Parent of
6589142

The Carlyle Trust Limited

Annual report and financial statements
30 September 2020
Registered number 00361131

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.
	Alun Bowen	F.C.A., M.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 11-month period ended 30 September 2020.

The main trading entities are: Julian Hodge Bank Limited (the 'Bank') and Hodge Life Assurance Company Limited ('Hodge Life').

We were disappointed to see our previous CEO resign at the turn of the year but that created the opportunity for our CFO, David Landen, to step into the role initially as interim CEO, ably supported by Matthew Burton as interim CFO.

They assumed their roles just as the biggest global challenge in a generation, COVID-19, started to dramatically impact on everyone's lives. It is well documented just how much of an economic shock was created across the world, with many markets effectively closing and many businesses having to rapidly rethink their operating model.

The Group was no exception, with our financial position adversely affected both by the loss of new business income, as the UK housing market was effectively shut down for several months, as well as the increased loss provisioning on aspects of some of our loans.

Whilst this was incredibly disappointing and frustrating as we had seen encouraging growth in our retail mortgage business prior to the crisis, we have seen our business volumes return to those record levels in recent weeks and so there are promising signs that the recovery is underway. However, recovery is fragile as I write this, and we have yet to see the outcome of the Brexit trade negotiations.

The Commercial team have been focussing on managing our existing client relationships and, whilst inevitably there will be some stresses in some of those loans, the strength of those relationships together with the insight of the team is minimising the longer-term impact.

The operational response was excellent, with the whole business able to work from home with immediate effect which preserved service levels and ensured the safety and security of all colleagues. The Board was extremely impressed with the response and grateful to all of the leadership team for such a tremendous achievement.

In common with most businesses across the sector we utilised the Government's job retention scheme for some colleagues, particularly those in our new business sections where markets effectively shut down, and in doing so continued to pay full salaries and packages as well as looking to rotate colleagues to ensure that they kept a close connection with the business.

Throughout we have maintained a close eye on preserving our capital position to ensure we remain above regulatory thresholds.

Corporate strategy

Looking to the future, our strategy remains rooted in the traditional values of the Group established some fifty years ago by Sir Julian Hodge.

The Group will deliver its strategy through using our trusted expertise built up in the specialist areas we understand best, showing genuine empathy with customers and partners alike, and showing bold flexibility to respond to the needs of people in this ever-changing world.

Our longer-term strategy remains to optimise the allocation of capital across the business and to increase the return both in terms of Return on Capital Employed ('ROCE') and in absolute terms.

These strategic priorities were reaffirmed by the Board at our June Strategy day, with a primary goal of building a fast moving, innovative and agile business capable of responding quickly to market initiatives as well as creating new opportunities ourselves.

This will see the Bank growing its retail mortgage business in highly specialised areas where the changing demographic nature of the UK mortgage market is not being adequately met by the mainstream lenders. To facilitate this growth, we will be expanding our savings capability and product range to add further support to our existing customers as well as attracting new savers using both traditional and digital channels.

Chairman's Statement (continued)

Our commercial business will remain a critically important aspect of the Group, with the objective of maximising the capital supporting this business area through a manageable number of important, long term relationships, where our expertise can be fully utilised.

A key enabler will be our investment in technology, especially utilising open architecture to meet more customer needs and to enable effective partnerships across our product range. This commitment was most evident throughout the COVID-19 crisis where the decision was made to continue the investment in technology at pace so as to enable a fast recovery at the right time.

For Hodge Life we are assessing a wide range of potential strategic options for its future.

Our business

We are a privately owned Group seeking to use finance for good, opening up possibilities in the moments that matter for people and business.

We continue to offer a full range of later life products assisting our customers prior to, at and post-retirement. We have been in this market 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 residential mortgage markets offering portfolio and holiday buy-to-let products. In addition, through our commercial lending business, we offer real estate finance to 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.

Specialist mortgages

The Group's specialist mortgage business combines our expertise in both residential and later-life lending.

We work closely in partnership with our trusted network of intermediaries, serving professional landlords through our buy-to-let mortgages, and personal customers through our later-life mortgages.

Our range of later-life mortgages include retirement interest-only mortgages, either with or without a fixed-term end date. These products are available to those over 50, a growing market that we are committed to serving.

2020 has been a year of focus on improving our service delivery, affirming our commitment to place our customers at the heart of everything we do. We have invested in enhancing the intermediary experience providing an online transactional portal that provides real time case management and account support. We continue to value and respond to feedback from the broker community, delivering a range of product updates and service enhancements throughout the year. We work closely with them to ensure the products we offer deliver for our customers whilst providing flexibility in a notoriously rigid market. This is essential as we look to evolve our product offering.

We have also focussed investment in our teams, 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, predominantly in residential or residential-led mixed use 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 and providing ancillary support facilities. We are a long-term funding partner for our clients as they grow their own businesses.

Our financial period to 30 September has been the proverbial 'period of two halves' with our markets very active and loan volumes strong in Q4 2019 and Q1 2020 as political and Brexit related uncertainties started to ease, before COVID-19 emerged to impact the UK, both economically and socially in a very material way.

Chairman's Statement (continued)

Whilst the immediate impact of COVID-19 was an effective hiatus in our markets, as clients and businesses took stock of the sudden and dramatic change in the environment, it has been encouraging to see a notable resurgence in confidence and activity through the traditionally quieter summer months. Our new enquiry levels have been particularly strong of late which is indicative of investors and developers having the confidence and motivation to plan and progress new investments and building projects. Whether this is a sustainable trend, a release of pent up demand from earlier in the year, or a temporary reaction to the currently buoyant housing market activity and price levels, time will tell.

However, what is certain is that there remains a sizeable cohort of businesses in the UK that have been severely affected by COVID-19 and which will take a considerable period of time to recover from its impact. This will affect the level of business activity in general, as well as future demand for the property space our clients develop and provide, in particular. Allied to this, it is plausible that widespread and sustained homeworking across the economy could represent structural change to working practices, rather than being a temporary phenomenon, with consequent longer-term implications for the type, location, nature and size of business and residential property demand.

More positively, our priority growth areas in development finance and residential investment have proved attractive to our target market and both have shown good traction since their initial launches last year. We are growing our lending volumes and client numbers in these areas, whilst continuing to service our clients who focus on wider commercial real estate projects such as offices, retail, leisure or industrial.

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 continue to be, the most important part of our funding base. Throughout 2020 we have continued investing in our digital offering, using technology to create better experiences for our customers. Alongside investment in the journey, we will continue to grow our savings product offerings.

During the next twelve months we aim to expand the range of products and services that can be arranged online, giving customers even more control over how they engage with us.

Our customers tell us they appreciate the value of human interaction. The level of this interaction varies from human touch at every stage of the journey, through to a simple reassurance that any queries can be answered by a person. Our team of experts support those customers as and when required.

We continue to manage over £1bn of our customers' savings balances, providing competitive interest rates and an efficient personalised service. As we have grown our digital offering to include on-line account servicing, this has attracted more new customers and resulted in an increased proportion of our savings balances being raised through this channel. We expect this trend to continue.

The Group is also a participant in the Bank of England's Term Funding Scheme ('TFS'), which provides a cost-effective source of funding in the form of central bank reserves to support additional lending to the real economy. The TFS balance represents 8.0% of the overall funding from deposits with banks and customers at 30 September 2020.

Hodge Life

Hodge Life's business focuses on the retirement market and, in particular, pension annuities where we offer our products through financial intermediaries.

We back our annuity liabilities with a range of long-term assets, including equity release mortgages which are a good match for these liabilities given their long-term fixed rates of interest. The mortgages are originated by our mortgages business which means collaborative working is vital to our approach.

Chairman's Statement (continued)

The events of 2020 have highlighted further the needs for holistic retirement planning. Stock market falls and low interest rates continue to put pressure on retirees' pension savings, and has brought into focus their investment risk appetite. Securing a guaranteed income for life remains a priority for many retirees, and we expect the annuity market to grow as a result.

The role of property during retirement is also of growing importance. We anticipate these developments encouraging a greater use of equity release and other later life lending solutions, alongside annuities and similar products, to provide an appropriate level of retirement income. We are therefore very confident that our business model is well placed to benefit from these developments, with the drivers of change having been accelerated by the COVID pandemic.

Hodge Life reached a strategic milestone during the year by concluding a significant longevity reinsurance transaction. Longevity risk is the risk that annuity policyholders live longer than expected. It is a significant risk to Hodge Life which required high levels of capital to held to mitigate it. The transaction transfers the longevity risk on £475m of annuities to a highly-rated reinsurer, which releases capital within Hodge Life to fund future new business growth.

Financial performance

Despite 2020 being a year which was challenging as a result of the economic environment caused by COVID-19, the Group increased its loans and advances to customers by 15.4%.

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

	2020	2019
Financial performance	**£m**	**£m**
Net interest income	36.9	41.6
Net operating income	46.0	65.2
Operating profit	10.9	35.4
(Loss)/profit before tax	(13.4)	12.4
Group financial ratios	**%**	**%**
Net interest margin[1]	1.7	2.0
Cost income ratio [2]	59.1	37.3
Financial soundness - Hodge Bank	**%**	**%**
Common Equity Tier 1 ratio	19.7	22.5
Leverage ratio	9.6	11.1
Liquidity Coverage Ratio	272.9	516.9
Financial soundness - Hodge Life		
Solvency Capital Ratio	183.0	165.0

1 Net interest margin: net interest income as a proportion of total assets.

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

The Group's performance at a net interest income level decreased during the year as the Group continued with its planned growth in residential mortgages and reduction in commercial lending balances. This is in line with expectation as the Group continues to change its asset mix to improve capital efficacy.

The Group's performance at a net operating income level was also impacted by reduced reversionary asset sales due to the disruption caused by COVID-19 compared with the prior year. This reduced net operating income by £8.2 million.

We had to constrain our capacity to write annuities within Hodge Life to a low level during the year as low interest rates as a result of COVID-19 adversely impacted Solvency Capital levels.

Chairman's Statement (continued)

The Group's performance at an operating profit level reduced as a result of the movements noted above but also due to the planned increase in overheads due to substantial investment in people and systems to enable us to carry out our plans to grow the business over the coming years. We continue to make significant investment in our business, particularly within the digital arena, recognising that any successful financial services business must invest to stay relevant and to meet the aspirations and expectations of its customers.

In addition, in the prior year a significant profit of £6.1 million was made upon the disposal of land within one of the Group's development subsidiaries to a real estate developer.

The operating loss was further impacted by a large increase in commercial loan impairments, partly as a result of COVID-19, but the Group also recognised an additional loss, on final settlement of £3.5 million in relation to a badly performing loan. Further progress has been made in 2020 to resolve commercial lending exposures in default, with gross default balances decreasing by £10.0 million.

The Group recognised a £4.1 million loss on its macro hedge accounting portfolio as part of its transition away from LIBOR, this was offset by a £4.2 million gain on disposal of the underlying hedged items of government bonds and debt securities.

The overall result is a loss after tax of £10.4 million, which is mainly driven by the reduction in operating profit of £24.5 million but also due to additional non-operating losses before tax of £1.3 million. The non-operating loss is mainly due to a revised valuation methodology of lifetime mortgages and reversions implemented in the period. The Group now uses a discount rate that more closely reflects active market pricing within the mark to model valuation.

Our Shareholder's funds were further depleted due to actuarial losses of £4.4m on the defined benefit pension scheme.

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 £467.9m of liquid assets (31 October 2019: £599.7 million) which are available to protect it from liquidity stresses.

<u>Hodge Bank</u>

Liquidity levels 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 2020 was above the regulatory minimum of 100% at 272.9% (2019: 516.9%), this was reduced as planned during the year as the Group has utilised the proceeds received from the disposal of the equity release mortgage portfolio at the end of the prior period.

<u>Hodge Life</u>

Hodge Life's liquidity risk appetite sets liquidity requirements based upon a short-term liquidity stress as well as a long-term structural liquidity test. Tests are run as part of Hodge Life's Own Risk and Solvency Assessment ('ORSA'). Liquid assets are held to maintain liquidity to meet both short and long term liquidity tests.

Capital and Leverage

The Group holds capital to protect itself, its depositors and annuitants 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.

Chairman's Statement (continued)

<u>Hodge Bank</u>
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 2020 the Bank's CET1 ratio stood at 19.7% (2019: 22.5%).

Alongside the CET1 ratio we actively monitor our leverage ratio. This is a capital ratio that excludes the risk weighting of assets. The leverage ratio at 30 September 2020 was 9.6% (2019: 11.1%). 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.

<u>Hodge Life</u>
Hodge Life's primary metric in assessing capital adequacy is the Solvency Capital Requirement Coverage ratio, which was introduced in 2016, as part of the Solvency II package of measures. This ratio assesses available capital resources as a proportion of capital requirements. Hodge Life uses the Standard formula to calculate its capital requirements and as at 30 September 2020, the Solvency Capital Requirement stood at 183% (2019: 165%). The capital strain of writing new business remains high because Hodge Life does not benefit from the Matching Adjustment under Solvency II.

Governance and the Board
This year also saw a number of changes in the composition of the Group's various boards. I have already spoken of the changes at CEO and CFO level, but we also welcomed a number of non-executive directors to the boards of the Bank and Hodge Life which continued the strengthening of the governance of the Group.

Alun Bowen is due to retire later this year. The Board is extremely grateful to Alun for his considerable contribution to the Group over many years and he will be enormously missed.

I am delighted to confirm that David Landen was appointed to the Group's CEO role on a permanent basis with the full support of the Board following a very impressive performance leading the business throughout the COVID-19 crisis and beyond.

Alongside this the Board valued the contribution made by Matthew Burton as interim CFO and so have appointed him to the role of Deputy CEO and Retail Director to lead the very important growth of that business area. I would also like to welcome Richard Jones to the board as interim CFO.

Finally, the Board would like to put on record our thanks to all colleagues across the Group who have responded so effectively, flexibly and pragmatically to the extreme changes caused by the COVID-19 crisis.

Jonathan Hodge

Jonathan Hodge
Chairman
11 December 2020

Strategic Report

Principal activities
The Company is a holding company of a financial services group which contains a bank and 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 6. The key performance indicators are considered to be net operating income and operating profit.

Results and dividends
The loss for the year after taxation amounted to £10.4m (2019: profit £10.8m). No dividend was paid during the year (2019: £3.3m).

S172 Statement by the Directors
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;
• impact of the Group's operations on the community and environment;
• desirability of the Group maintaining a reputation for high standards of business conduct; and
• interests of the Group's Shareholder.

In discharging its s172 duties, the Group has 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 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 below.

Strategic Report (continued)

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 customer forum and continues to work closely with our broker network to ensure the products we design are needed and add value. A variety of customer surveys are also carried out on a regular basis to gather feedback from customers as and when they have an interaction with the Group.

2020 has been a year of progress, during which we focused on ensuring we put the customer at the heart of everything we do. We launched the new holiday lets product, engaging with the broker community in its development.

We continue to make significant investment in technology to improve our operational and digital capability which is vital in delivering our promises to our customers. This ongoing investment brings efficiency and scalability to our operations, whilst delivering great service to our customers.

In the prior year we launched a portal for mortgage advisers which provides a seamless online service to support our network of advisers and enables efficient processing of mortgage applications; additional functionality has been built within the portal in 2020. In addition, in 2020 the Group has worked with a third party to build a new mortgage servicing platform which provides the Group with the functionality to service both interest only and capital and interest products in-house for the first time. The new mortgage servicing system is due to go live by the end of 2020 and should assist the Group in improving the level of service it provides to its customers.

Our Employees

We continue to invest in our people, with leadership support and mentoring across the business. This commitment will enhance strategic leadership as well as strengthening capability at multiple levels throughout the organisation. We have taken steps to drive colleague engagement through reward and recognition schemes aligned with our desire to delight our customers and we have made enhancements to our internal communication so that all our colleagues are aware of the business's direction. The directors recognise the importance of communication with employees and they make it their policy to be accessible to them.

In March, the impact of the COVID-19 pandemic on new business volumes demanded swift and immediate action to protect and secure our colleagues and their families. The government's job retention scheme was used to ensure that, at a time when new business levels were seriously curtailed as a result of the pandemic, staffing levels were appropriately managed. Staffing levels were regularly reviewed to ensure that the business was able to cope with slowly increasing work levels and the use of the scheme was reviewed regularly to ensure its appropriateness.

The Board took the decision to continue to pay furloughed employees their full pay, as it was considered vitally important to support our colleagues and their families during a difficult and stressful time. One of the impacts of the COVID-19 pandemic which became clear at an early stage was that, bearing in mind the Group's performance and the economic outlook, it was highly unlikely that the performance targets set by the Board would be met to enable payments to be made under the Group's Incentive Scheme. The Board informed employees of the situation as early as possible in order to manage expectations.

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

Strategic Report (continued)

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

Last year, the Board completed the important task of shaping and agreeing a reward strategy for the Group that sets out our guiding principles and direction, for the Group's reward policies, practices and offerings. The Group's strategy remains to show how much we value colleagues, to provide flexibility and opportunity for all, and to offer an upper quartile package.

During the year, we introduced our new flexible benefits package for all employees. Having conducted a survey of our colleagues, considering the type of benefits that would work for everyone, and identified a range of benefits which would support our colleagues at the various stages of their lives, including the ability to buy additional holidays and health plans.

In addition to the new flexible benefits package, the business adopted a new parental leave benefits policy, which equalised the benefits for maternity and paternity leave and increased the length of paid leave to bring the business into the top quartile of local employers.

The Board has committed to conduct a gender pay audit in 2020/21 and to publish the results.

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. The Group launched a new procurement system in 2020 which improves the management of the relationship with our suppliers.

During 2020 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 impact, 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 Community

Throughout 2020 we have continued to make a difference to the lives of others through our corporate social responsibility commitment. The Group has a focus on the wider community, supporting four charity partners during the year: Re-engage, Care & Repair Cymru, Maggies and Hourglass. Additionally, colleagues are able to take up to four days off work per year to support good causes with the Group's 'Four to do More' initiative.

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.

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

Strategic Report (continued)

Corporate Governance

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

The Board's agenda during 2020 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 five non-executive directors. The roles of Chairman and Chief Executive are separate to ensure that neither can exercise unfettered powers of decision-making on matters of material importance.

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

- Distributing papers sufficiently in advance of meetings;
- Considering the adequacy of the information provided before making decisions; and
- Deferring decisions when directors have concerns about the quality of information.

The Board is ultimately responsible for the 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 changed its internal auditors, following a tender process, from PwC to Deloitte on an outsourced basis. 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

Nestor Advisors were engaged to undertake a review of the Board in 2019, including governance and individual director development, specifically to:

- Identify improvements to the Board structure, functioning, ability to work as a team, and capacity to challenge;
- Develop shared views on further enhancing board effectiveness;
- Enhance comfort among board members regarding fulfilment of their collective role;
- Bolster confidence of shareholders, regulators and stakeholders in Board governance practices.

Following the review, which had the full participation of the Board, Nestor Advisors provided feedback on their findings, drawing attention to the strength and collegiality of the Board. In addition, the Nestor advisors presented recommendations, including at a high-level to:

- Continue to enhance the strategic capability of the Board, without undermining collegiality;
- Strengthen the Board's oversight capability, without cancelling its proximity to the business, and;
- Streamline support functions.

Strategic Report (continued)

As a result of the recommendations the CEO and the Board have initiated several changes to further strengthen the Board and this continued in 2020 with a number of appointments and changes.

The following is a summary of the framework for corporate governance adopted by 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 shareholder to ensure a clear understanding of their views and requirements. A shareholder's covenant has been agreed detailing the Shareholder's expectations of the 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, he spent the vast majority of his career with the Nationwide Building Society, most recently becoming 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.

Alun Bowen - Non-Executive Director
Alun joined the Board in 2013, he was the Chair of the Risk and Conduct Committee until 31 July 2020.

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

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

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

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.

Strategic Report (continued)

Helen Molyneux - Non-Executive Director
Helen joined the Board in June 2015 and is Chair of the Remuneration Committee.

Until November 2016, Helen was the CEO of NewLaw Legal, a business she established from scratch, which now employs over 400 people. She is now 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 is 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 – Chief Executive Officer
David was appointed Chief Executive Officer in September 2020, stepping up from CFO and Deputy CEO. David joined the Group in 2002 and has held a variety of finance and treasury roles during his time with the organisation. He was appointed to the Board as CFO in 2011. An accountancy graduate from Cardiff University, he is a fellow of the Association of Chartered Certified Accountants.

Board Committees

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

Audit Committee

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

The function of the Audit Committee is to review the work of the Internal Audit function, to consider the adequacy of internal control systems, to oversee the relationship with the external auditors, to review the statutory accounts including the key estimates and judgements used in the statutory accounts and to consider compliance issues. The Committee meets at least four times a year.

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. The Committee meets at least twice per year.

Change and Innovation Committee

All members of the Change and Innovation 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.

The Committee was set up during the year and only one meeting took place.

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. The Committee meets at least eight times a year.

Strategic Report (continued)

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. The Committee meets at least twice per year.

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

In the normal course of its business, the Group is exposed to counterparty risk, liquidity risk, longevity and insurance risk, house price risk, interest rate risk, conduct risk, operational risk and pension risk. As a result of recent events, the risks from the COVID-19 pandemic are likely to impact all of our principal risk categories in varying degrees of severity.

Counterparty risk is the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. Through entering the reinsurance trade in the year and additional counterparty risk emerged. The Group manages its counterparty risk through its Retail Credit Committee and Assets and Liabilities Committee. Regular credit exposure reports are produced which include information on credit and property underwriting, large exposures and asset concentrations. A reinsurance trade was successfully implemented during the year and has significantly reduced the exposure to longevity risk, and also to interest rate 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 the notes to the financial statements.

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

Longevity and insurance risk is the risk that policyholders live for a longer period of time than the Group expects through the pricing of its policies or the calculation of its technical provisions. The Group manages its insurance risk through regular monitoring of mortality experience and pricing of annuity products. A reinsurance trade was successfully implemented during the year and has significantly reduced the exposure to longevity risk, and also to interest rate 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 lending into retirement products, 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 setting and monitoring maximum loan to value at inception of the loan.

Strategic Report (continued)

Interest rate risk is the risk that arises when there is an imbalance between the maturity dates of rate sensitive assets, liabilities and off-Balance Sheet items. The 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 36 shows an estimate of the interest rate sensitivity gap as at 30 September 2020. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

The Group enters into derivative transactions, normally interest rate swaps. The purpose of such transactions is to manage the interest rate and other risks arising from the Group's operations and other resultant positions. The Group's interest rate risk management policy defines the type of derivative transactions that can be undertaken. Further information is given in note 29 to the financial statements.

In July 2017, the Financial Conduct Authority (FCA) announced a transition away from LIBOR. The Group set-up a LIBOR working group to assess the impact and manage this change and has made progress during the year to transition away from LIBOR. This work will conclude by the end of 2021.

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 Board.

Operational risk is the risk of economic loss from control failures or external events, which result in unexpected or indirect loss to the Group. 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. The Assets and Liabilities Committee covers liquidity risk and credit risk for treasury counterparties. Strategic risk is monitored through the Board.

Pension risk - the Group is also exposed to pension risk through its defined benefit scheme. Further information is provided in note 33.

Pandemic risk, whilst not a principal risk category we consider the risk of economic loss as a result of the COVID-19 pandemic. The Group runs a variety of stressed scenarios as part of its Internal Capital Adequacy Assessment Process (ICAAP) and ORSA to assess how it would respond to severe stressed scenarios that a pandemic could cause. The Group also has a Recovery Plan which is reviewed annually by the Board and documents the plans in place and actions to be taken to recover from a severe stress event.

David Landen
Director
11 December 2020

Directors' Report

The directors present their report together with the audited financial statements for the 11-month period ended 30 September 2020. 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 7
Risk management policies	- page 13
Financial instruments	- note 36

Directors and directors' interests
The directors who held office during the year were as follows:

Jonathan Hodge*	Chairman
David Landen (CEO)	(Appointed April 2020)
Stephen Pateman	(Resigned March 2020)
Alun Bowen*	
Adrian Piper *	(Retired April 2020)
Helen Molyneux*	
John Barbour*	
Graeme Hughes*	(Appointed May 2019)

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.*

Change in year end
During the year the Group changed its year end from 31 October to 30 September.

Political contributions
The Group made no political contributions during either year.

Post Balance Sheet events
On 2 November 2020, a subsidiary of the Group entered into an unconditional sale agreement with an independent third party to dispose of land at an agreed sales price of £10.85m. The land is held at a carrying value of £7.5m on the Consolidated Balance Sheet at 30 September 2020. Management has estimated the net proceeds after sales costs have been considered to be close to £9.5m, which will result in a profit on disposal of approximately £2.0m.

In November 2020, the Board declared a dividend of £1 per share. The total payment of £1,100,002 was made on 25 November 2020.

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.

Directors' Report (continued)

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 or an adverse Brexit outcome 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 or Brexit related 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, Individual Liquidity Adequacy Assessment Process and Own Risk and Solvency 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 at least 12 months from the date of signing the Annual Report and Financial Statements. 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 financial statements in accordance with International Financial Reporting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ('adopted IFRSs') and those parts of the Companies Act 2006 that are applicable to companies that prepare financial statements in accordance with IFRS. 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 (continued)

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:

1. 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.
2. 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.
3. The Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholder to assess the Group's position and performance, business model and strategy.
4. 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
11 December 2020

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

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 period ended 30 September 2020 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 42 (except for the sections of 42 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 Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 2020 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance in 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 below. We are independent of the Group and parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

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.

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the 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

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

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.

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.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Andy Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
11 December 2020

Consolidated Income Statement

For the 11-month period ended 30 September 2020

	Notes	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Interest receivable and similar income	5	60.1	70.0
Interest payable and similar charges	6	(23.2)	(28.4)
Net interest income		**36.9**	**41.6**
Fees and commissions receivable		0.7	0.6
Fees and commissions payable		(0.5)	(0.9)
Net fee and commission income		**0.2**	**(0.3)**
Dividend income receivable		-	0.1
Earned premiums	7	22.8	41.6
Impact of new insurance contracts	30	(23.4)	(42.4)
Investment income		8.6	17.2
Gross claims and benefits paid	30	(25.4)	(26.9)
Impact of gross claims and benefits paid on the provision for long-term business	30	25.4	26.9
Other operating income		0.9	1.3
Profit on sale of inventory	8	-	6.1
Net operating income		46.0	65.2
Administrative expenses	9	(27.2)	(24.3)
Depreciation and amortisation	19/20	(2.2)	(1.3)
Impairment losses on loans and advances to customers	18	(5.7)	(4.2)
Operating profit		10.9	35.4
Other fair value gains	10	2.3	24.8
Gains arising from the derecognition of financial assets managed at amortised cost	14/15	4.1	3.1
Reinsurance recoveries		394.3	-
Reinsurance expense		(393.7)	-
Loss on disposal of loans and advances to customers		-	(4.6)
Movement in long-term business provision	30	(31.3)	(46.3)
(Loss)/profit before taxation	11	(13.4)	12.4
Tax on loss/(profit)	12	3.0	(1.6)
(Loss)/profit for the financial period		(10.4)	10.8

Consolidated Statement of Other Comprehensive Income

For the 11-month period ended 30 September 2020

	Notes	11-months ended 30 September	Year ended 31 October
		£m	£m
(Loss)/profit for the financial period		(10.4)	10.8
Re-measurement of defined benefit pension plan	33	(4.4)	(3.3)
Deferred tax thereon	24	0.8	0.6
Total other comprehensive income		**(3.6)**	**(2.7)**
Total comprehensive income for the period		(14.0)	8.1

The results for the 11-month period ended 30 September 2020 relate entirely to continuing operations. The notes on pages 30 to 94 form part of these financial statements.

Consolidated Balance Sheet
As at 30 September 2020

	Notes	30 September 2020	31 October 2019
		£m	£m
Assets			
Cash and balances held at central banks	13	147.9	321.9
Government bonds	14	77.9	55.5
Debt securities	15	124.8	134.9
Loans and advances to credit institutions	16	117.3	87.4
Loans and advances to customers	17	1,431.3	1,240.2
Intangible assets	19	7.3	5.8
Property, plant and equipment	20	6.4	1.9
Investment properties	21	179.9	179.8
Investments	22	6.4	6.8
Reinsurance asset	23	0.9	-
Deferred tax assets	24	6.8	3.7
Other assets	25	11.9	10.1
Inventory	26	7.7	7.8
Total assets		2,126.5	2,055.8

	Notes	30 September 2020	31 October 2019
		£m	£m
Liabilities			
Deposit from banks	27	87.5	72.5
Deposits from customers	28	1,068.9	1,039.5
Derivative financial instruments	29	82.8	81.3
Provisions for long term business - liabilities arising from insurance contracts	30	528.0	498.7
Lease liabilities	31	4.5	-
Other liabilities	32	4.9	5.1
Pension scheme deficit	33	21.0	16.6
Total liabilities		**1,797.6**	**1,713.7**
Share capital and reserves			
Called-up share capital	34	1.1	1.1
Other reserves		327.8	341.0
Total equity		**328.9**	**342.1**
Total equity and liabilities		2,126.5	2,055.8

These financial statements were approved by the Board of directors on 11 December 2020 and were signed on its behalf by:

David Landen
Director

Company Balance Sheet

As at 30 September 2020

	Notes	30 September 2020 £m	31 October 2019 £m
Assets			
Debt securities	15	-	0.1
Loans and advances to credit institutions	16	1.5	1.1
Property, plant and equipment	20	4.5	-
Investments	22	6.4	6.8
Deferred tax asset	24	0.5	0.6
Other assets	25	0.8	0.7
Shares in group undertakings and participating interests	39	86.5	86.5
Total assets		100.2	95.8

	Notes	30 September 2020 £m	31 October 2019 £m
Liabilities			
Lease liabilities	31	4.5	-
Other liabilities	32	6.4	6.8
Total liabilities		**10.9**	**6.8**
Share Capital and reserves			
Called-up share capital	34	1.1	1.1
Other reserves		88.2	87.9
Total equity		**89.3**	**89.0**
Total equity and liabilities		100.2	95.8

These financial statements were approved by the Board of directors on 11 December 2020 and were signed on its behalf by:

David Landen
Director

Consolidated Statement of Changes in Equity

For the 11-month period ended 30 September 2020

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 (note 3)	-	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

Group	Called up share capital	Retained earnings	Available-for-sale reserve	Pension reserve	Total
	£m	£m	£m	£m	£m
2019					
At beginning of year	1.1	347.7	2.7	(10.8)	340.7
IFRS 9 adoption impact	-	(0.7)	(2.7)	-	(3.4)
Restated Balance	1.1	347.0	-	(10.8)	337.3
Profit for the financial year	-	11.2	-	(0.4)	10.8
Dividends	-	(3.3)	-	-	(3.3)
Other comprehensive income	-	-	-	(2.7)	(2.7)
At end of year	1.1	354.9	-	(13.9)	342.1

Company Statement of Changes in Equity

For the 11-month period ended 30 September 2020

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 (note 3)	-	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	[illegible]

Company	Called up Share Capital	Profit and loss account	Total
	£m	£m	£m
2019			
At beginning of year	1.1	89.5	90.6
Profit for the financial year	-	1.7	1.7
Dividends	-	(3.3)	(3.3)
At end of year	1.1	87.9	89.0

Consolidated Statement of Cash Flows
For the 11-month period ended 30 September 2020

	Notes	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Cash flows from operating activities		(126.0)	95.1
Taxation paid		(0.3)	(0.2)
Net cash (outflow)/ inflow from operating activities		(126.3)	94.9
Cash flows from investing activities			
Purchase of government bonds	14	(124.5)	(92.4)
Proceeds from sale of government bonds	14	92.1	83.0
Disposals due to restructuring exercise	14	7.6	53.4
Proceeds from sale of debt securities	15	34.5	18.8
Disposals due to restructuring exercise	15	5.4	28.1
Purchase of debt securities	15	(29.1)	(34.5)
Additions to intangible assets	19	(2.8)	(3.5)
Additions to property, plant and equipment	20	(0.5)	(0.2)
Purchase of investments	22	(0.6)	(0.5)
Proceeds from sale of investments	22	0.7	0.4
Net cash (outflow)/ inflow from investing activities		(17.2)	52.6
Cash flows from financing activities			
Payments on lease liability	31	(0.6)	-
Dividends paid		-	(3.3)
Net (outflow) from financing activities		(0.6)	(3.3)
Net increase in cash and cash equivalents		(144.1)	144.2
Cash and cash equivalents at start of year		409.3	265.1
Cash and cash equivalents at end of period		265.2	409.3
Cash held at central banks repayable on *demand*	13	147.9	321.9
Loans and advances to credit institutions repayable on demand (1)	16	117.3	87.4
Cash and cash equivalents at period end		265.2	409.3

(1) Loans and advances to credit institutions includes collateral held by swap counterparties of £86.3m (2019: £79.5m) 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

2020	Notes	At 31 October 2019	Cash flow	At 30 September 2020
		£m	£m	£m
Cash held at central banks repayable on demand	13	321.9	(174.0)	147.9
Loans and advances to credit institutions repayable on demand	16	87.4	29.9	117.3
		409.3	[illegible]	[illegible]

2019	Notes	At 31 October 2018	Cash flow	At 31 October 2019
		£m	£m	£m
Cash held at central banks repayable on demand		153.2	168.7	321.9
Loans and advances to credit institutions repayable on demand		111.9	(24.5)	87.4
		265.1	144.2	409.3

B Reconciliation of operating profit to operating cash flows

	Notes	11-months ended 30 September	Year ended 31 October
		2020	2019
		£m	£m
Cash flows from operating activities			
(Loss)/profit before tax		(13.4)	12.4
Net Income Statement losses/ (gains) on government bonds	14	2.4	(0.1)
Net Income Statement gains on debt securities	15	(0.7)	(1.9)
Net change in loans and advances to customers	17	(196.8)	(1.8)
Impairment provision charge for losses on loans	18	5.7	4.2
Amortisation of intangible assets	19	1.3	0.8
Depreciation of plant property and equipment	20	0.9	0.5
Net change in investment property	21	(0.1)	9.9
Net Income Statement gains on investments	22	0.3	(0.1)
Net change in reinsurance asset	23	(0.9)	-
Net change in other assets	25	(0.9)	(6.6)
Net change in inventory	26	0.1	0.6
Net change in deposits from banks	27	15.0	-
Net change in deposits from customers	28	29.4	45.6
Net change in derivatives	29	1.5	(27.2)
Net change in provision for long term business liabilities	30	29.3	61.7
Finance expense on lease liability	31	0.2	-
Net change in other liabilities	32	0.7	(3.3)
Net change in other provisions		-	(0.1)
Net change in pension scheme deficit	33	-	0.5
Net cash inflow from operating activities		(126.0)	95.1

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 (IASB) as adopted by the European Union ('adopted IFRSs') and those parts of the Companies Act 2006 that are applicable to companies that prepare financial statements in accordance with IFRS.

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 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 loss for the year after taxation was £0.5m (2019: profit of £1.7m) 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 or an adverse Brexit outcome 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 or Brexit related 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, Individual Liquidity Adequacy Assessment Process and Own Risk and Solvency 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 at least 12 months from the date of signing the Annual Report and Financial Statements. 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 11-month period ended 30 September 2020. Apart from IFRS 16 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:

IFRS 17 'Insurance Contracts'
IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for the Group for the annual period commencing 1 October 2023. The standard will be applied retrospectively, subject to the transitional options provided for in the standard and provides a comprehensive approach for accounting for insurance contracts including their valuation, Income Statement presentation and disclosure. The Group has mobilised a project team to assess the financial and operational implications of the standard and work will continue throughout 2021 to ensure technical compliance and to develop the required system capability to implement the standard.

None of the other 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.

Changes in Accounting Policy

Adoption of new and revised standards and interpretations
On 1 November 2019, the Group adopted the requirements of IFRS 16 'Leases'.

IFRS 16 'Leases' introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and replaces IAS 17 'Leases'.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The previous distinction of operating leases (off Balance Sheet) and finance leases (on Balance Sheet) has been removed for lessee accounting and replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The standard represents a significant change in the accounting and reporting of leases, impacting the Income Statement and Balance Sheet as well as performance measures used by the Group.

The Group has chosen to adopt the modified retrospective approach to transition. The Group has performed an extensive review of all the Group's leasing arrangements in light of the new accounting standard. A right-of-use asset and lease liability has been recognised on both the Group's and Company's respective Balance Sheet. Interest will be unwound based on the amortisation schedules for the underlying leases and the right-of-use asset will be depreciated on a straight-line basis over the remaining useful life of the assets.

Further information with regards to the impact of the transition to IFRS 16 can be found in note 3.

1 Accounting policies (continued)

Summary of Significant Accounting Policies

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

Basis of consolidation
The Group consolidates the assets, liabilities and results of the Company and its subsidiaries.

Subsidiaries are all entities controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns, through its power over the entity and voting rights.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. Intra-group transactions and balances and unrealised gains on transactions between intra-group companies are eliminated in the consolidated accounts.

The Company's investment in its subsidiaries are recognised on the Balance Sheet at cost, less were appropriate, provision for impairment.

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 to the end of the minimum term 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 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.

1 Accounting policies (continued)

Insurance contracts
The Group offers insurance products in the form of annuities and also has 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 Group's products are single premium contracts, acquisition expenses are expensed to the Income Statement as incurred.

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 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.

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 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 36. 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 lifetime mortgage assets, as described above. An allowance for possible early redemption of the lifetime 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 36(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.
- 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. This 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 transfers 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 'Reinsurance recoveries' and the movement in the expected cash flows payable and the reinsurance fees paid are disclosed within 'Reinsurance expense' in the Income Statement.

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)

Government Grants
A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in income in the period in which it becomes receivable. Under IAS 20 the income is netted off against the related expenses.

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 recognised in the Income Statement.

Employee benefits
i) Pensions
The Group operates a defined benefit pension scheme for members of staff. The Company's subsidiary undertakings Julian Hodge Bank Limited and the Hodge Life Assurance Company Limited are participating employers 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.

ii) Reimbursement liability on pension deficit
The Company has recognised a reimbursement liability in respect of its pension scheme deficit which relates to retired employees that were contracted to The Carlyle Trust Limited (note 33). The movement in the reimbursement liability each year is recognised in the Income Statement. The calculation of the reimbursement liability is based on the split of scheme members by employer.

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 29 and 36.

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 36.

Reinsurance deferred reserve

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 sensitives, are outlined in note 18.

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 21.

- 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 33.

Value of lifetime 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 36.

- 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.
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. Further information on these assumptions is given in note 30.

Measurement of reinsurance asset
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. Further information on the methodology and assumptions used to calculate the reinsurance asset are disclosed within note 23.

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 36 and are recognised prospectively as a change in accounting estimate.

3 IFRS 16 Transition

Leases previously classified as finance leases
At the date of transition, 1 November 2019, the Group had no lease contracts that had previously been classified as finance leases.

Low value recognition exemption
The Group applies the recognition exemption to leases that are considered of low value and hence no right-of-use asset is recognised. In these cases, lease payments continue to be charged to administrative expenses in the Income Statement on a straight-line basis over the lease term.

Initial Recognition of IFRS 16
At the date of transition, 1 November 2019, the Group had two operating leases which did not meet the leases of low value exemption.

The effects of adopting IFRS 16 for the Group and the Company were as follows:

- Right-of-use assets of £4.9 million for the Group and Company was recognised and presented in a new right-of-use leasehold property category within Property, plant and equipment in the Balance Sheet of the Group and Company.
- Lease liabilities of £4.9 million for the Group and Company were recognised and are presented in a new line item in the Balance Sheet.
- In both the Group and the Company, an operating lease liability of £0.8 million reflecting an accrual for an initial rent-free period has been released to retained earnings at the date of transition.

The following table sets out the impact of adopting IFRS 16 on the statement of financial position carrying amounts and retained earnings of the Group and Company as at 1 November 2019. Only balances impacted by the transition to IFRS 16 are included in the table; all other balances are unchanged.

Group	2019 Carrying amount £m	Remeasurement /Reclassification £m	Carrying Amount at 1 November 2019 £m
Assets			
Property, plant and equipment	1.9	4.9	6.8
Lease liability	-	(4.9)	(4.9)
Liabilities			
Other liabilities	5.1	(0.8)	4.3
Equity			
Retained earnings	354.9	0.8	355.7

Company	2019 Carrying amount £m	Remeasurement /Reclassification £m	Carrying Amount at 1 November 2019 £m
Assets			
Property, plant and equipment	-	4.9	4.9
Lease liability	-	(4.9)	(4.9)
Liabilities			
Other liabilities	6.8	(0.8)	6.0
Equity			
Retained earnings	87.9	0.8	88.7

4 Segmental information

The Board is the Group's chief operating decision-maker's (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 and annuity life assurance services sector wholly within the United Kingdom.

11-month period ended 30 September 2020	Hodge Bank	Hodge Life	Property Investment	Consolidation Adjustments & Reclassification	Total
	£m	£m	£m	£m	£m
Interest receivable and similar income	38.4	-	0.3	21.4	60.1
Interest payable and similar charges	(22.8)	-	(0.5)	0.1	(23.2)
Fees and commissions receivable	1.8	-	-	(1.1)	0.7
Fees and commissions payable	-	-	-	(0.5)	(0.5)
Dividend income receivable	-	-	0.6	(0.6)	-
Earned premiums	-	22.8	-	-	22.8
Impact of new insurance contracts	-	(23.4)	-	-	(23.4)
Investment income	3.5	7.9	0.1	(2.9)	8.6
Gross claims and benefits paid	-	(25.4)	-	-	(25.4)
Impact of gross claims and benefits paid	-	25.4	-	-	25.4
Other operating income	-	-	0.9	-	0.9
Profit on sale of inventory	-	-	-	-	-
Administrative expenses	(22.3)	(6.5)	-	1.6	(27.2)
Depreciation and amortisation	(1.8)	-	(0.4)	-	(2.2)
Impairment on inventory	-	-	0.6	(0.6)	-
Impairment on subsidiary investments	-	-	(1.0)	1.0	-
Impairment losses on loans and advances to customers	(5.4)	-	(0.3)	-	(5.7)
Operating profit	(8.6)	0.8	0.3	18.4	10.9

The £18.4m (2019: £16.9m) profit presented in the 'Consolidation Adjustments & Reclassification' column mainly relates to interest receivable on equity release mortgages which is reclassified from other fair value gains which is presented below operating profit in Hodge Life.

Total assets by business segments	2020	2019
	£m	£m
Hodge Bank	1,409.2	1,378.7
Hodge Life	697.8	663.6
Property Investment	36.3	29.5
Consolidation adjustments and reclassification	(16.8)	(16.0)
	2,126.5	2,055.8

4 Segmental information (continued)

As at year ended 31 October 2019	Hodge Bank	Hodge Life	Property Investment	Consolidation Adjustments & Reclassification	Total
	£m	£m	£m	£m	£m
Interest receivable and similar income	48.3	-	-	21.7	70.0
Interest payable and similar charges	(28.1)	-	-	(0.3)	(28.4)
Fees and commissions receivable	0.7	-	-	(0.1)	0.6
Fees and commissions payable	(0.1)	-	-	(0.8)	(0.9)
Dividend income receivable	-	-	1.1	(1.0)	0.1
Earned premiums	-	41.6	-	-	41.6
Impact of new insurance contracts	-	(42.4)	-	-	(42.4)
Investment income	7.2	12.3	0.2	(2.5)	17.2
Gross claims and benefits paid	-	(26.9)	-	-	(26.9)
Impact of gross claims and benefits paid	-	26.9	-	-	26.9
Other operating income	-	-	-	1.3	1.3
Profit on sale of inventory	-	-	6.1	-	6.1
Administrative expenses	(16.4)	(7.4)	-	(0.5)	(24.3)
Depreciation and amortisation	(1.2)	-	-	(0.1)	(1.3)
Impairment on subsidiary investments	-	-	0.8	(0.8)	-
Impairment losses on loans and advances to customers	(3.9)	-	(0.3)	-	(4.2)
Operating profit	6.5	4.1	7.9	16.9	35.4

5 Interest receivable and similar income

	11-months ended 30 September 2020	Year ended 31 October 2019
	£m	£m
Loans and advances to customers	56.4	62.6
Loans and advances to credit institutions	1.0	2.3
On other loans	-	0.1
Interest and other income on government bonds and debt securities	2.7	5.0
	60.1	70.0

6 Interest payable and similar charges

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
On customer accounts	14.6	16.1
On defined benefit pension scheme	0.3	0.4
On term funding scheme	0.2	0.5
On derivative financial instruments	7.9	11.4
Lease interest expense	0.2	-
	23.2	28.4

7 Earned premiums

Earned premiums, all of which relate to direct insurance contracts, are individual, single premiums from annuity business.

All premiums are derived from contracts concluded in the United Kingdom. Commissions payable in respect of direct insurance amounted to £0.4m (2019: £0.7m).

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Earned premiums	22.8	41.6
	22.8	41.6

8 Profit on sale of inventory

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Profit on sale of inventory	-	6.1
	-	6.1

During the year, development costs of £0.1m (2019: £0.3m) 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.

9 Administrative expenses

	11-months ended 30 September 2020	Year ended 31 October 2019
	£m	£m
Staff costs		
Wages and salaries	11.3	9.1
Social security	1.3	1.1
Pension costs (note 33)	3.1	3.0
	15.7	13.2
Other administrative expenses	11.5	11.1
	27.2	24.3

During the year the company participated in the UK government furlough scheme from which a grant of £0.3m was received.

Directors and employees

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

	2020	2019
Provision of finance and banking	277	169
Provision of life assurance services	11	41
	288	210

Staff costs include remuneration in respect of directors as follows:

	11-months ended 30 September 2020	Year ended 31 October 2019
	£m	£m
Fees	0.4	0.3
Aggregate emoluments as executives	0.7	0.4
	1.1	0.7

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

	11-months ended 30 September 2020	Year ended 31 October 2019
	£m	£m
Aggregate emoluments	0.3	0.2
	0.3	0.2

The pension accrued for the highest paid director was £61,362 (2019: £nil). Retirement benefits accrued for two directors in 2020 (2019: nil) in the defined benefit scheme.

10 Other fair value gains

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Losses on derivatives designated as fair value (note 29)	(4.5)	(28.4)
Movement in fair value of equity release and retirement mortgages	6.2	54.4
Reversal of unrealised gains on disposal of investment properties	(8.1)	(14.9)
Movement in fair value of investment properties (note 21)	11.0	12.0
Movement in fair value of debt securities and government bonds (notes 14 & 15)	2.2	1.3
Movement in fair value of equity investments (note 22)	(0.3)	0.1
Movement in fair value of hedged items attributable to hedged risk	(4.2)	0.3
	2.3	24.8

11 Loss on ordinary activities before taxation

	11-months ended 30 September 2020 £000	Year ended 31 October 2019 £000
Loss on ordinary activities before taxation is stated after charging:		
Remuneration of the auditor and its associates		
Audit of these financial statements	25	21
Audit of financial statements of subsidiaries	320	224
Audit of pension scheme	11	11
Other assurance fees	29	-
Non audit fees	-	85
Impairment provision expense (note 18)	5,714	4,150
Amortisation (note 19)	1,308	801
Depreciation (note 20)	855	491

12 Tax on loss/(profit)

	11-months ended 30 September 2020		Year ended 31 October 2019	
	£m	£m	£m	£m
Analysis of charge in year				
UK corporation tax				
Current tax on income for the year	-		2.1	
Prior period adjustment	(0.7)		(0.9)	
Total current tax		(0.7)		**1.2**
Deferred tax (note 24)				
Original reversal/timing difference				
Current year	(1.9)		0.1	
Prior period adjustment	0.1		0.3	
Effect of tax rate change on opening balance	(0.5)		-	
Total deferred tax		(2.3)		**0.4**
Tax on profit on ordinary activities		(3.0)		1.6

The total tax charge for the year is higher (2019: lower) than the blended rate of corporation tax in the UK. The differences are explained below.

	11-months ended 30 September 2020	Year ended 31 October 2019
	£m	£m
Total tax reconciliation		
(Loss)/ Profit on ordinary activities before tax	(13.4)	12.4
Current tax at 19.00% (2019: 19.00%)	**(2.5)**	**2.4**
Index linked gilt RPI movement	-	(0.2)
Adjustments in respect of previous years	(0.6)	(0.5)
Other	0.1	(0.1)
Total tax charge (see above)	(3.0)	1.6

In the current period the substantively enacted tax rate applicable from 1 April 2020 was increased from 17% to 19%. The closing deferred tax assets and liabilities have been calculated at 19% and accordingly a rate change adjustment has arisen as the opening deferred tax had been calculated taking into account the previously enacted rate of 17%.

13 Cash and balances held at central banks

	2020	2019
	£m	£m
Repayable on demand:		
Deposits with central banks	147.9	321.9
	147.9	321.9

14 Government bonds

	202	2019
	£m	£m
Government bonds – at amortised cost	48.6	21.9
Government bonds – fair value through profit and loss	29.3	30.4
Fair value adjustment – hedge accounting	-	3.2
	77.9	55.5

The movement in government bonds is summarised as follows:

	2020	2019
	£m	£m
At start of period	55.5	99.4
Additions	124.5	92.4
Disposals due to maturity	(92.1)	(83.0)
Disposals due to restructuring exercise	(7.6)	(53.4)
(Losses)/ gains from hedge accounting – Income Statement	(3.3)	0.8
Gain/ (losses) from changes in fair value – Income Statement	0.9	(0.7)
At 30 September	**77.9**	**55.5**

Of this amount £12.0m (2019: £10.7m) has been pledged as collateral under the Term Funding Scheme ('TFS') and £2.6m (2019: £2.6m) under repurchase agreements. Collateral pledged is restricted.

During the year, the Group performed a one-off restructuring exercise as part of its transition away from LIBOR which resulted in the disposal of government bonds held at amortised cost. The carrying value at the date of disposal amounted to £7.6m, the proceeds received amounted to *£11.0m, resulting in a profit on disposal of £3.4m. The government bonds disposed formed* part of the macro-hedge relationship, a loss of £3.3m was realised in the Income Statement reflecting the hedge adjustment attributable to the disposed assets. The Group holds the government bonds for liquidity purposes and intends to hold the remaining portfolio to maturity. The disposal is viewed as a one-off restructuring exercise and therefore the business model assessment for the remaining assets remains unchanged.

15 Debt securities

Group	2020 £m	2019 £m
Debt securities – at amortised cost	50.7	56.4
Debt securities – fair value through profit and loss	74.1	77.9
Fair value adjustment – hedge accounting	-	0.6
	124.8	134.9

The movement in debt securities is summarised as follows:

Group	2020 £m	2019 £m
At start of period	134.9	145.4
Additions	29.1	34.5
Disposals due to maturity	(34.5)	(18.8)
Disposals due to restructuring exercise	(5.4)	(28.1)
Losses from hedge accounting - Income Statement	(0.6)	(0.1)
Gain from changes in fair value – Income Statement	1.3	2.0
	124.8	134.9

Of this amount £32.8m (2019: £37.7m) has been pledged as collateral under the TFS. Collateral pledged is restricted.

During the year, the Group performed a one-off restructuring exercise as part of its transition away from LIBOR which resulted in the disposal of debt securities held at amortised cost. The carrying value at the date of disposal amounted to £5.4m, the proceeds received amounted to £6.1m, resulting in a profit on disposal of £0.7m. The debt securities disposed formed part of the macro-hedge relationship, a loss of £0.6m was realised in the Income Statement reflecting the hedge adjustment attributable to the disposed assets. The Group holds the debt securities for liquidity purposes and intends to hold the remaining portfolio to maturity. The disposal is viewed as a one-off restructuring exercise and therefore the business model assessment for the remaining assets remains unchanged.

Company	2020 £m	2019 £m
Debt securities – fair value through profit and loss	-	0.1
	-	0.1

16 Loans and advances to credit institutions

Group	2020 £m	2019 £m
Repayable on demand	31.0	7.9
Collateral held by swap counterparties	86.3	79.5
	117.3	87.4

The collateral is pledged against the market value of derivative instruments and comprises interest-bearing cash deposits (note 29). 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 (2019: £nil).

Company	2020 £m	2019 £m
Repayable on demand	1.5	1.1
	1.5	1.1

17 Loans and advances to customers

	2020 £m	2019 £m
Loans and advances – classified at amortised cost		
Commercial	291.2	316.2
Residential	347.0	178.8
Portfolio buy-to-let	63.1	20.9
	701.3	**515.9**
Fair value adjustment for hedged risk	0.3	0.3
Loans and advances (equity release and retirement mortgages) – classified as FVTPL (note 36)	729.7	724.0
	1,431.3	1,240.2

Of this amount £68.6m (2019: £57.9m) has been pledged as collateral under the TFS. Collateral that has been pledged is restricted.

The amounts owed from parent is a loan which accrues a market rate of interest.

	2020 £m	2019 £m
Loans and advances to customers held at amortised cost		
Gross balances	712.0	529.3
Less: Provision for impairment	(9.9)	(11.5)
Less: Loan fee deferral	(0.8)	(1.9)
Net balance	701.3	515.9

18 Impairment provisions on loans and advances to customers

	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

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
2019				
At start of period	2.0	0.3	5.0	7.3
Income Statement				
Charge for loan impairment	0.4	(0.2)	4.0	4.2
At 31 October 2019	2.4	0.1	9.0	11.5

The impact of modifications to contractual cash flows that has not resulted in derecognition is immaterial in 2020.

The methodology and assumptions used to calculate the IFRS 9 ECL provision is disclosed in note 37.

19 Intangible assets

	Computer software	
	2020	2019
	£m	£m
Cost:		
At start of period	7.4	3.9
Disposals	(0.1)	-
Additions	2.8	3.5
At 30 September	10.1	7.4
Amortisation:		
At start of period	(1.6)	(0.8)
Disposals	0.1	-
Amortisation	(1.3)	(0.8)
At 30 September	(2.8)	(1.6)
Net book value:		
At 30 September	7.3	5.8

£2.5m (2019: £1.3m) of expenditure relating to intangible projects was expensed during the year as it did not meet the development criteria of IAS 38 and has therefore been expensed as incurred.

20 Property, plant and equipment

	Right-of-use leasehold property	Fixtures, fittings and equipment	Total
	£m	£m	£m
Cost:			
At start of period	-	3.0	3.0
Impact of adopting IFRS 16	4.9	-	4.9
Additions	-	0.5	0.5
At 30 September 2020	4.9	3.5	8.4
Depreciation:			
At start of period	-	(1.1)	(1.1)
Depreciation	(0.4)	(0.5)	(0.9)
At 30 September 2020	(0.4)	(1.6)	(2.0)
Net book value:			
At 30 September 2020	4.5	1.9	6.4
At 1 November 2019	-	1.9	1.9

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.

21 Investment properties

Group	Freehold	Reversionary Interest	Total
	£m	£m	£m
At start of period	9.7	170.1	179.8
Additions	-	-	-
Disposals	-	(10.9)	(10.9)
Fair value adjustments	(0.7)	11.7	11.0
At 30 September 2020	9.0	170.9	[illegible]

The historical cost of the reversionary interests in properties is £65.5m at 30 September 2020 (2019: £72.0m).

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

Group	2020	2019
	£m	£m
Rental income from investment properties	0.7	0.9
	0.7	0.9

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. The 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 future mortality improvements.

Expenses
Assumptions for future policy expense levels are based on the Group's recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.09% (2019: 4.01%).

Discount rate
The discount rate applied to the reversion cash flows comprises two parts: a risk-free yield curve and an allowance for illiquidity. The risk-free yield curve is the GBP curve published by EIOPA. The average discount rate for the portfolio (assumed to be the 10-year point on the yield curve based on the average duration of our business) at 30 September 2020 was 2.27% (31 October 2019: 1.78%).

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 an annual underperformance assumption. No future property price inflation is assumed beyond the valuation date.

21 Investment properties (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:

	Freehold	Reversionary Interests			
	Net Initial yield 1%	Delay in mortality or entry into long term care by 10%	Expenses 10%	Property prices -10%	Discount rate +1%
	£m	£m	£m	£m	£m
At 30 September 2020	(1.0)	(1.8)	(0.3)	(14.9)	(8.2)
At 31 October 2019	(1.2)	(1.4)	(0.2)	(15.6)	(9.2)

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.

22 Investments

Group and the Company	2020	2019
	£m	£m
Equity investments	6.4	6.8
At 30 September	6.4	6.8

Group and the Company	2020	2019
	£m	£m
At start of period	6.8	6.6
Additions	0.6	0.5
Disposals	(0.7)	(0.4)
Fair Value Adjustments	(0.3)	0.1
At 30 September	6.4	6.8

23 Reinsurance asset

In March 2020 the Group entered into a reinsurance agreement in relation to the annuity portfolio disclosed within 'Liabilities arising from insurance contracts' in note 30. This was part of the strategy to de-risk the Solvency II Balance Sheet position by reducing the longevity risk exposure and capital requirement. Management has assessed that significant insurance risk had been transferred to the reinsurer.

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

The present value of the cash flows under the reinsurance trade 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.

The floating cash flows are projected using future mortality assumptions consistent with those used for the gross insurance liabilities. The fixed cash flows form part of the contractual agreement with the counterparty to the reinsurance trade.

The deferred gain is calculated at inception of the reinsurance trade, it is subsequently amortised to the Income Statement 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 deferred gain calculated at inception remains fixed and is not recalculated in future reporting periods.

The reinsurance asset is adjusted to reflect the possibility of default by the counterparty over the lifetime of the treaty.

A breakdown of the reinsurance asset is provided below:

	2020	2019
	£m	£m
Reinsurance receivable	417.0	-
Deferred reserve	(22.8)	-
Reinsurance payable	(393.3)	-
	0.9	-

Following the completion of the reinsurance agreement, the present value of the reinsurance cashflows at 31 March 2020 amounted to £23.5m. The related deferred reserve is amortised over the life of the reinsurance asset and the carrying value of this deferred reserve at 30 September amounted to £22.8 million.

A collateral agreement is in place to mitigate any exposure to the counterparty in the event that the value of the reinsurance contract changes depending on observed experience and changes to assumed future longevity. The collateral requirements will be recalculated quarterly, with the first calculation taking place at 31 March 2022.

24 Deferred tax

Group	2020	2019
	£m	£m
At start of period	3.7	3.5
Charge to the Income Statement	2.3	(0.4)
Credit to the Statement of Other Comprehensive Income	0.8	0.6
	6.8	3.7

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

Group	2020	2019
	£m	£m
Accelerated capital allowances	(0.3)	(0.2)
Other timing differences	0.9	1.2
Defined benefit pension scheme	4.0	2.7
Tax Losses	2.2	-
	6.8	3.7

Company	2020	2019
	£m	£m
At 1 November	0.6	0.4
(Charge)/Credit to the Income Statement	(0.1)	0.2
	0.5	0.6

25 Other assets

Group	2020	2019
	£m	£m
Due within one year		
Prepayments and accrued income	3.3	2.7
Corporation tax debtor	1.2	0.3
Other assets	1.7	1.4
Due greater than one year		
Deferred consideration	5.7	5.7
	11.9	10.1

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 30-month period remaining to 30 April 2024. 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 30 months and recognised separately from the contract revenue in the Statement of Comprehensive Income as interest receivable and similar income.

Company	2020	2019
	£m	£m
Amounts due from group undertakings	-	0.4
Group relief	-	0.1
Other debtors	0.8	0.2
	0.8	0.7

26 Inventory

	2020	2019
	£m	£m
At start of period	7.8	8.4
Additions	-	0.9
Disposals	(0.1)	(1.5)
	7.7	7.8

27 Deposits from banks

	2020	2019
	£m	£m
Repurchase agreement	2.5	2.5
Term funding scheme	85.0	70.0
	87.5	72.5

28 Deposits from customers

	2020 £m	2019 £m
Deposits from customers	1,066.7	1,036.3
Amounts owed to a shareholder of the Company	1.8	2.5
Fair value adjustment for hedged risk	0.4	0.7
	1,068.9	1,039.5

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

29 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	
	2020 £m	2019 £m	2020 £m	2019 £m
Derivative liabilities held for hedging purposes and designated fair value hedges:				
Interest rate swaps	270.8	316.7	82.7	79.6
RPI index linked interest rate swaps	-	55.0	-	(1.8)
Derivatives held in fair value hedges	152.7	293.7	0.1	3.5
Total recognised derivative liabilities	423.5	665.4	82.8	81.3

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 2020, the fixed interest rates vary from 0.2% to 5.4% (2019: 0.4% 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.

29 Derivative financial instruments and hedge accounting (continued)

	2020	2019
	£m	£m
Movement in fair value of interest rate swaps	(4.5)	(28.0)
Breakage costs	-	(0.4)
	[illegible]	[illegible]

The Group agreed to exit a number of interest rate swaps during the year which were held at fair value of £0.7m (2019: £52.6m), £nil (2019: £nil) profit or loss was incurred on disposal.

In addition, the Group agreed to exit a number of interest rate swaps held within the macro hedge accounting portfolio as part of its transition away from LIBOR. The fair value of these swaps at the date of disposal was £(3.9)m, £nil profit or loss was incurred on disposal.

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

	2020		2019	
	Book Value £m	Hedged Fair Value £m	Book Value £m	Hedged Fair Value £m
Government bonds	48.6	-	21.9	3.2
Debt securities	50.7	-	56.4	0.6
Loans advances to customers	701.3	0.4	514.9	0.4
Deposits from customers	(1,066.7)	(0.4)	(1,036.1)	(0.8)
		-		3.4

At 30 September 2020, there was a hedge ineffectiveness of £nil (2019: £nil).

Offsetting

In accordance with IAS32 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
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)**
2019			
Derivative financial assets	2.5	(2.5)	-
Impact on total assets	**2.5**	**(2.5)**	**-**
Derivative financial (liabilities)	(83.8)	2.5	(81.3)
Impact on total (liabilities)	**(83.8)**	**2.5**	**(81.3)**

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 16).

30 Provisions for long term business - liabilities arising from insurance contracts

	2020	2019
	£m	£m
At 1 November	498.7	437.0
Gross claims and benefits paid	(25.4)	(26.9)
Impact of new insurance contracts	23.4	42.4
Fair value movement on existing liabilities		
Expense cash flows and discount unwind	7.4	9.4
Mortality experience	(1.1)	(1.2)
Interest rate loss	25.6	46.9
Movement in illiquidity premium	2.0	6.4
Change in expense inflation	0.6	(1.3)
Impact of methodology and assumption changes		
Expense policy assumption change	(0.6)	(7.6)
LTM accounting basis assumption change	(2.6)	-
CMI mortality assumption change	-	(6.4)
	528.0	498.7

The long-term business provision for insurance contracts has been calculated using estimation techniques for each contract, by use of a prospective calculation on the basis set out below.

a) Rates of interest

Principal assumptions:
The interest rates used to discount liabilities comprise three parts: a risk-free yield curve, an allowance for illiquidity based on the yield on the assets backing the liabilities less an appropriate deduction for risk. The risk-free yield curve is the GBP curve published by EIOPA.

The average discount rate for each product (assumed to be the 15-year point on the yield curve based on the average duration of the portfolio) at 30 September 2020 and October 2019 is as follows:

Rates of interest	2020	2019
	%	%
Pension business annuities	1.8	2.2
Reversionary scheme and renewable reversionary scheme	1.9	1.6
Purchased life annuities	1.9	1.6
Mortgage scheme annuities	0.8	1.0

b) Mortality tables

The mortality table used to calculate the technical provisions for annuity liabilities is the PCMA/PCFA00 table. This table is adjusted from 2000 by calendar year for mortality improvements based on the CMI 2018 mortality projection model. The mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor which varies by the duration in force of the contract.

30 Provisions for long term business - liabilities arising from insurance contracts (continued)

c) Provision for expenses

An explicit provision for expenses based on an amount per policy per annum has been determined from recent experience analysis. This provision increases with an annual inflation rate of 4.09% (2019: 4.01%). As at 30 September 2020, a £0.4m provision for expense overruns is held in addition to the basic provision for per-policy expenses.

d) Sensitivity analysis

Changes to inputs used in the valuation could give rise to significant changes in the value of the provisions. The Group has estimated the net increase/(decrease) in profit before tax for the period to changes to these inputs as follows:

	Delay in mortality by 10%	Expenses + 10%	Interest rates +100bps
	£m	£m	£m
At 30 September 2020	(16.4)	(3.2)	58.1
At 31 October 2019	(14.4)	(2.9)	54.3

The interest rate sensitivity of insurance contracts should be considered in conjunction with the offsetting interest rate sensitivity of financial instruments.

31 Leases

On adoption of IFRS 16 on 1 November 2019, the Group had two leases over the exemption threshold for leases of low value which relates to the Group's head office. In the previous financial year, under the requirements of IAS 17, these leases were classified as operating leases and as such were held off-Balance Sheet. The Group does not sublease any leased assets.

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 20.

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

Group & Company	2020
	£m
At start of period	-
Impact of adoption of IFRS 16	4.9
As at 1 November (adjusted)	4.9
Interest Expense	0.2
Payments	(0.6)
At 30 September 2020	4.5

31 Leases (continued)

The maturity analysis of lease liabilities is presented note 36 (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	2020 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 11-month period ended 30 September 2020, cash outflows for leases included in the statement of cash flows were £0.6 million. This comprised £0.2 million for payment of the interest portion of the lease liability and £0.4 million for payment of the principal portion of the lease liability.

As 30 September 2020, the Group is not committed to any new lease contracts that have not yet commenced.

32 Other liabilities

Group	2020	2019
	£m	£m
Due within one year:		
Amounts owed in relation to mortgages administered for third parties	2.3	0.9
Other creditors	0.2	0.7
Other taxation and social security	0.3	0.2
Amounts owed in relation to insurance contracts	0.5	0.5
Accruals	1.6	2.8
	4.9	5.1

Company	2020	2019
	£m	£m
Due within one year:		
Amounts due to group undertakings	6.4	6.2
Accruals	-	0.6
	6.4	6.8

33 Pension scheme

The 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, 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 scheme 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 (2019: 23 years).

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

The 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 2020. 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 £3.4m (2019: £3.0m). The Group has agreed that it will aim to eliminate the pension scheme deficit over the next 10 years and additional contributions of £0.9m (2019: £1.0m) were paid into the scheme in the year ended 30 September 2020. 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 2020 has been produced by a qualified independent actuary and is based on the results of the valuation as at 1 April 2019.

33 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:

	2020	2019
	£m	£m
Fair value of plan assets	30.3	27.3
Present value of defined benefit obligations	(51.3)	(43.9)
Deficit	(21.0)	(16.6)

Movements in fair value of plan assets
Cashflows have been adjusted to allow for the IAS19 assumptions detailed below:

	2020	2019
	£m	£m
Market value of assets at the beginning of the year	27.3	24.2
Interest income	0.5	0.7
Actuarial gain	(0.4)	0.6
Member contributions	0.4	0.3
Employer contributions	3.3	2.4
Benefits paid	(0.8)	(0.9)
Market value of assets at the end of the period	30.3	27.3

Movements in present value of defined benefit obligation

	2020	2019
	£m	£m
Present value of scheme liabilities at start of the period	43.9	37.0
Interest cost	0.8	1.1
Current service cost	3.0	1.8
Member contributions	0.4	0.3
Actuarial loss on defined benefit obligation of which:		
due to experience	-	(1.9)
due to demographic assumptions	0.9	0.4
due to financial assumptions	3.1	5.4
Benefits paid	(0.8)	(0.9)
Past service cost	-	0.7
Present value of scheme liabilities at end of the period	51.3	43.9

33 Pension scheme (continued)

Expense recognised in the Income Statement

	2020	2019
	£m	£m
Current service cost – staff costs	3.0	1.8
Net interest expense – other finance costs	0.3	0.4
Past service cost	-	0.7
Other admin costs	0.1	0.1
	3.4	3.0

The total amount recognised in the Statement of Other Comprehensive Income in respect of actuarial gains and losses is a loss of £4.4m (2019: loss of £3.3m) before tax.

Cumulative actuarial losses net of deferred tax reported in the Statement of Other Comprehensive Income are losses of £17.0m (2019: losses of £13.9m) before tax.

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

	Fair Value	
	2020	2019
	£m	£m
Quoted equity investments	5.5	4.4
Diversified growth funds	18.5	17.8
Private investments	2.4	2.5
Bonds	1.8	1.6
Cash	2.1	1.0
Total market value of assets	30.3	27.3

The actual return on assets was £0.1m (2019: £1.3m)

Future contributions
The Group expects to contribute approximately £2.8m (2019: £3.9m) to its defined benefit scheme in the next financial year.

Major assumptions
The major assumptions underpinning the defined benefit obligation are:

	2020	2019
	%	%
Rate of increase in salaries	2.9	4.0
Pension increases – RPI capped at 5.0% per annum	2.8	2.9
Rate of CARE revaluation	1.9	2.0
Discount rate applied to scheme liabilities	1.6	2.0
RPI inflation assumption	2.9	3.0

33 Pension scheme (continued)

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:

	2020	2019
Current pensioners age 65 – male	86.8	86.6
Current pensioners age 65 – female	89.1	88.9
Future pensioners age 65 (current age 45) – males	87.8	87.6
Future pensioners age 65 (current age 45) – females	90.2	90.0

Sensitivities

The Group has to make assumptions on the discount rate, inflation and life expectancy when valuing the pension scheme liability. The sensitivity of a 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%	1.0
Rate of inflation (RPI or CPI)	0.1%	0.9
Life expectancy	1 year	1.4

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 from one another.

History of plan Balance Sheets

	2020	2019	2018	2017	2016
	£m	£m	£m	£m	£m
Fair value of plan assets	30.3	27.3	24.2	24.2	25.7
Present value of funded defined benefit obligations	(51.3)	(43.9)	(37.0)	(37.2)	(39.2)
Deficit	(21.0)	(16.6)	(12.8)	(13.0)	(13.5)

33 Pension scheme (continued)

History of experience gains and losses

	2020	2019	2018	2017	2016
Difference between the expected and actual return on scheme assets:					
Present value of funded defined benefit obligations	**£(0.4)m**	£0.6m	£(1.4)m	£0.1m	£0.5m
Percentage of year end scheme assets	**1.3%**	2.2%	5.6%	-	1.5%
Experience gains and losses on scheme liabilities:					
Amount	**£(0.0)**	£1.9m	-	-	£(0.4)m
Percentage of year end present value of scheme liabilities	**0.0%**	(4.4)%	-	-	1.0%
Total amount recognised in Statement of Comprehensive Income:					
Losses before tax	**(4.4)m**	£(3.3)m	£0.6m	£0.4m	£(9.1)m
Percentage of year end present value of scheme liabilities	**8.5%**	7.5%	1.6%	1.1%	23.0%

34 Called up share capital

	2020	2019
	£m	£m
Authorised, allotted, called-up and fully paid:		
1,100,000 (2019: 1,100,000) ordinary shares of £1 each	1.1	1.1
	1.1	1.1

35 Financial commitments and contingent assets/liabilities

	2020	2019
	£m	£m
Loan commitments		
Expiring in less than one year	37.4	26.0
Expiring in more than one year	19.9	47.3
	57.3	73.3

Capital commitments

The Group had contracted capital commitments amounting to £nil at 30 September 2020 (2019: £nil).

36 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 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
Other liabilities	4.9	-	4.9
Total financial liabilities	1,161.3	82.8	1,244.1
Total non-financial liabilities			553.5
Share capital and other reserves			328.9
Total equity and liabilities			2,126.5

36 Financial instruments (continued)

a) Categories of financial assets and liabilities (continued)

As at 31 October 2019	At amortised cost	Fair value through profit and loss	Total
	£m	£m	£m
Assets			
Cash and balances held at central banks	321.9	-	321.9
Government bonds	25.1	30.4	55.5
Debt securities	57.0	77.9	134.9
Loans and advances to credit institutions	87.4	-	87.4
Loans and advances to customers	516.2	724.0	1,240.2
Investments	-	6.8	6.8
Other assets	10.1	-	10.1
Total financial assets	1,017.7	839.1	1,856.8
Total non-financial assets			199.0
Total assets			2,055.8
Liabilities			
Deposit from banks	72.5	-	72.5
Deposit from customers	1,039.5	-	1,039.5
Derivative financial instruments	-	81.3	81.3
Other liabilities	5.1	-	5.1
Total financial liabilities	1,117.1	81.3	1,198.4
Total non-financial liabilities			515.3
Share capital and other reserves			342.1
Total equity and liabilities			2,055.8

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.

36 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 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

As at 31 October 2019	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Government bonds	30.4	-	-	30.4
Debt securities	77.9	-	-	77.9
Loans and advances to customers	-	-	724.0	724.0
Investments	6.8	-	-	6.8
Total financial assets at FVTPL	115.1	-	724.0	839.1
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	81.3	-	81.3
Total financial liabilities at FVTPL	-	81.3	-	81.3

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.

36 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 £729.7m (2019: £724.0m) of assets which have been classed as FVTPL as they relate to equity release and retirement mortgages.

	Fair Value		Book Value	
	2020	2019	2020	2019
	£m	£m	£m	£m
Loans and advances (equity release and retirement mortgages) – classified as FVTPL	729.7	724.0	537.3	548.9
	729.7	724.0	537.3	548.9

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

	2020	2019
	£m	£m
At start of period	724.0	790.4
Disposal of equity release portfolio to a third party	-	(122.0)
Total gains in Income Statement	28.7	81.6
Loans advanced	20.0	33.2
Redemptions	(43.0)	(59.2)
At end of period	729.7	724.0

The £28.7m increase (2019: £81.6m increase) in fair value is predominantly driven by the fall in benchmark interest rates over the year. The 15-year point on the EIOPA yield curve used for discounting the future mortgage cash flows has fallen by 39bps from 0.78% to 0.39% (2019: fallen 84bps from 1.62% to 0.78%). This is partially offset by smaller relative reductions in past and assumed future HPI.

36 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 by calendar year for mortality improvements based on the CMI 2018 mortality projection model. The mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor.

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

Expenses
Assumptions for future policy expense levels are based on the Group's recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.09% (2019: 4.01%).

Discount rate
The discount rate applied to the reversion cash flows comprises two parts: a risk-free yield curve and an allowance for illiquidity. The risk-free yield curve is based on the GBP curve published by EIOPA (assumed to be the 15-year point on the yield curve). As at 30 September the 15 year point was 0.39%. The average discount rate for the portfolio was 2.39% (31 October 2019: 1.78%).

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

The property growth and volatility assumed at 30 September 2020 was 3.09% (31 October 2019: 3.08%) and 13.0% (31 October 2019: 13.0%) respectively. The value of the no-negative equity guarantee as at 30 September 2020 was £7.9m (31 October 2019: £6.7m).

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 +100 BP	Maintenance expenses +10%	Property inflation -100bps	Property prices -10%	Lapses +10%	Increase in mortality by 10%
	£m	£m	£m	£m	£m	£m
30 September 2020	(52.4)	(0.6)	(6.5)	(7.7)	(13.3)	(4.3)
31 October 2019	(79.1)	(0.9)	(5.5)	(4.1)	(16.7)	(2.4)

36 Financial instruments (continued)

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 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 liabilities	34.9	0.5	7.4	13.5	1.0	57.3

36 Financial instruments (continued)

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

As at 31 October 2019	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	321.9	-	-	-	-	321.9
Government bonds	15.0	-	5.0	16.7	18.8	55.5
Debt securities	3.5	6.0	7.0	71.5	46.9	134.9
Loans and advances to credit institutions	87.4	-	-	-	-	87.4
Loans and advances to customers	67.4	32.6	39.0	292.4	808.8	1,240.2
Investments	6.8	-	-	-	-	6.8
Other assets	10.1	-	-	-	-	10.1
Total financial assets	512.1	38.6	51.0	380.6	874.5	1,856.8
Liabilities						
Deposit from banks	2.5	-	-	70.0	-	72.5
Deposit from customers	165.5	182.4	292.5	395.6	3.5	1,039.5
Derivative financial instruments	0.2	(1.7)	0.5	11.1	71.2	81.3
Other liabilities	5.1	-	-	-	-	5.1
Total financial liabilities	173.3	180.7	293.0	476.7	74.7	1,198.4

Loan commitments liabilities	4.8	0.9	2.4	59.3	5.9	73.3

36 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. 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 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

As at 31 October 2019	Book value	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Financial liabilities							
Deposit from banks	72.5	2.5	-	-	71.2	-	73.7
Deposit from customers	1,039.5	165.7	183.1	296.3	411.4	3.8	1,060.3
Derivative financial instruments	81.3	2.5	0.3	4.8	46.3	127.5	181.4
Other liabilities	5.1	5.1	-	-	-	-	5.1
Total financial liabilities	1,198.4	175.8	183.4	301.1	528.9	131.3	1,320.5

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

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

g) Foreign currencies
The Group holds no financial assets or liabilities denominated in foreign currencies.

37 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 36(a), along with the loan commitments as disclosed in the table in note 35.

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.

37 Financial risk management objectives and policies (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 in the model to determine the forward-looking PD are as follows:

Economic Assumption	Y1 %	Y2 %	Y3 %	Y4 %	Y5 %
<u>UK GDP Growth</u>					
Upside	9.1	3.8	2.1	2.0	2.0
Baseline	8.7	3.5	1.6	1.6	1.6
Downside	8.1	3.0	1.4	1.4	1.5
Scenario weighted forecasts	8.5	3.3	1.6	1.6	1.6
<u>UK Unemployment Rate</u>					
Upside	7.4	5.3	4.3	3.7	3.4
Baseline	8.2	6.1	5.0	4.5	4.2
Downside	8.7	6.7	5.7	5.2	5.0
Scenario weighted forecasts	8.2	6.2	5.2	4.6	4.4
% Change in S&P 500 Index[1]	13.0				
% Change in Energy Index	19.0	5.4	5.5	5.3	5.6
% Change in Non-Energy Index	2.5	2.1	2.2	2.1	2.3
% Change in Proportion of Downgrades[1]	136.6				

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.

37 Financial risk management objectives and policies (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	• *The number of COVID-19 cases is further brought under control* and the government continues to reopen the economy making a stronger rebound at the end of 2020 a possibility.	20.0%
Baseline	• A backdrop of fluctuating easing and tightening of restrictions will keep confidence subdued and fuel voluntary social distancing behaviours until a vaccine is made available. • Government measures to minimise unemployment are relatively successful. • *The Group rate remains at extremely low levels for the* foreseeable future, a tightening in credit conditions proves mild and sterling stabilises.	35.0%
Downside	• A second wave of infections and reintroduction of intensive lockdown measures push the economy into a double dip recession. The government is unable to provide ongoing support to businesses and workers to the extent that they have thus far. This will result *in an increase in unemployment* relative to the base case. • This scenario also represents the real risk that the UK will have to accept *significantly less favourable* terms of access to the EU market as a result of Brexit, which could undermine prospects for trade and investment.	45.0%

– 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.

37 Financial risk management objectives and policies (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:

	2020	
	£m	%
Fully secured by a first charge on residential property	903.6	100.0
	[illegible]	[illegible]
Fair value adjustments	173.2	
	[illegible]	[illegible]

	2019	
	£m	%
Fully secured by a first charge on residential property	738.3	100.0
	[illegible]	100.0
Fair value adjustments	164.5	
	902.8	

The cumulative change in fair values due to credit risk amounts to losses of £7.9m (2019: £7.2m), and the change in the year is a profit of £0.7m (2019: £2.0m).

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 70% 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 2020 is disclosed below:

Stage	Description	Credit Score	Gross Loan Balance £m	ECL Provision £m
Stage 1	Satisfactory	>= 676	340.4	-
Stage 2	Watchlist	< = 675	4.6	(0.1)
Stage 3	Default	N/a	0.6	-
			345.6	
Less: Loan fee deferral			1.5	
Provisions for impairment			(0.1)	
Total			347.0	

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.

37 Financial risk management objectives and policies (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 31 October 2019 is disclosed below:

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Satisfactory	176.6	(0.0)
Stage 2	*Watchlist*	1.9	*(0.1)*
Stage 3	Default	-	-
		178.5	
Less: Loan fee deferral		0.4	
Provisions for impairment		(0.1)	
Total		178.8	

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 31 October 2019	176.6	1.9	-	178.5
Purchases	20.5	-	-	20.5
Advances	157.2	-	-	157.2
Stage transfers	2.0	4.2	1.1	7.3
Repayment and settlement	(15.9)	(1.5)	(0.5)	(17.9)
At 30 September 2020	340.4	4.6	0.6	345.6

Arrears
Performance risk is measured by those accounts in arrears. The total balances in arrears at 30 September 2020 amounted to £1.4m (2019: £nil).

Past due but not impaired
As at 30 September 2020 there were no residential exposures that were past due but not impaired (2019: £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. 160 of these customers have resumed full payment with 7 customers remaining on payment holidays. The total value of exposures that remain on payment holiday arrangements amounts to £2.3 million and are allocated to Stage 1.

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

37 Financial risk management objectives and policies (continued)

Credit risk: Commercial lending

Commercial: analysis of risk concentration

Loans secured on commercial property are as follows:

	2020		2019	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
Commercial mortgage	33.0	48.5	23.3	38.3
Development finance	34.0	54.8	67.5	97.5
Investment loans	217.9	373.4	219.1	376.5
Renewable energy	17.7	0.3	19.4	-
	302.6	477.0	329.3	512.3
Less: Loan fee deferral	(2.0)	-	(2.0)	-
Provisions for impairment	(9.4)	-	(11.1)	-
	291.2	477.0	316.2	512.3

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:

	2020		2019	
	£m	%	£m	%
Wales	62.0	20.5	73.2	22.2
London – England	116.6	38.5	123.5	37.6
South East & East of England	12.6	4.2	25.0	7.6
Midlands – England	27.3	9.0	21.2	6.4
South West of England	44.2	14.6	49.5	15.0
North West & North East of England	29.4	9.7	24.2	7.3
Scotland	10.5	3.5	12.7	3.9
	302.6	100.0	329.3	100.0

The average loan to value (LTV) in respect of commercial loans is estimated to be 60.3% (2019: 56.1%). 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.

£10.2m (2019: £25.5m) of exposures have an LTV of greater than 100%. Of these, £10.2m (2019: £25.2m) are already classified as in default.

The largest exposure to one counterparty is £15.2m (2019: £17.9m) or 5.1% (2019: 5.5%) of gross balances.

37 Financial risk management objectives and policies (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:

	2020		2019	
	£m	%	£m	%
Stage 1	235.7	77.9	286.7	87.1
Stage 2 – *significant increase in credit risk*	49.5	16.4	14.3	4.3
Stage 3 - default	17.4	5.7	28.3	8.6
	302.6	100.0	329.3	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 31 October 2019	286.7	14.3	28.3	329.3
Advances	60.8	-	-	60.8
Stage transfers	(33.5)	43.7	4.8	15.0
Repayment and settlement	(78.3)	(8.5)	(15.7)	(102.5)
At 30 September 2020	235.7	49.5	17.4	302.6

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 2020 is disclosed below:

Risk grade	Description	Stage	S&P Rating	Gross Loan Balance	ECL Provision
				£m	£m
1	Negligible risk	Stage 1	A+	0.7	-
2.1	Minimal risk	Stage 1 or 2	B+	-	-
2.2	Low risk	Stage 1 or 2	B	27.7	-
3.1	Fair risk	Stage 1 or 2	B-	46.9	0.1
3.2	Moderate risk	Stage 1 or 2	BB+	116.7	0.3
4.1	Watch	Stage 1 or 2	BB	55.9	1.1
4.2	Enhanced watch	Stage 1 or 2	BB-	28.3	1.0
5	Substandard	Stage 2	BBB	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

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 31 October 2019 is disclosed below:

Risk grade	Description	Stage	S&P Rating	Gross Loan Balance	ECL Provision
				£m	£m
1	Negligible risk	Stage 1	A+	1.4	-
2.1	Minimal risk	Stage 1 or 2	B+	17.9	-
2.2	Low risk	Stage 1 or 2	B	10.9	-
3.1	Fair risk	Stage 1 or 2	B-	65.6	0.2
3.2	Moderate risk	Stage 1 or 2	BB+	174.9	1.4
4.1	Watch	Stage 1 or 2	BB	22.2	0.4
4.2	Enhanced watch	Stage 1 or 2	BB-	8.1	0.1
5	Substandard	Stage 2	BBB	-	-
6	Default	Stage 3	CCC+	24.8	6.5
7	Loss	Stage 3	CCC-	3.5	2.5
Total				329.3	11.1

37 Financial risk management objectives and policies (continued)

Arrears
As at 30 September 2020 there were £4.1m of commercial loans in arrears (2019: £16.8m).

During the period, the Group settled one default exposure which crystallised a loss of £7.8m. At 31 October 2019, this exposure had a gross balance of £15.3m and a Stage 3 provision of £4.3m.

Past due but not impaired
As at 30 September 2020 there was £nil (2019: £nil) commercial loan balances that were past due but not impaired.

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

Payment holidays
As a result of COVID-19, the Group granted payment concessions to 51 Commercial customers. 50 of these customers have resumed full payment with one customer resuming partial payment. The single exposure which remains on a payment holiday arrangement has been allocated to Stage 2.

Sensitivity
A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and Stage 2 of £0.8m.

37 Financial risk management objectives and policies (continued)

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

PBTL: analysis of risk concentration

Loans secured on PBTL property are as follows:

	2020		2019	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
PBTL lending	63.7	92.6	21.3	30.8
	63.7	92.6	21.3	30.8

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

The Group's PBTL loan portfolio comprises the following:

	2020		2019	
	£m	%	£m	%
Loans secured on PBTL property	63.7	100.0	21.3	100.0
	63.7	**100.0**	**21.3**	**100.0**
Less: *Loan fee deferral*	(0.2)		(0.1)	
Provisions for impairment	(0.4)		(0.3)	
	63.1		20.9	

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

	2020		2019	
	£m	%	£m	%
London-England	46.1	72.2	19.7	92.5
South East & East of England	7.4	11.7	0.8	3.6
Midlands-England	4.1	6.5	0.8	3.9
South West	4.2	6.6	-	-
Wales	1.9	3.0	-	-
	63.7	100.0	21.3	100.0

The average LTV in respect of PBTL loans is 68.6% (2019:68.5%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term/tenant as well as geographical location. No exposures have an LTV of greater than 100%.

The largest exposure to one counterparty is £11.4m (2019:£11.4m) or 17.9% (2019:53.5%) of gross balances.

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 31 October 2019	21.3	-	-	21.3
Stage transfers	-	-	-	-
Advances	42.4	-	-	42.4
Repayment and settlement	-	-	-	-
At 30 September 2020	63.7	-	-	63.7

37 Financial risk management objectives and policies (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:

	2020		2019	
	£m	%	£m	%
Stage 1	63.7	100%	21.3	100.0
Stage 2 – significant increase in credit risk	-	-	-	-
Stage 3 – default	-	-	-	-
	63.7	100.0	21.3	100.0

Exposure by credit rating
The gross exposure on PBTL financial assets and its exposure to credit risk in line with credit rating agencies credit risk ratings is disclosed below:

30 September 2020

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

31 October 2019

Risk grade	Description	Stage	Credit Rating	Gross Loan Balance £m	ECL Provision £m
3.2	Moderate risk	Stage 1 or 2	BB+	21.3	(0.3)
Total				21.3	(0.3)

Arrears
As at 30 September 2020 there were no PBTL loans in arrears (2019: £nil).

Past due but not impaired
As at 30 September 2020 there were no PBTL loans that were past due but not impaired (2019: £nil).

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

Payment holidays
As a result of COVID-19 and the FCA guidance the Group granted payment concessions to four PBTL loan customers. All four of these customers have resumed full repayment plans.

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

37 Financial risk management objectives and policies (continued)

Credit risk: Treasury assets

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

	2020	2019
	£m	£m
UK government and amounts held with central banks	147.9	321.9
Government bonds	77.9	55.5
Debt securities	124.8	134.9
Loans and advances to credit institutions	117.3	87.4
	467.9	599.7
Provision for impairment	-	-
	467.9	599.7

None of these exposures are past due or impaired.

Credit quality of financial assets that are neither past due nor impaired
The following shows the exposures broken down by rating:

	2020	2019
	£m	£m
AAA to AA-	439.1	559.9
A+ to A-	15.3	27.2
BBB+ to BBB-	13.5	12.6
	467.9	599.7

Concentration of credit risk
The geographical exposure is as follows:

	2020	2019
	£m	£m
UK	411.3	548.2
Other	56.6	51.5
	467.9	599.7

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

37 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 36 (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.

The maturity analysis of financial assets and liabilities is disclosed in note 36(e) to the financial statements. For insurance contract liabilities and the reinsurance asset, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities and the reinsurance asset.

Insurance contract liabilities	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
As at 30 September 2020	7.3	7.2	14.3	106.7	392.5	528.0
As at 31 October 2019	7.0	7.0	13.8	102.7	368.2	498.7

Reinsurance asset	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
As at 30 September 2020	-	-	-	0.2	0.7	0.9
As at 31 October 2019	-	-	-	-	-	-

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.

37 Financial risk management objectives and policies (continued)

The table in note 36(d) shows an estimate of the interest rate sensitivity gap as at 30 September 2020. 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) 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 and retirement mortgages and reversionary interests, 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. The reversionary interests are a legacy product which is being run-off over the medium term.

Geographical analysis of loans secured on 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:

	2020		2019	
	£m	%	£m	%
Wales	20.6	3.8	21.4	3.9
East Anglia	21.0	3.9	22.3	4.1
East Midlands	24.4	4.5	25.2	4.6
London	90.1	16.8	94.6	17.2
Yorkshire & Humberside	27.2	5.1	27.5	5.0
North West	39.0	7.3	40.8	7.4
Northern Ireland	17.8	3.3	17.5	3.2
Scotland	35.6	6.6	37.0	6.8
Outer Metropolitan	80.6	15.0	80.2	14.6
Outer South East	72.1	13.4	72.6	13.2
South West	63.2	11.8	64.3	11.7
West Midlands	29.9	5.6	29.9	5.5
North	15.8	2.9	15.6	2.8
	537.3	100.0	548.9	100.0

37 Financial risk management objectives and policies (continued)

f) 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 2020 (2019: £nil).

g) 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.

The Group principally writes annuity contracts where typically the policyholder is entitled to payments which cease upon death. For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase the length of time of annuity payments.

The risk exposure is mitigated by a diversification across a large portfolio of insurance contracts and geographical areas. Much of the Group's longevity risk is mitigated by the use of reinsurance in the form of a longevity swap arrangement.

h) Pension risk
The Group is exposed to pension risk through its defined benefit scheme. Further information is provided in note 33.

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.

38 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.

39 Shares in Group undertakings

Company	£m
At beginning of year	86.5
Impairment	-
At end of year	86.5

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%
Hodge Life Assurance Company Limited	United Kingdom	Life assurance	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%

40 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 2020.

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

41 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 ended 30 September 2020 of £nil (2019: £3.3m).

The other group related party transactions are disclosed below:

Group	Interest income/(expense)	
	2020 £'000	2019 £'000
Jane Hodge Foundation – shareholder of The Carlyle Trust Limited	-	-
	-	-

During the year, development costs of £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 £1.8m (2019: £2.5m) with the Jane Hodge Foundation – a shareholder of the Carlyle Trust Limited.

41 Related parties (continued)

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

Company	2020	2019
	£m	£m
Deposits held by subsidiary		
Julian Hodge Bank Limited	1.3	1.1
Amounts owed from subsidiaries		
Hodge Limited	0.1	-
Carlyle Property Development Company Limited	0.5	0.4
Amounts owed to subsidiaries		
Julian Hodge Bank Limited	(3.1)	(3.3)
Reimbursement liability due to Julian Hodge Bank Limited	(3.3)	(2.9)
	(4.5)	(4.7)

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:

	2020	2019
	£m	£m
Short-term employee benefits:	1.0	0.7

42 Capital risk management

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 addresses all 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:

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

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

42 Capital risk management (continued)

	2020 Unaudited	2019 Unaudited
	£m	£m
Common Equity Tier 1 capital	136.4	156.4
Total risk weighted assets	693.8	695.2
Common Equity Tier 1 capital ratio	**19.7%**	**22.5%**
Total own funds	136.4	156.4
Total risk weighted assets	693.8	695.2
Total capital ratio	**19.7%**	**22.5%**

Capital Requirements Directive
Article 89 of the Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information:
- Name, nature of activities and geographical location: The 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 9 to the financial statements.
- Annual turnover (Net Interest Income) and profit before tax: as disclosed in the Income Statement.
- Corporation Tax paid by Julian Hodge Bank Limited: 2020 £0.3m (2019: £0.2m).
- Public subsidies: The Group received a £0.3m grant from the UK government in relation to the furlough scheme.

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 shareholder and benefits for other stakeholders;
- To comply with the Bank's capital requirements set out by the PRA in the UK.

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

Life assurance segment
The insurance segment is required to maintain a minimum margin of solvency capital in excess of the value of its liabilities to comply with regulatory requirements.

The amount of regulatory and economic capital required also depends on the level of risk facing the insurance business, and as such correlates to economic market cycles. The insurer must assess its capital resources on both a Pillar 1 (regulatory capital) and a Pillar 2 (own risk and solvency assessment) basis. The Pillar 1 capital requirement is calculated by applying the Solvency II standard formula for solvency capital requirements whereas the Pillar 2 capital requirement is determined following an internal capital assessment by the insurer.

All minimum regulatory requirements were met during the year.

The objectives when managing capital are:
- To have sufficient capital to safeguard its ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders;
- To comply with the insurance capital requirements set out by the regulators of the insurance markets in which the insurer operates (the PRA in the UK);
- To provide an adequate return to the shareholder by pricing insurance contracts according to the level of risk associated with the business written.

42 Capital risk management (continued)

The insurer's capital comprises solely equity, movements of which are set out in the Statement of Changes in Equity.

Pillar 1 capital position

	2020 Audited £m	2019 Unaudited £m
Total capital resources	162.7	148.5
Solvency capital requirement (SCR)	(81.7)	(90.1)
Excess available capital resources	67.5	58.4
Solvency Coverage Percentage	183%	165%

A reconciliation of the Company's total equity to distributable reserves is summarised below:

	2020 Audited £m	2019 Unaudited £m
Total equity	162.7	156.0
Less: share capital	(6.8)	(6.8)
Less: other non-distributable reserves	(88.4)	(90.8)
Distributable reserves	67.5	58.4