported on Balance Sheet
	£m	£m	£m
2021			
Derivative financial assets	2.3	(2.3)	-
Impact on total assets	2.3	(2.3)	-
Derivative financial (liabilities)	(17.6)	2.3	(15.3)
Impact on total (liabilities)	(17.6)	2.3	(15.3)
2020			
Derivative financial assets	1.1	(1.1)	-
Impact on total assets	1.1	(1.1)	-
Derivative financial (liabilities)	(83.9)	1.1	(82.8)
Impact on total (liabilities)	(83.9)	1.1	(82.8)

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

27 Leases

A right-of-use asset is recognised to represent the Group's right to use the underlying asset and a lease liability is recognised to represent the obligation to make lease payments.

The carrying amount of the right-of-use assets and the movements during the year are set out in note 18.

The carrying amount of the lease liability and the movement during the year are set out in the table below:

Group & Company	2021
	£m
At start of period	4.5
Interest Expense	0.2
Payments	(0.5)
At 30 September 2021	4.2

The maturity analysis of lease liabilities is presented note 32 (e).

The Group has certain leases of office equipment with low value. For these leases, the Group applies the recognition exemptions for leases of low value assets, whereby no right-of-use asset is recognised and lease payments are charged to administrative expenses in the Income Statement. The total expense recognised is summarised in the table below.

	Administrative Expenses	Interest Expense	2021 Total
	£m	£m	£m
Depreciation expense of right-of-use assets	0.4	-	0.4
Interest expense on lease liabilities	-	0.2	0.2
Rental expense on low value assets	-	-	-
	0.4	0.2	0.6

In the year ended 30 September 2021, cash outflows for leases included in the Statement of Cash Flows were £0.5 million. This comprised £0.2 million for payment of the interest portion of the lease liability and £0.3 million for payment of the principal portion of the lease liability.

As 30 September 2021, the Group is not committed to any new lease contracts that have not yet commenced.

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28 Other liabilities

Group	2021	2020
	£m	£m
Due within one year:		
Amounts owed in relation to mortgages administered for third parties	6.1	2.3
Other creditors	0.7	0.2
Other taxation and social security	0.5	0.3
Amounts owed in relation to insurance contracts	-	0.5
Accruals	3.4	1.6
	10.7	4.9
Company	2021	2020
	£m	£m
Due within one year:		
Amounts due to group undertakings	0.4	6.4
Other creditors	0.1	-
	0.5	6.4

29 Pension scheme

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

The assets of the scheme are administered by 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 Group 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 Group has not changed its processes used to manage its risks from previous periods.

The weighted average duration of the defined pension obligation is 24 years (2020: 24 years).

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

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

The calculations are based upon an assessment of the scheme's liabilities as at 30 September 2021. These have been based upon the results of the 1 April 2019 formal triennial valuation projected forward with allowance for benefit accrual and expected investment return. The next triennial valuation will be carried out on 1 April 2022.

The Group's total expense for the year amounted to £1.0m (2020: £3.4m). The Company, reimbursed the JHB £nil (2020: £0.2m) for their share of the employer contribution expense. The Group has agreed that it will aim to eliminate the pension scheme deficit over the next 10 years and additional contributions of £1.6m (2020: £0.9m) were paid into the scheme in the year ended 30 September 2021. The Company agreed to make a one-off deficit reduction payment of £2.4m during the year which reduced the reimbursement liability held on the Balance Sheet of the Company. Funding levels are monitored on an annual basis and the Group has agreed to increase the contribution rate to 23.3% from 1 April 2019.

The IAS 19 valuation as at 30 September 2021 has been produced by a qualified independent actuary and is based on the results of the valuation as at 1 April 2019.

29 Pension scheme (continued)

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:

	2021	2020
	£m	£m
Fair value of plan assets	37.9	30.3
Present value of defined benefit obligations	(52.1)	(51.3)
Deficit	(14.2)	(21.0)

Movements in fair value of plan assets

	2021	2020
	£m	£m
Market value of assets at the beginning of the year	30.3	27.3
Interest income	0.5	0.5
Actuarial gain /(loss)	2.7	(0.4)
Member contributions	0.3	0.4
Employer contributions	5.2	3.3
Benefits paid	(1.1)	(0.8)
Market value of assets at the end of the period	37.9	30.3

Movements in present value of defined benefit obligations

	2021	2020
	£m	£m
Present value of scheme liabilities at start of the period	51.3	43.9
Interest cost	0.8	0.8
Current service cost	1.4	3.0
Member contributions	0.3	0.4
Actuarial loss on defined benefit obligation of which:		
due to experience	(0.3)	-
due to demographic assumptions	-	0.9
due to financial assumptions	0.4	3.1
Benefits paid	(1.1)	(0.8)
Curtailment gain	(0.7)	-
Present value of scheme liabilities at end of the period	52.1	51.3

29 Pension scheme (continued)

Expense recognised in the Income Statement

	2021	2020
	£m	£m
Current service cost – staff costs	1.4	3.0
Net interest expense – other finance costs	0.2	0.3
Curtailment gain	(0.7)	-
Other admin costs	0.2	0.1
	1.1	3.4

The total amount recognised in the Statement of Other Comprehensive Income in respect of actuarial gains and losses is a gain of £2.6m (2020: loss of £4.4m) before tax.

Cumulative losses reported in the Statement of Other Comprehensive Income since the date of transition to FRS 101 are losses of £10.7m (2020: losses of £14.4m) after deferred tax.

A curtailment gain of £0.7m was recognised in the Income Statement during the year as a result of the closure of the defined benefit scheme to further accrual.

Plan assets

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

	Fair Value	
	2021	2020
	£m	£m
Quoted equity investments	7.2	5.5
Diversified growth funds	7.6	18.5
Private investments	5.7	2.4
Bonds	7.6	1.8
LDI	8.7	-
Cash	1.1	2.1
Total market value of assets	37.9	30.3

The actual return on assets was £3.2m (2020: £0.1m).

Future contributions

The Group expects to contribute approximately £1.6m (2020: £2.8m) to its defined benefit plan in the next financial year.

29 Pension scheme (continued)

Major assumptions

The major assumptions underpinning the defined benefit obligation are:

	2021	2020
	%	%
Rate of increase in salaries	-	2.9
Rate of increase – RPI capped at 5.0% per annum	3.4	2.8
Rate of CARE revaluation	-	1.9
Discount rate applied to scheme liabilities	2.1	1.6
RPI inflation assumption	3.5	2.9

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:

	2021	2020
Current pensioners age 65 – male	86.8	86.8
Current pensioners age 65 – female	89.1	89.1
Future pensioners age 65 (current age 45) – males	87.8	87.8
Future pensioners age 65 (current age 45) – females	90.3	90.2

Sensitivities

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

Impact on present value of obligation:	Change in assumption	Change in deficit £m
Discount rate	0.1%	1.3
Rate of inflation (RPI or CPI)	0.1%	0.9
Life expectancy	1 year	1.7

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

History of the scheme Balance Sheet position

	2021	2020	2019	2018	2017
	£m	£m	£m	£m	£m
Fair value of plan assets	37.9	30.3	27.3	24.2	24.2
Present value of funded defined benefit obligations	(52.1)	(51.3)	(43.9)	(37.0)	(37.2)
Deficit	(14.2)	(21.0)	(16.6)	(12.8)	(13.0)

29 Pension schemes (continued)

History of experience gains and losses

	2021	2020	2019	2018	2017
Difference between the expected and actual return on scheme assets:					
Amount	£2.7m	£(0.4)m	£0.6m	£(1.4)m	£0.1m
Percentage of year-end scheme assets	7.1%	1.3%	2.2%	(5.6)%	0.0%
Experience gains and losses on scheme liabilities:					
Amount	£(0.3)m	£(0.0)	£1.9m	£(0.0)m	£(0.0)m
Percentage of year-end present value of scheme liabilities	0.6%	0.0%	(4.4)%	0.0%	0.0%
Total amount recognised in statement of comprehensive income:					
Gain /(loss) before tax	£2.6m	(4.4)m	£(3.3)m	£0.6m	£0.4m
Percentage of year-end present value of scheme liabilities	5.0%	8.5%	7.5%	1.6%	1.1%

30 Called up share capital

	2021	2020
	£m	£m
Authorised, allotted, called-up and fully paid:		
1,100,000 (2020: 1,100,000) ordinary shares of £1 each	1.1	1.1
	1.1	1.1

31 Financial commitments and contingent assets/liabilities

	2021	2020
	£m	£m
Loan commitments		
Expiring in less than one year	96.4	37.4
Expiring in more than one year	-	19.9
	96.4	57.3

Capital commitments

The Group had contracted capital commitments amounting to £nil at 30 September 2021 (2020: £nil).

32 Financial instruments

a) Categories of financial assets and liabilities

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

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

As at 30 September 2021	At amortised cost	Fair value through profit and loss	Total
	£m	£m	£m
Assets			
Cash and balances held at central banks	412.2	-	412.2
Government bonds	29.8	-	29.8
Debt securities	42.3	-	42.3
Loans and advances to credit institutions	46.3	-	46.3
Loans and advances to customers	982.4	78.7	1,061.1
Investments	-	23.8	23.8
Other assets	14.6	-	14.6
Total financial assets	1,527.6	102.5	1,630.1
Total non-financial assets			127.7
Total assets			1,757.8
Liabilities			
Deposit from banks	145.0	-	145.0
Deposit from customers	1,248.3	-	1,248.3
Derivative financial instruments	-	15.3	15.3
Lease liabilities	4.2	-	4.2
Other liabilities	10.7	-	10.7
Total financial liabilities	1,408.2	15.3	1,423.5
Total non-financial liabilities			14.2
Share capital and other reserves			320.1
Total equity and liabilities			1,757.8

32 Financial instruments (continued)

a) Categories of financial assets and liabilities (continued)

As at 30 September 2020	At amortised cost	Fair value through profit and loss	Total
	£m	£m	£m
Assets			
Cash and balances held at central banks	147.9	-	147.9
Government bonds	48.6	29.3	77.9
Debt securities	50.7	74.1	124.8
Loans and advances to credit institutions	117.3	-	117.3
Loans and advances to customers	701.6	729.7	1,431.3
Investments	-	6.4	6.4
Other assets	11.9	-	11.9
Total financial assets	1,078.0	839.5	1,917.5
Total non-financial assets			209.0
Total assets			2,126.5
Liabilities			
Deposit from banks	87.5	-	87.5
Deposit from customers	1,068.9	-	1,068.9
Derivative financial instruments	-	82.8	82.8
Lease liabilities	4.5	-	4.5
Other liabilities	4.9	-	4.9
Total financial liabilities	1,165.8	82.8	1,248.6
Total non-financial liabilities			549.0
Share capital and other reserves			328.9
Total equity and liabilities			2,126.5

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 Group has access at that date.

The table below summarises the fair value of the Group'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 Group 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 Group determines fair value using other valuation techniques.

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32 Financial instruments (continued)

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

As at 30 September 2021	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Loans and advances to customers	-	-	78.7	78.7
Investments	23.8	-	-	23.8
Total financial assets at FVTPL	23.8	-	78.7	102.5

Derivative financial instruments	-	15.3	-	15.3
Total financial liabilities at FVTPL	-	15.3	-	15.3

As at 30 September 2020	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Government bonds	29.3	-	-	29.3
Debt securities	74.1	-	-	74.1
Loans and advances to customers	-	-	729.7	729.7
Investments	6.4	-	-	6.4
Total financial assets at FVTPL	109.8	-	729.7	839.5

Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	82.8	-	82.8
Total financial liabilities at FVTPL	-	82.8	-	82.8

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

Government bonds and debt securities:

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

Instruments included in Level 1 comprise primarily UK Government investment securities (government bonds) and debt securities classified as FVTPL.

32 Financial instruments (continued)

Derivative financial instruments:

Derivative products (interest rate swaps) are valued using 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 – equity release and retirement mortgages:

Loans and advances to customers include £78.7m (2020: £729.7m) of assets which have been classed as FVTPL as they relate to equity release and retirement mortgages.

	Fair Value		Book Value	
	2021	2020	2021	2020
	£m	£m	£m	£m
Loans and advances (equity release and retirement mortgages) – classified as FVTPL	78.7	729.7	77.7	537.3
	78.7	729.7	77.7	537.3

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

	2021	2020
	£m	£m
At start of period	729.7	724.0
Disposal of subsidiary	(503.0)	-
Disposal of equity release portfolio to a third party	(112.0)	-
Loss on disposal	(5.5)	-
Fair value (loss) / gain in the Income Statement	(3.9)	28.7
Loans advanced	0.6	20.0
Redemptions	(27.2)	(43.0)
At end of period	78.7	729.7

The 15-year point on the risk-free yield curve plus illiquidity spread used for discounting the future retirement mortgage cash flows has increased from 0.39% plus a 2.31% illiquidity spread to 1.01% plus a 2.44% illiquidity spread.

32 Financial instruments (continued)

Equity release and retirement mortgages - principal assumptions

Principal assumptions in the calculation of equity release and 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 customer or the last remaining customer for a joint contract. Mortality assumptions have been derived by reference to PCMA00/PCFA00. This table is adjusted from 2000 to 31 December 2018 for mortality improvements based on the CMI 2017 mortality projection model. The table is further adjusted from 31 December 2018 to 31 December 2020 using the CMI 2018 mortality projection model, and mortality improvements from 31 December 2020 onwards are based on the CMI 2018 mortality projections model. Finally, the mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor. Given that the CMI 2018, 2019 and 2020 mortality projection models produce similar life expectancies, the mortality improvement assumption for the 2021 year-end is unchanged; in particular, in light of the high level of uncertainty associated with the impact of COVID-19 on mortality improvements over the medium to long-term we have assumed no impact of COVID-19 on future mortality improvements.

Lapses

Due to limited market information, this assumption is derived from the Group's own experience on this product.

Expenses

Assumptions for future policy expense levels are based on the Group's recent experience analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.58% p.a. as at 30 September 2021 (2020: 4.09% p.a.). This rate is equal to the market implied rate of RPI inflation (appropriate for the average duration of the retirement mortgage portfolio) plus an allowance for expenses increasing faster than the market expectation of prices.

Interest rate

The interest rate used to value the retirement mortgage portfolio comprises two parts: a risk-free yield curve plus a spread referred to as the illiquidity spread.

The risk-free yield curve is based on the PRA's Solvency II curve methodology, which uses SONIA swap rates. An internal tool developed by Milliman is used to derive a proxy for the PRA curve; this is then validated against the actual PRA curve when it is published.

The average discount rate for the portfolio (assumed to be the 15-year point on the yield curve based on the average duration of our business) at 30 September 2021 was 3.45% p.a. - including an illiquidity spread of 2.44% (2020: 3.39% p.a.).

No-negative equity guarantee

The fair value of loans secured by retirement mortgages takes into account an explicit provision in respect of the no-negative equity guarantee, calculated using a variant of the Black Scholes option pricing model. The key assumptions used to derive the value of the no-negative equity guarantee include property growth, volatility and credit risk.

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

The property growth (net of underperformance) and volatility assumed at 30 September 2021 was 3.71% (2020: 3.09%) and 15.0% (2020: 13.0%) respectively. The value of the no-negative equity guarantee as at 30 September 2021 was £0.1m.

32 Financial instruments (continued)

Sensitivity analysis

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

	Interest rates +200bps	Mortgage expenditure +10%	Property inflation +100bps	Property prices +10%	Leases +10%	Increase in mortality by 10%
	£m	£m	£m	£m	£m	£m
30 September 2021	(0.5)	(0.4)	(0.1)	(0.1)	(0.0)	(0.0)
30 September 2020	(52.4)	(0.6)	(6.5)	(7.7)	(13.3)	(4.3)

The decrease in the sensitivity output is as a result of the Group disposing of the majority of its equity release mortgage portfolio during the year. 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 Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. In addition, swaps taken out will mitigate some of these sensitivities to movements in rates disclosed above.

e) Maturity profile of financial assets and liabilities

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

As at 30 September 2021	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances held at central banks	412.2	-	-	-	-	412.2
Government bonds	-	-	-	-	29.8	29.8
Debt securities	6.1	0.5	-	34.7	1.0	42.3
Loans and advances to credit institutions	46.3	-	-	-	-	46.3
Loans and advances to customers	88.8	30.8	44.0	229.6	667.9	1,061.1
Investments	23.8	-	-	-	-	23.8
Other assets	14.6	-	-	-	-	14.6
Total financial assets	591.8	31.3	44.0	264.3	698.7	1,630.1
Liabilities						
Deposit from banks	-	-	-	145.0	-	145.0
Deposit from customers	328.2	77.7	270.6	568.7	3.1	1,248.3
Derivative financial instruments	(0.1)	0.1	0.3	2.0	13.0	15.3
Lease liabilities	0.1	0.1	0.2	1.6	2.2	4.2
Other liabilities	10.7	-	-	-	-	10.7
Total financial liabilities	338.9	77.9	271.1	717.3	18.3	1,423.5
Loan commitments	93.0	0.1	3.3	-	-	96.4

32 Financial instruments (continued)

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

As at 30 September 2020	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances held at central banks	147.9	-	-	-	-	147.9
Government bonds	14.4	6.0	-	-	57.5	77.9
Debt securities	1.6	4.3	1.5	61.9	55.5	124.8
Loans and advances to credit institutions	117.3	-	-	-	-	117.3
Loans and advances to customers	91.9	45.3	48.9	377.5	867.7	1,431.3
Investments	6.4	-	-	-	-	6.4
Other assets	11.9	-	-	-	-	11.9
Total financial assets	391.4	55.6	50.4	439.4	980.7	1,917.5
Liabilities						
Deposit from banks	2.5	-	-	85.0	-	87.5
Deposit from customers	315.7	101.0	325.6	318.0	8.6	1,068.9
Derivative financial instruments	(0.3)	(0.1)	0.4	13.5	69.3	82.8
Lease Liabilities	0.1	0.1	0.2	2.0	2.1	4.5
Other liabilities	4.9	-	-	-	-	4.9
Total financial liabilities	322.9	101.0	326.2	418.5	80.0	1,248.6
Loan commitments	34.9	0.5	7.4	13.5	1.0	57.3

32 Financial instruments (continued)

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

The table below analyses the Group'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 date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cashflows.

As at 30 September 2021	* Book value	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities							
Deposit from banks	145.0	-	-	-	145.5	-	145.5
Deposit from customers	1,248.3	328.5	78.0	272.8	588.6	3.3	1,271.2
Derivative financial instruments	15.3	0.2	1.0	1.9	8.4	18.5	30.0
Lease liabilities	4.2	0.1	0.1	0.3	2.2	2.5	5.2
Other liabilities	10.7	10.7	-	-	-	-	10.7
Total financial liabilities	1,423.5	339.5	79.1	275.0	744.7	24.3	1,462.6

As at 30 September 2020	Book value	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities							
Deposit from banks	87.5	2.5	-	-	85.3	-	87.8
Deposit from customers	1,068.9	316.2	101.6	329.0	331.7	9.1	1,087.6
Derivative financial instruments	82.8	0.1	1.9	5.1	45.1	110.5	162.7
Lease liabilities	4.5	0.1	0.1	0.3	2.7	2.5	5.7
Other liabilities	4.9	4.9	-	-	-	-	4.9
Total financial liabilities	1,248.6	323.8	103.6	334.4	464.8	122.1	1,348.7

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 Group holds no financial assets or liabilities denominated in foreign currencies.

33 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 Group's Executive Risk Committee which reports to the Risk and Conduct Committee, which ensures adherence to the Group's Risk Management Policy and Framework.

Risk management objectives

Risk is inherent in all aspects of the Group's business. Within the Group, a risk management framework is in place to ensure that all material risks faced by the Group 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 Group is exposed to credit risk, liquidity risk, house price risk, interest rate risk, conduct risk, operational risk, insurance risk and pension risk. These are discussed in more detail in sections a) to h) below. In addition, whilst not a principal risk category we also consider the risk of economic loss as a result of the COVID-19 pandemic in point i) below.

(a) Credit risk

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

The maximum credit risk as at 30 September is the carrying value recognised on the Balance Sheet as disclosed in the table in note 33(a), along with the loan commitments as disclosed in the table in note 32.

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

The primary driver of credit risk within equity release and 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, gilts and debt securities is counterparty default, meaning the 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 Group intends to hold its treasury assets to maturity and is therefore not directly affected by market risk.

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

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

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

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Expected Credit Loss Provisioning

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

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

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

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

Key Economic Scenario Assumptions

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

Economic Assumption	Y1	Y2	Y3	Y4	Y5
	%	%	%	%	%
<u>UK GDP Growth</u>					
Upside	3.8	2.2	1.7	2.0	2.0
Baseline	3.7	1.8	1.3	1.6	1.6
Downside	2.9	1.4	1.0	1.3	1.4
Scenario weighted forecasts	3.4	1.7	1.3	1.6	1.6
<u>UK Unemployment Rate</u>					
Upside	3.9	3.5	3.3	3.3	3.3
Baseline	4.8	4.3	4.1	4.1	4.0
Downside	5.3	4.9	4.8	4.8	4.9
Scenario weighted forecasts	4.8	4.4	4.2	4.2	4.2
% Change in S&P 500 Index ¹	28.1				
% Change in Energy Index	36.2	6.1	1.3	1.4	1.4
% Change in Non-Energy Index	18.1	(2.6)	0.8	0.8	0.8
% Change in Proportion of Downgrades ¹	104.5				

1 - These are the historical annual changes rather 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.

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

The scenario weightings and the three distinct scenarios used to reflect the expectations of the wider economy that feed into the PD models are:

Scenario	Scenario assumptions	Weighting
Upside	<ul style="list-style-type: none"> The key components of the Upside scenario are a quicker global recovery than expected and higher consumer confidence resulting in higher spending. 	20.0%
Central	<ul style="list-style-type: none"> The key components of the Central scenario are a continued recovery from the COVID-19 pandemic in the next 12 months with a modest growth in GDP thereafter of between 1 and 2%. The unemployment rate is assumed to peak in Q4 of this year at 5.7% as a result of the removal of the furlough scheme with a gradual reduction in unemployment rates to around 4% in the third year of the forecast. The anticipated rise in inflation to 4% in early 2022 to be temporary and will reduce as the supply side disruption dissipates. 	40.0%
Downside	<ul style="list-style-type: none"> The key component of the Downside scenario is the emergence of a new COVID-19 strain and the reintroduction of restrictive measures, prolonged high inflation and continued material and labour shortages. 	40.0%

- EAD is based on the amounts the Group expects to be owed at the time of default.

There are no significant judgements in determining the exposure at default.

- LGD represents the Group'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
Residential mortgages	Calculated by using the Black Scholes model to reflect that the portfolio is secured against the underlying property as this will calculate the theoretical value of the total loss, should all policies default.
Commercial loans and Portfolio Buy-to-Let	Calculated by using an external credit rating agency's ECL model which provides an unbiased estimate of the LGD by blending different probabilities of the economic states occurring (positive, neutral and negative).
Debt securities and government bonds	Calculated monthly 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.

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Credit risk: Residential exposures

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

	2021	
	£m	%
Fully secured by a first charge on residential property	756.7	100.0
	756.7	100.0
Fair value adjustments	1.0	
	1.0	
	2020	
	£m	%
Fully secured by a first charge on residential property	903.6	100.0
	903.6	100.0
Fair value adjustments	173.2	
	1,076.8	

The cumulative change in fair values due to credit risk amounts to losses of £0.1m (2020: £7.9m), and the change in the year is a profit of £2.1m (2020: £0.7m).

Residential: risk concentrations

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

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

Residential: performance

The gross exposure on loans and advances to residential customers held at amortised cost and its exposure to credit risk in line with the internal modelling of the Group for the period ending 30 September 2021 is disclosed below:

Stage	Description	Gross Loan Balance	ECL Provision
		£m	£m
Stage 1	Satisfactory	654.3	(0.1)
Stage 2	Watchlist	21.4	(0.0)
Stage 3	Default	0.8	(0.0)
		676.5	
	Less: Loan fee deferral	2.6	
	Provisions for impairment	(0.1)	
Total		673.8	

A deterioration in a customer's credit score since inception of greater than or equal to 160 points 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.

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

The gross exposure on loans and advances to residential customers held at amortised cost and its exposure to credit risk in line with the internal modelling of the Group for the period ending 30 September 2020 is disclosed below:

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Satisfactory	340.4	(0.1)
Stage 2	Watchlist	4.6	(0.0)
Stage 3	Default	0.6	(0.0)
		345.6	
Less: Loan fee deferral		1.5	
Provisions for impairment		(0.1)	
Total		347.0	

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 2020	340.4	4.6	0.6	345.6
Advances	362.3	-	-	362.3
Stage transfers	(33.0)	32.8	0.2	-
Repayment and settlement	(15.4)	(16.0)	-	(31.4)
At 30 September 2021	654.3	21.4	0.8	676.5

Arrears

Performance risk is measured by those accounts in arrears. The total balances in arrears at 30 September 2021 amounted to £1.5m (2020: £1.4m).

Past due but not impaired

As at 30 September 2021 there were no residential exposures that were past due but not impaired (2020: £nil).

Forbearance

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

Payment holidays

As a result of COVID-19, the Group granted payment holiday arrangements to a total of 167 Residential customers. All of these customers have resumed full payment.

Sensitivity

A 100% weighting for a negative scenario produces an additional ECL provision for Stage 1, 2 and 3 of £0.1m.

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Credit risk: Commercial lending

Commercial: analysis of risk concentration

Loans secured on commercial property are as follows:

	2021		2020	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
Commercial mortgage	30.2	46.9	33.0	48.5
Development finance	19.1	26.4	34.0	54.8
Investment loans	176.7	292.6	217.9	373.4
Renewable energy	16.3	-	17.7	0.3
	242.3	365.9	302.6	477.0
Less: Loan fee deferral	(1.1)	-	(2.0)	-
Provisions for impairment	(7.3)	-	(9.4)	-
	233.9	365.9	291.2	477.0

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

The Group 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:

	2021		2020	
	£m	%	£m	%
Wales	44.0	18.2	62.0	20.5
London – England	99.5	41.1	116.6	38.5
South East & East of England	9.7	4.0	12.6	4.2
Midlands – England	26.4	10.9	27.3	9.0
South West of England	47.1	19.4	44.2	14.6
North West & North East of England	7.5	3.1	29.4	9.7
Scotland	8.1	3.3	10.5	3.5
	242.3	100.0	302.6	100.0

The average loan to value (LTV) in respect of commercial loans is estimated to be 63.7% (2020: 60.3%). 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.

£10.6m (2020: £10.2m) of exposures have an LTV of greater than 100%. Of these, £7.3m (2020: £10.2m) are already classified as in default.

The largest exposure to one counterparty is £15.2m (2020: £15.2m) or 6.3% (2020: 5.1%) of gross balances.

33 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:

	2021		2020	
	£m	%	£m	%
Stage 1	159.0	65.6	235.7	77.9
Stage 2 – significant increase in credit risk	66.3	27.4	49.5	16.4
Stage 3 - default	17.0	7.0	17.4	5.7
	242.3	100.0	302.6	100.0

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

Stage	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 30 September 2021	235.7	49.5	14.7	299.9
Advances	24.0	-	-	24.0
Stage transfers	(33.2)	23.5	9.7	-
Repayment and settlement	(67.5)	(6.7)	(7.4)	(81.6)
At 30 September 2021	159.0	66.3	17.0	242.3

Exposure by credit rating

The gross exposure on commercial financial assets and its exposure to credit risk in line with internal risk grades and the corresponding external credit rating agency's credit risk rating at 30 September 2021 is disclosed below:

Risk grade	Description	Stage	S&P Rating	Gross Loan Balance	ECL Provision
				£m	£m
1	Negligible risk	Stage 1	AAA to A-	-	-
2.1	Minimal risk	Stage 1 or 2	BBB+ to BBB-	-	-
2.2	Low risk	Stage 1 or 2	BB+ to BB	25.4	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	44.8	0.6
3.2	Moderate risk	Stage 1 or 2	B+ to B-	71.2	0.4
4.1	Watch	Stage 1 or 2	B- to CCC	54.4	0.6
4.2	Enhanced watch	Stage 1 or 2	CCC	21.6	0.7
5	Substandard	Stage 2	CCC to CCC-	7.9	-
6	Default	Stage 3	CCC-	9.7	-
7	Loss	Stage 3	CCC-	7.3	5.0
Total				242.3	7.3

The gross exposure on commercial financial assets and its exposure to credit risk in line with internal risk grades and the corresponding external credit rating agency's credit risk rating at 30 September 2020 is disclosed below:

Risk grade	Description	Stage	S&P Rating	Gross Loan Balance	ECL Provision
				£m	£m
1	Negligible risk	Stage 1	AAA to A-	0.7	-
2.1	Minimal risk	Stage 1 or 2	BBB+ to BBB-	-	-
2.2	Low risk	Stage 1 or 2	BB+ to BB	27.7	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	46.9	0.1
3.2	Moderate risk	Stage 1 or 2	B+ to B-	116.7	0.3
4.1	Watch	Stage 1 or 2	B- to CCC	55.9	1.1
4.2	Enhanced watch	Stage 1 or 2	CCC	28.3	1.0
5	Substandard	Stage 2	CCC to CCC-	9.0	0.3
6	Default	Stage 3	CCC-	12.4	1.5
7	Loss	Stage 3	CCC-	5.0	3.1
Total				302.6	7.4

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Arrears

As at 30 September 2021 there were £3.0m of commercial loans in arrears (2020: £4.1m).

Past due but not impaired

As at 30 September 2021 there was £nil (2020: £nil) commercial loan balances that were past due but not impaired.

Forbearance

There has been one instance of forbearance arising during the year £6.6m (2020: £Nil).

Payment holidays

As a result of COVID-19, the Group granted payment concessions of up to 6 months through to March 2021 on 52 loans. Full payments have resumed on 50 of these loans.

In respect of the concessions, there are 27 loans where the deferred amounts arising from payment concessions have been repaid in full or capitalised by agreement; a further 21 loans where a repayment programme for the deferred amounts has been agreed.

The 2 loans where full payments have not resumed, and where agreement has not been reached to repay the payment concessions granted, relate to 1 customer. This client is in default and has been allocated to Stage 3.

Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and Stage 2 of £0.9m.

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

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

PBTL: analysis of risk concentration

Loans secured on PBTL property are as follows:

	2021		2020	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
PBTL lending	71.5	106.9	63.7	92.6
	71.5	106.9	63.7	92.6

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

The Group's PBTL loan portfolio comprises the following:

	2021		2020	
	£m	%	£m	%
Loans secured on PBTL property	71.5	100.0	63.7	100.0
	71.5	100.0	63.7	100.0
Less: Loan fee deferral	(0.1)		(0.2)	
Provisions for impairment	(0.9)		(0.4)	
	70.5		63.1	

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

	2021		2020	
	£m	%	£m	%
Wales	3.0	4.2	1.9	3.0
London – England	56.4	78.8	46.1	72.2
South East & East of England	2.2	3.1	7.4	11.7
Midlands – England	3.8	5.3	4.1	6.5
North West - England	1.3	2.0	-	-
South West of England	4.8	6.6	4.2	6.6
	71.5	100.0	63.7	100.0

The average LTV in respect of PBTL loans is 64.2% (2020:68.6%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term, tenant as well as geographical location. No exposures have an LTV of greater than 100%.

The largest exposure to one counterparty is £11.4m (2020:£11.4m) or 16% (2020:17.9%) of gross balances.

33 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:

	2021		2020	
	£m	%	£m	%
Stage 1	55.9	78.2	63.7	100%
Stage 2 – significant increase in credit risk	13.4	18.7	-	-
Stage 3 – default	2.2	3.1	-	-
	71.5	100.0	63.7	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 2020	63.7	-	-	63.7
Stage transfers	(15.6)	13.4	2.2	-
Advances	14.5	-	-	14.5
Repayment and settlement	(6.7)	-	-	(6.7)
At 30 September 2021	55.9	13.4	2.2	71.5

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 2021

Risk grade	Description	Stage	Credit Rating	Gross Loan Balance £m	ECL Provision £m
2.2	Low risk	Stage 1	BB+ to BB	7.2	-
3.1	Fair risk	Stage 1 or 2	BB to BB-	10.5	-
3.2	Moderate risk	Stage 1 or 2	B+ to B-	35.9	(0.5)
4.1	Watch	Stage 1 or 2	BB+ to BB	15.7	(0.4)
6	Default	Stage 3	CCC-	2.2	-
Total				71.5	(0.9)

30 September 2020

Risk grade	Description	Stage	Credit Rating	Gross Loan Balance £m	ECL Provision £m
3.1	Fair risk	Stage 1 or 2	BB to BB-	3.1	(0.0)
3.2	Moderate risk	Stage 1 or 2	B+ to B-	60.6	(0.4)
Total				63.7	(0.4)

Arrears

As at 30 September 2021 there were £2.2m PBTL loans in arrears (2020: £nil).

Past due but not impaired

As at 30 September 2021 there were no PBTL loans that were past due but not impaired (2020: £nil).

Forbearance

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

Payment holidays

As a result of COVID-19, the Group granted a payment holiday to four PBTL customers. All of these customers have resumed full payment, one is allocated to Stage 1, two to Stage 2 and one to Stage 3.

33 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Sensitivity

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

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:

	2021	2020
	£m	£m
Cash and balances held at central banks	412.2	147.9
Government bonds	29.8	48.6
Debt securities	42.3	50.7
Loans and advances to credit institutions	46.3	105.2
	530.6	352.4
Provision for impairment	-	-
	530.6	352.4

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:

	2021	2020
	£m	£m
AAA to AA-	530.6	352.4
	530.6	352.4

Concentration of credit risk

The geographical exposure is as follows:

	2021	2020
	£m	£m
UK	517.4	335.1
Other	13.2	17.3
	530.6	352.4

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

33 Financial risk management objectives and policies (continued)

b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet commitments as they fall due. The Group manages its liquidity risk through its Assets and Liabilities Committee and monitors its liquidity position on a daily basis and has adopted a policy to ensure that it has adequate resources to enable it to conduct its normal business activities without interruption. The maturity analysis of assets and liabilities is disclosed in note 32 (e) & (f) to the financial statements.

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

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

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

c) Interest rate risk

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

The table in note 32(d) shows an estimate of the interest rate sensitivity gap as at 30 September 2021. The principal risk management tool to mitigate interest rate risk is the use of derivatives to align the interest rate re-pricing profile of assets and liabilities. All of the derivatives used by the Group are interest rate swap contracts of varying maturities and start dates.

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

d) Operational risk

Operational risk is the risk of economic loss from systemic failure, human error and fraud (control failures) or external events, which result in unexpected or indirect loss to the Group. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group 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.

The Group has responded to COVID-19 as it developed, initially through its business continuity processes to ensure the safety of its colleagues and its customers before returning to a more 'business as usual' operation albeit operating remotely. The Group has responded to and follows government guidance and best practice to maintain our customer service levels and protect our employees.

e) Insurance risk

Life insurance risk includes the possibility of loss due to uncertainty of rates of death. The principal risk the Group faces under insurance contracts is that the actual claims and benefits payments exceed the amounts expected at the time of determining the insurance liabilities. Following the sale of Hodge Life in the year the group no longer has exposure to this risk.

33 Financial risk management objectives and policies (continued)

f) 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 Group's equity release, retirement mortgages and reversionary interests held at FVTPL such that the ultimate realisation of the property would not yield the expected return to the Group and could, in certain circumstances, result in a capital loss. The Group mitigates house price risk by monitoring maximum loan to value at inception of the loan and reversionary interests.

Geographical analysis of equity release and retirement mortgages

The Group provides loans secured on property across England, Scotland, Northern Ireland and Wales. An analysis of residential property by geographical location is provided below. The Group disposed of its equity release portfolio in the year:

	2021		2020	
	£m	%	£m	%
Wales	3.3	4.4	9.3	5.2
East Anglia	2.9	3.8	7.4	4.2
East Midlands	3.5	4.7	8.8	5.0
Greater London	5.0	6.6	16.4	9.2
Yorkshire & Humberside	5.5	7.3	14.0	7.9
North West	7.2	9.5	19.1	10.6
Northern Ireland	-	-	8.9	5.0
Scotland	14.4	19.0	19.7	11.0
Outer Metropolitan	5.2	6.9	13.7	7.7
Outer South East	10.6	14.0	20.8	11.6
South West	9.0	11.9	20.2	11.4
West Midlands	5.4	7.1	10.8	6.0
North	3.7	4.8	9.2	5.2
	75.7	100.0	178.3	100.0

g) Conduct risk

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

The Group holds a provision of £nil as at 30 September 2021 (2020: £nil).

h) Pension risk

The Group is exposed to pension risk through its defined benefit scheme. Further information is provided in note 29.

i) Pandemic risk

Pandemic risk is the risk of economic loss from a result of a pandemic. The Executive Risk Committee has overall responsibility for implementing and monitoring risks that a pandemic could cause. The Committee is responsible for managing risk decisions and monitoring risk levels which it reports to the Risk and Conduct Committee.

34 Ultimate parent undertaking

The ultimate parent undertaking and controller is The Carlyle Trust (Jersey) Limited (incorporated in Jersey), a company controlled by a Hodge family trust, whose sole natural trustee is Jonathan Hodge.

35 Shares in Group undertakings

Company	£m
At beginning of year	86.5
Impairment	(13.5)
At end of year	73.0

Impairment in the year is driven by decreases in the net asset values of subsidiary entities, primarily Hodge Developments (Beaufort Park) Limited.

The undertakings in which the Group's and/or Company's interest at the year-end is more than 20% are as follows:

Subsidiary Undertaking	Country of incorporation	Principal Activity	Class and Percentage of shares held	
			Group	Company
Hodge Limited	United Kingdom	Holding company	100%	100%
Julian Hodge Bank Limited	United Kingdom	Banking	100%	100%
Carlyle Securities Limited	United Kingdom	Property investment	100%	100%
Carlyle Property Development Company Limited	United Kingdom	Property investment	100%	100%
Sterling House Limited	United Kingdom	Property investment	100%	100%
Wingwest (Fountain Lane) Limited	United Kingdom	Property investment	100%	100%
Hodge Developments (Beaufort Park) Limited	United Kingdom	Property investment	100%	100%
Hodge (Clevedon Estates) Limited	United Kingdom	Property Investment	100%	100%

36 Subsidiary Audit Exemption

The Carlyle Trust Limited provides a guarantee for the subsidiaries below under s479A, which exempts them from the requirements of the Act relating to audit of its individual accounts for the financial year to 30 September 2021.

Company Name	Company Number
Hodge Developments (Beaufort Park) Limited	06343749
Wingwest (Fountain Lane) Limited	06127896
Carlyle Securities Limited	00743649
Sterling House Limited	06589142
Hodge (Clevedon Estates) Limited	11209025
Carlyle Property Development Company Limited	00561281
Hodge Limited	00390216

37 Related parties

The Company has relationships with its parent Company, The Carlyle Trust (Jersey) Limited, fellow subsidiaries of The Carlyle Trust Limited and the Jane Hodge Foundation. The Company paid dividends to its shareholders during the year to 30 September 2021 of £6.6m (2020: £nil). The other group related party transactions are disclosed below:

Group	Interest income/(expense)	
	2021 £'000	2020 £'000
Jane Hodge Foundation – shareholder of The Carlyle Trust Limited	-	-

During the year, development costs of £0.1m (2020: £0.1m) were recharged to St Aubins Development Company Ltd at cost. This company is a related party as a director of the Company has significant influence over both St Aubins and the Group.

The Group also has a related party liability of £5.3m (2020: £1.8m) with the Jane Hodge Foundation – a shareholder of the Carlyle Trust Limited.

37 Related parties (continued)

The following balances were owed to or from related parties at the period end:

Company	2021	2020
	£m	£m
Deposits held by subsidiary		
Julian Hodge Bank Limited	128.6	1.3
Amounts owed from subsidiaries		
Hodge Limited	0.4	0.1
Carlyle Property Development Company Limited	0.2	0.5
Amounts owed to subsidiaries		
Julian Hodge Bank Limited	(0.4)	(3.1)
Reimbursement liability due to Julian Hodge Bank Limited	-	(3.3)
	128.8	(4.5)

Key management personnel comprise only the directors of the Group. There were no material transactions between the Group and its key management personnel other than those disclosed below.

Key management compensation is as follows:

	2021	2020
	£m	£m
Short-term employee benefits:	1.4	1.1

38 Capital risk management (unaudited)

Banking segment

The banking segment 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 Requirement ('TCR').

The Bank's capital resources requirements are calculated based on the CRD IV and 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:

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

	2021 Unaudited £m	2020 Unaudited £m
Common Equity Tier 1 capital	143.8	136.4
Total risk weighted assets	771.0	693.8
Common Equity Tier 1 capital ratio	20.2%	19.7%
 Total own funds	 143.8	 136.4
Total risk weighted assets	771.0	693.8
Total capital ratio	20.2%	19.7%

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 Bank operates only in the United Kingdom. The principal activities of the Bank are noted in the Strategic Report.
- Average number of employees: as disclosed in note 6 to the financial statements.
- Annual turnover (Net Interest Income) and profit before tax: as disclosed in the Income Statement.
- Corporation Tax received / (paid) by Julian Hodge Bank Limited: 2021 £0.4m (2020: £(0.3)m).
- Public subsidies: The Bank received £nil (2020:£0.3m) under the Coronavirus Job Retention Scheme from the UK government.

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

The banking segment's objectives when managing capital are:

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