

# **The Carlyle Trust Limited**

**Annual report and financial  
statements**

**30 September 2022**

**Registered number  
00361131**

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COMPANIES HOUSE

## 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.

John Barbour

M.B.A.,  
B.Sc.

### Company Secretary

Kirsty Williams

LLB (Hons).

(resigned 28 October 2022)

### Registered Office

One Central Square  
Cardiff  
CF10 1FS

### Auditor

Ernst & Young LLP  
Bristol

### Principal bankers

Lloyds Bank Plc  
London

Table of Contents

Contents

Chairman’s Statement ..... 1

Strategic Report ..... 7

Directors’ Report ..... 15

Independent Auditor’s Report to the Members of The Carlyle Trust Limited ..... 18

Consolidated Income Statement ..... 23

Consolidated Statement of Other Comprehensive Income ..... 24

Consolidated Balance Sheet ..... 25

Company Balance Sheet ..... 26

Consolidated Statement of Changes in Equity ..... 27

Company Statement of Changes in Equity ..... 28

Consolidated Statement of Cash Flows ..... 29

Notes to the Financial Statements ..... 32

The Carlyle Trust Limited  
Registered number 0361131

## Chairman's Statement

### Chairman's Statement

I am pleased to present the financial statements of The Carlyle Trust Limited group (the "Group") and the separate entity financial statements of The Carlyle Trust Limited (the "Company") for the year ended 30 September 2022. The main trading entity within the Group is Julian Hodge Bank Limited (the "Bank").

#### **Our business**

The Carlyle Trust Limited group is a privately owned group seeking to make life better for customers and society in the moments that matter.

#### **Retail mortgages**

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

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

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

#### **Commercial lending**

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

As the economy continues to emerge from the COVID-19 pandemic the Commercial team has been developing new product offerings for our customers and we are confident our updated offerings will prove attractive to our target market. We will be looking to grow our lending volumes and secure new customers, whilst continuing to service our existing client base.

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

#### **Savings**

Customer savings are, and will continue to be, the most important part of our funding base. Throughout 2022 we have continued our commitment to support more customers through our online channels and have continually monitored our savings rates in the current rising interest rate environment.

The continued investment in digital capabilities, simplifying processes and leveraging technology to quicken our service is continuing to drive positive feedback from current and new customers as evidenced in our 'excellent' Trustpilot score.

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

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

#### **Trading update**

The past year has remained a challenge for many businesses across the UK despite the steady exit from the restrictions imposed in support of the COVID-19 response.

Inflationary pressures not seen for a generation are being felt across the globe and the UK is no exception. The impact of COVID-19, followed by Russia's war with Ukraine coupled with a somewhat unclear fiscal response, means that the overall business environment and outlook is far from certain.

The Carlyle Trust Limited  
Registered number 0361131

## Chairman's Statement

The management response to this has been proactive and effective, providing clear leadership and direction to our colleagues who, once again, have responded exceptionally well. The Board are very appreciative of their continued professionalism and dedication to providing an excellent experience for our customers.

In July 2021, the Board approved a five-year strategic plan which we acknowledged was ambitious but achievable as the UK recovered from recession. While the direction agreed remains the same, we have also recognised that the context for the plan has changed quite considerably from the original setting, and so the challenge to deliver a return to our shareholder in excess of the cost of capital is unlikely to be achieved. As a result, the Board asked management to review the execution of that plan.

A key element of that review was the extent to which we would invest in our historically successful commercial proposition. In the Bank's July 2022 board we agreed that we would increase the focus on this by growing the commercial assets portfolio, with the emphasis on the retail proposition being on the markets where our specialism allows the Group to target effective returns on capital over volume.

Our commercial proposition has already been expanded and is targeted at professional developers to support them throughout the development cycle. In February this year we re-entered the market with a range of commercial investment, stretch senior finance, acquisition bridge and sales bridge products, and we have plans to expand this proposition further in the coming year.

Our Commercial team has demonstrated their expertise through the recent cycle by establishing close relationships with a limited number of partners. This allows us to stay close to the customers and ensure the focus is on high quality assets rather than volume. It is this approach which gives us confidence for the continued expansion and growing contribution to the Group of the commercial business going forward.

Turning to our retail lending, the year has seen an above target lending performance in excess of £500m, with later-life lending and holiday buy-to-let leading the way. The importance of remaining true to our goals of being a specialist lender means the focus for the remainder of the plan period will be to identify segments of the market where our flexibility, experience and capability can be combined to meet those specific customer needs while focussing on higher margin, higher return products rather than volume lending, as increasing our proposition is a key enabler of effective margin management.

Improving our savings proposition directly to our customers through a broader offering, including easy access accounts enabled by a digital service remains a number one priority. Funding costs have risen quickly across the market, and this has undoubtedly put pressure on net margins across many banks, with the Bank being no exception. This year we have seen our deposits from customers increase to in excess of £1.4bn with significant improvements in productivity with monthly deposits nearly double the maximum capacity from a year before. Our retention rates remain high but the investment in our platform will target an improvement on this already impressive performance.

A key goal for the five-year strategy is to deliver an upper quartile customer experience and good progress has been made this year, both in terms of the delivery of enabling technology and the training and development of our customer facing colleagues. The customer experience is being actively measured across our Retail Mortgage and Savings teams and both are showing positive NPS scores of 65 and 64 respectively. Our Trustpilot ratings have improved to a 4.7 rating with 82% of the reviews at a maximum of five, improving our overall rating to fourth out of the 47 companies listed in the banking sector.

The Board recognises that our people are critical to delivering our stretch service goals and with this in mind, I am delighted that we continue to work with the Financial Services Culture Board (FSCB) to be able to listen to and engage with our colleagues to identify areas where we can improve. This is the third year of the survey and we are seeing a steadily improving trend across all themes, with both 'shared purpose' and 'ability to speak up safely' benchmarking very well across industry peers and demonstrating a commitment to an open, respectful culture.

The Carlyle Trust Limited  
Registered number 0361131

## Chairman's Statement

Nevertheless, the survey also highlights that we can do more to help our colleagues with better systems and processes so we continue to invest in our technology and our people to make the overall experience easier, more intuitive and more engaging. Our objective is to create the environment for our colleagues to be able to deliver a more flexible, more human service where the customer values it. Improving productivity while simultaneously improving the customer experience is a key strategic driver of our five-year plan.

The priority for our Change teams has been on the Digital Savings Programme (DSP), effectively the digitalisation of our savings proposition which will improve the customer journeys, increase the productivity and efficiency of our colleagues and enable the Group to launch a broader range of products such as easy access. DSP is a key focus for the Board and a key enabler of the five-year strategy. While there have been some technical issues along the way, meaning some delays, the plan is to launch the new platform early in 2023.

In the retail mortgage arena, the migration of the outsourced servicing to our in-house team will enable us to improve the service while operating more efficiently and to increase our customer retention levels. In addition, a number of propositional changes have been launched such as capital and interest, CRM workflow and a change tool to reflect the more dynamic economic and competitive environment which we currently experience. As a broker enabled lender, relationships with mortgage introducer professionals remain critical to our progress so we have delivered a broker portal to make the whole experience of working with the Bank easier, faster and more under the control of the broker community.

In 2021, the Board approved our five-year plan in respect of our environmental, social and governance (ESG) goals with the key focus of achieving carbon neutrality for direct emissions by the end of 2021, with further work during 2022 to fully understand the downstream impacts on scope three financed emissions. In conjunction with the Carbon Trust, we purchased carbon credit offsets as a first step towards this move to net zero, with our energy suppliers having moved to renewable sources to reduce scope one emissions. We have progressed our understanding of scope three emissions, but more detailed work is required in the coming year. The Section 172 statement included on page 7 includes further information with regards to the Group's impact on the environment and the steps being taken to monitor and reduce this impact.

New and emerging risks have been identified primarily around the economic outlook, with the impact of higher inflation yet to be felt in terms of interest rates and the knock-on impact to living standards, the potential for rising unemployment and to ongoing affordability across all markets.

More specifically for the Bank, management has recognised the need to strengthen our operational resilience planning, together with the outsourcing policy and management. Our board risk appetite has been reviewed and is operating effectively and will remain under continual review as we further develop our specialist lender strategy.

The first line Risk team has been strengthened during the year across a number of disciplines, including compliance, quality assurance, credit risk and financial crime. As a result of this increased level of capability, our second line team has been able to increase the range and volume of oversight work with plans in train to strengthen specific areas such as IT, change and financial risk.

The Carlyle Trust Limited  
Registered number 0361131

## Chairman's Statement

### Financial performance review

#### Income statement overview

	2022 £m	2021 £m
Interest receivable	51.0	40.0
Interest payable	(21.7)	(22.5)
<b>Net interest income</b>	<b>29.3</b>	<b>17.5</b>
Net fees and commissions receivable	2.3	2.0
Investment and other operating income	8.5	8.1
Profit on sale of inventory	0.1	3.7
<b>Net operating income</b>	<b>40.2</b>	<b>31.3</b>
Administration expenses	(34.7)	(27.4)
Depreciation and amortisation	(3.1)	(2.8)
Impairment gains/(losses)	-	(0.4)
Bad debt recovery	0.4	0.3
<b>Operating profit</b>	<b>2.8</b>	<b>1.0</b>
Other fair value gains	7.9	11.7
Loss on disposal of loans and advances to customers	-	(5.5)
<b>Profit before taxation from continued operations</b>	<b>10.7</b>	<b>7.2</b>

#### Net interest income

Net interest income increased by £11.8m or 67.4% (2021: £2m or 13%) whilst loans and advances to customers grew by 32% (2021: 14%). The growth in net interest income is primarily as a result of new retail mortgage business.

Financial ratios	2022	2021
Net interest income	£29.3m	£17.5m
Average total assets	£1,872.5m	£1,942.6m
<b>Net interest margin <sup>(1)</sup></b>	<b>1.6%</b>	<b>0.9%</b>
<b>Cost to income ratio <sup>(2)</sup></b>	<b>86.3%</b>	<b>87.5%</b>

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

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

#### Net interest margin

The increase in net interest income has flowed through to an improvement in net interest margin. The Group has benefitted from the trend in customers moving towards shorter duration deposits as there has been little incentive for customers to fix for any significant length of time due to the lower interest rate environment experienced in recent years. The Group also benefitted from being a participant in the Bank of England's TFSME scheme.

#### Operating profit

The Group's performance at an operating profit level has improved by £1.8m, primarily as a result of the growth in net interest income. The Group has also observed growth in investment income, which represents profits on reversion sales due to the strong performance of the residential property market in 2022. These positive movements have been offset by a reduction in the profit on sale of inventory i.e. profit on sale of land to residential developers of £3.6m.

#### Administrative expenses

Overall administrative expenses increased by £7.3m (2021: £5.1m) or 27.0% (2021: 22.8%). Approximately half of the increase relates to staff costs as the Group continued to invest in people to support the strategic plan and the Group's digital transformation. Moving forward, the aim is to grow the Balance Sheet of the Group whilst keeping the underlying cost base relatively stable.

The Carlyle Trust Limited  
Registered number 0361131

## Chairman's Statement

### Expected credit losses ("ECL")

Total ECLs at 30 September for the retail mortgage portfolio amounted to £0.5m (2021: £0.1m). The impairment charge for the year on the retail portfolio is £0.2m, reflecting both the growth in the retail book and the uncertainty of the current economic climate.

For commercial lending, the ECL at 30 September stood at £7.1m (2021: £7.3m). The impairment credit for the year of £0.6m reflects the planned reduction in legacy commercial exposures to support the launch of new commercial lending products. The Group also benefited from a recovery of £0.4m on a commercial exposure which was previously written off.

For portfolio buy-to-let, the ECL at 30 September stood at £1.2m (2021: £0.9m). The impairment charge of £0.4m partly reflects the growth in the portfolio and the uncertainty of the current economic climate.

### Sale of reversion portfolio

The Board made the decision to sell the majority of the Bank's reversionary assets during the year to a fellow subsidiary of the Group. The disposal of this portfolio reduces the Bank's susceptibility to both house price and interest rate risk, whilst the economic benefit of the portfolio has been retained within the Group.

### Other fair value gains

The growth in interest rates towards the end of the financial year has resulted in fair value gains on interest rate swaps of £20.4m, plus a hedge ineffectiveness gain of £2.5m, offset by a decrease in the fair value of reversionary assets of £10.9m and a fair value loss on the retirement mortgage portfolio of £1.1m. The higher interest rate environment results in a higher discount rate being applied to discount the future anticipated cash flows associated with these assets and liabilities. Fair value losses of £3.0m have also been observed on the Group's portfolio of equity investments due to the deterioration in the economic outlook as at the year end.

### Balance Sheet overview

	2022 £m	2021 £m	% Change
Liquid assets <sup>1</sup>	361.4	530.6	(31.9)
Loans and advances to customers	1,404.6	1061.1	32.4
Investment properties	89.0	103.2	(13.8)
Other assets <sup>2</sup>	132.1	62.9	110.0
<b>Total assets</b>	<b>1,987.1</b>	<b>1,757.8</b>	<b>13.0</b>
Deposits from banks	221.0	145.0	52.4
Deposits from customers	1,413.7	1,248.3	13.3
Other liabilities <sup>3</sup>	17.0	30.2	(43.7)
Pension liabilities	4.5	14.2	(68.3)
Share capital and reserves	330.9	320.1	3.4
<b>Total equity and liabilities</b>	<b>1,987.1</b>	<b>1,757.8</b>	<b>13.0</b>

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

<sup>2</sup> Other assets: made up of Intangible assets, Property plant and equipment, Deferred tax assets, Other assets, Investments and Inventory and (2022: Derivative financial instruments)

<sup>3</sup> Other liabilities: made up of (2021: Derivative financial instruments) and Other liabilities

### Loans and advances to customers

Loans and advances to customers have grown significantly, underpinned by record gross lending of residential mortgages of £512.4m (2021: £362.3m). The retail mortgage book has grown primarily due to increased demand for later life lending, holiday buy-to-let and traditional buy-to-let products. The growth in the retail mortgage portfolio has been partially offset by the planned reduction in a number of legacy commercial exposures.

### Liquidity

The Group holds liquid assets to meet its financial obligations in both business-as-usual and stressed situations. At 30 September, the Group held £361.4m of liquid assets (2021: £530.6m) which are available to protect it from liquidity stresses.



The Carlyle Trust Limited  
Registered number 0361131

## Chairman's Statement

### Liquidity (continued)

Liquidity levels remained within the Board's risk appetite and regulatory requirements throughout the year, including 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 at 30 September 2022 was above the regulatory minimum of 100% at 291.6% (2021: 349.6%), the reduction being driven by the planned decrease in liquid assets.

### Funding

Retail savings remain a primary funding source, with savings balances increasing to £1,413.7m (2021: £1,248.3m). The Bank is also a participant of the Bank of England's TFSME scheme with balances increasing to £205.0m (2021: £145.0m).

### Defined benefit pension scheme

In the prior year, the Group closed its defined benefit pension scheme to further accrual and introduced a defined contribution scheme. At 30 September 2022, the defined benefit scheme had a deficit (the difference between scheme assets and scheme liabilities) of £4.5m (2021: £14.2m). The Group made deficit contributions to the scheme of £1.2 million in 2022 (2021: £1.6m). The scheme also benefited from £9.0m (2021: £2.6m) of actuarial gains, primarily due to the rise in interest rates.

### Capital and Leverage

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

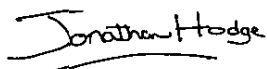
The Group's primary measure for assessing capital adequacy is the Common Equity Tier 1 ratio ('CET1'). This ratio assesses the amount of the highest quality of capital as a proportion of risk weighted assets. The Group uses standardised risk weights to calculate the risk weighted exposure. At 30 September 2022 the Bank's CET1 ratio stood at 25.2% (2021: 20.2%). This increase is due to The Carlyle Trust Limited through Hodge Limited subscribing to £25m of share capital in June 2022 and the total comprehensive income for 2022, offset by the increased capital requirements from the growth in the Balance Sheet.

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 for the Bank at 30 September 2022 was 9.6% (2021: 8.3%). We are not captured under the Financial Policy Committee's Leverage Ratio Framework which became a binding requirement from 1 January 2022 for institutions with over £50bn of retail deposits. However, the Bank comfortably meets these requirements.

### Governance and the Board

Finally, I would like to take the opportunity to say thank you both personally and on behalf of my colleagues on the Board to Helen Molyneux who retired from the Board in March this year. Helen made a hugely valuable contribution to the development of the strategy, to the culture of the business and to the governance and professionalism across the Group.

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



**Jonathan Hodge**  
Chairman  
9 December 2022

The Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

### Strategic Report

#### **Principal activities**

The Company is a holding company of a financial services group which contains a bank and other subsidiaries that invest in both commercial and residential real estate. 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 profit for the year after taxation from continuing activities amounted to £7.3m (2021: profit of £9.0m).

Dividends of £3.3m (2021: £6.6m) were declared and paid during the year.

#### **Corporate Social Responsibility**

Throughout 2022 we have deepened our commitment to helping older people live safely.

We have increased our focus on vulnerability, with all our frontline colleagues receiving specific training to equip them with the skills and knowledge to ensure that the needs of our most vulnerable customers are accommodated.

#### **Stakeholder Engagement – S172 Statement**

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

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

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

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

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

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

The Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

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

2022 has been a year of continued progress as we accelerate our commitment to putting the customer at the heart of everything we do. We have engaged our customer and broker communities in the evolution of our product and service offerings, continuing to champion the needs of our audiences in helping them achieve their goals and ambitions.

The Bank continues to invest heavily in technology to improve our operational and digital capability which is vital in delivering great service to our customers. This investment brings efficiency and scalability to our operations. In 2022, the Bank has continued to invest in a new banking platform that will underpin our entire business model, improving efficiencies and capabilities for our teams, whilst delivering first class experiences to our customers. Together with a new online savings application journey that we have invested in, 2023 will see further enhancements to our offering.

### **Our Employees**

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

The Bank's Board has appointed a designated non-executive director to assist with providing a link between employees and the Bank's Board and regularly attends colleague engagement meetings to provide a summary to the other directors on the output of such meetings. During 2022, the Bank's Board consulted employees in relation to flexible working arrangements and the new annual reward plan.

### **Our Suppliers**

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

During 2022 several material contracts were presented to the Board for approval, covering both new relationships and contract renewals. In approving these contracts, the Board considered the strategic value of the relationships as well as looking at the customer impacts, risk exposure, legal and compliance considerations and financial implications. The Group has a framework in place which provides a consistent and proportionate approach to the procurement and management of suppliers to ensure that it can effectively engage, manage and terminate, where appropriate, supplier relationships.

### **Our Shareholders**

A Shareholder Engagement policy has been agreed and adopted by the Board, detailing the principal 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.

During 2022, the principal shareholder was consulted in relation to the revised strategic plan, the new annual reward plan and the disposal of the reversion portfolio by the Bank to a new group subsidiary called Hodge Reversions Limited.

The Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

### **Our Community**

Throughout 2022 we have continued to make a difference to the lives of others through our corporate social responsibility commitment. The Bank has a focus on supporting older people live safe lives through partnering with Hourglass, a charity that works to challenge and prevent the abuse of older people. Additionally, every member of our team benefits from up to four days off work per year to support good causes with the Group's 'Four to do More' initiative.

### **The Environment**

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

The Group continues to report Green House Gas ('GHG') emissions, to comply with the Streamlined Energy & Carbon Reporting (SECR) initiative.

We tasked The Carbon Trust to calculate our GHG emissions under the rules laid out by the World Resources Institute's GHG Protocol Corporate Accounting and Reporting Standard. This enables us to ensure the accuracy of these disclosures and to monitor our own performance in reducing our carbon footprint. We are focused on making the Group a more sustainable organisation, both in terms of our carbon footprint and the products that we offer. The figures are for the years to June 2022 and June 2021.

#### *Scope 1 – direct GHG emissions*

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

#### *Scope 2 – energy indirect emissions*

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

#### *Scope 3 – other indirect emissions*

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

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

Scope	GHG Emissions Source	2022	2021
<b>Scope 1 (tCO<sub>2</sub>e)</b>	Fuel (Buildings)	52.9	54.9
	Refrigerants	5.3	-
<b>Scope 2 (tCO<sub>2</sub>e)</b>	Electricity	16.8	17.0
	Company electric vehicles	-	-
<b>Scope 3 (tCO<sub>2</sub>e)</b>	Business travel	23.7	4.9
	Employee commuting	83.7	9.5
	Employee working from home	132.0	135.3
	Other	0.5	0.1
<b>Total location based GHG emissions (tCO<sub>2</sub>e)</b>		<b>314.9</b>	<b>221.7</b>
<b>Average number of employees</b>		<b>354</b>	<b>321</b>
<b>GHG per employee (tCO<sub>2</sub>e)</b>		<b>0.89</b>	<b>0.69</b>
<b>GHG use per £m income (tCO<sub>2</sub>e)</b>		<b>6.2</b>	<b>5.5</b>

The growth in emissions in 2022 is primarily as a result of colleagues returning to work in the office on a flexible basis, following easing of the COVID-19 restrictions.

All of the Group's operations are UK based. The Group's GHG emissions are reported in (tCO<sub>2</sub>e) and usage in (kWh). GHG emissions per employee and income are reported as intensity metrics, for future ease of comparison.

The Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

### Corporate Governance

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

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

The Board's agenda during the year was focused on overseeing and supporting executive management to deliver on the 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 of one executive and three non-executive directors. The roles of Chairman and Chief Executive are separate to ensure that neither can exercise unfettered powers of decision-making on matters of material importance.

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

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

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. The system of control is designed to manage rather than eliminate risks which are inherent in the Group's business and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal financial control includes appropriate levels of authorisation, segregation of duties and limits for each aspect of the business. There are established procedures and information systems for regular budgeting and reporting of financial information. Financial reports are presented at every board meeting detailing the results and other performance data.

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

### COVID-19

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

### The Board

The Board has ultimate responsibility for the proper stewardship of the Group in all its undertakings. It meets regularly throughout the year to discharge its responsibilities for all important aspects of the Group's affairs, including monitoring performance, considering major strategic issues, approving budgets and business plans and reviewing operational performance.

The Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

The Board holds regular discussions with the Group's principal shareholder to ensure a clear understanding of their views and requirements.

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

A board control manual has been adopted and was updated during the year which describes the high-level policy and decision-making arrangements within the Group. The manual includes a schedule of matters reserved to the Board together with those items delegated to directors and board and executive committees.

Details of the members of the Board are set out below.

### **Jonathan Hodge - Chair**

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

### **Graeme Hughes – Non-Executive Director**

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

### **John Barbour - Non-Executive Director**

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

### **David Landen – Director**

David is the Chief Executive Officer of the Bank. David joined the Group in 2002 and has held a variety of finance and treasury roles during his time with the organisation. He was appointed to the Bank's 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 either a Group or a Bank level:

### **Audit Committee**

All members of the Audit Committee are non-executive. Executive members of the Bank's 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 Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

### Remuneration Committee

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

The function of the Remuneration Committee is to consider remuneration policy and specifically to determine the remuneration and other terms of service of executive directors and senior managers. The executive directors decide fees payable to non-executive directors.

### Innovation and Change Committee

All members of the Innovation and Change Committee are non-executive. Executive members of the Bank's 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.

### Board Risk Committee

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

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

### Nomination and Governance Committee

All members of the Nomination and Governance Committee are non-executive. Executive members of the Bank's 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 is also responsible for ensuring that the Group's Diversity and Inclusion policy is being delivered.

### Risk appetite

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

### Risk management

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

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

The Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

### CREDIT RISK

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

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

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

### FINANCIAL RESILIENCE RISK

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

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

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

### STRATEGIC RISK

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

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

### CONDUCT RISK

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

- **Product design** – a product governance policy is in place to ensure that all new products are subject to an appropriate level of scrutiny and that existing products are subject to regular review to identify any risk of poor customer outcome. Product Committee oversees the new product launches and annual product reviews to ensure product remains suitable for their respective target markets.
- **Distribution and sales** – all customer lending products are distributed via independent brokers to ensure that customers receive independent advice. Deposits and commercial lending products are offered on an execution-only basis. Approval processes are in place to ensure that product literature is clear, fair and not misleading and complies with relevant regulation and legislation. Oversight on distribution and sales is provided by the Conduct Committee.



The Carlyle Trust Limited  
Registered number 0361131

## Strategic Report

- **Product servicing** – performance against service levels is monitored and customer feedback used to determine whether good outcomes are achieved. Internal quality assurance is undertaken. All complaints are thoroughly investigated and responded to promptly. Monitoring is in place to identify and quickly address any trends or systemic issues.
- **Culture and governance** – reward strategies and incentives are not based on sales targets and mandatory conduct risk and customer outcomes training is in place for all new and existing employees.

### OPERATIONAL RISK

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

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

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

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



**David Landen**  
Director  
9 December 2022

The Carlyle Trust Limited  
Registered number 0361131

## Directors' Report

### Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 September 2022. 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	- page 4
Risk management policies	- page 12
Financial instruments	- note 30

### Directors and Directors' interests

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

Jonathan Hodge\* (Chairman)

David Landen

Helen Molyneux\* (resigned 24 March 2022)

John Barbour\*

Graeme Hughes\*

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

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

### Political contributions

The Group made no political contributions during either year.

### Post Balance Sheet events

There were no post Balance Sheet events to disclose.

### Results and Dividends

The profit for the year after taxation from continuing activities amounted to £7.3m (2021: profit of £9.0m). Dividends of £3.3m (2021: £6.6m) were declared and paid during the year.

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

### Re-appointment of auditors

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

The Carlyle Trust Limited  
Registered number 0361131

## Directors' Report

### 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 higher interest rate and high inflation environment on the Group's capital and funding position. As part of this assessment the Board considered:

- The impact on Group's profits from an expected reduction in income from retail 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 high interest rate environment; and
- The adequacy of the Group's liquidity.

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

The Directors confirm that they are satisfied that the Group will continue in business for a period to 31 December 2023. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

### Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group's financial statements in accordance with UK-adopted International Accounting Standards and in conformity with the requirements of the Companies Act 2006. The Company has elected to prepare the financial statements in accordance with 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state whether applicable UK-adopted International Accounting Standards or FRS101 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 Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Carlyle Trust Limited  
Registered number 0361131

## **Directors' Report**

### **Directors' Responsibilities Statement (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:

- The Group and parent Company financial statements prepared in accordance with UK-adopted International Accounting Standards and FRS 101, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company.
- The Strategic Report includes a fair view of the development and performance of the business and the position of the Group together with the description of the principal risks and uncertainties that it faces.
- The Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholders' to assess the Group's position and performance, business model and strategy.
- The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

By order of the Board



**David Landen**  
Director  
9 December 2022

The Carlyle Trust Limited  
Registered number 0361131

## Auditor's Report

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

#### Opinion

We have audited the financial statements of The Carlyle Trust Limited ('the parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated and parent Company Balance Sheet, the Consolidated and parent company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes 1 to 40 (except for note 40 which is 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 UK adopted international accounting standards. 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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

The Carlyle Trust Limited  
Registered number 0361131

## **Auditor's Report**

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

#### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent Company's ability to continue as a going concern for a period to 31 December 2023.

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

#### **Other information**

The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information contained within the Annual Report.

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

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

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

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

The Carlyle Trust Limited  
Registered number 0361131

## **Auditor's Report**

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

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement set out on page 16 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The Carlyle Trust Limited  
Registered number 0361131

## Auditor's Report

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

#### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and parent Company and determined that the most significant are those that related to the reporting framework (UK-adopted international accounting standards, FRS 101 and the Companies Act 2006), supervisory requirements under Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), and the relevant direct and indirect tax compliance regulation in the United Kingdom.
- We understood how The Carlyle Trust is complying with those frameworks by performing inquiries of management and those responsible for legal and compliance matters. We also reviewed correspondences with the regulators; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- We assessed the susceptibility of the Group and parent Company's financial statements to material misstatement, including how fraud might occur by considering the controls established to address the risks identified to prevent or detect fraud. We performed inquiries of management and those charged with governance to supplement our assessment of how fraud might occur. We also considered risk of management override and by assuming revenue, specifically topside manual adjustments to revenue, to be subject to fraud risk. Our audit procedures included testing a sample of journals to verify the transactions were appropriate and supported by source documentation.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved performing inquiries about the policies that have been established to prevent non-compliance with laws and regulations, inquiring about the Group's methods of enforcing and monitoring the compliance with such policies, reviewing complaints logs, and inspecting correspondences with regulators.

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



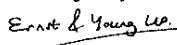
The Carlyle Trust Limited  
Registered number 0361131

## Auditor's Report

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

#### 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.

DocuSigned by:  
  
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#### **Robin Enstone (Senior statutory auditor)**

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

09 December 2022 | 5:05:50 GMT

The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### Consolidated Income Statement

For the year ended 30 September 2022

	Notes	Year ended 30 September	Year ended 30 September
		2022	2021
		£m	£m
<b>Continued operations</b>			
Interest receivable and similar income	4	51.0	40.0
Interest payable and similar charges	5	(21.7)	(22.5)
<b>Net interest income</b>		<b>29.3</b>	<b>17.5</b>
Fees and commissions receivable		2.6	2.0
Fees and commissions payable		(0.3)	-
Investment income		7.2	7.0
Other operating income		1.3	1.1
Profit on sale of inventory		0.1	3.7
<b>Net operating income</b>		<b>40.2</b>	<b>31.3</b>
Administrative expenses	6	(34.7)	(27.4)
Depreciation and amortisation	16/17	(3.1)	(2.8)
Impairment gains/(losses) on loans and advances to customers	15	-	(0.4)
Bad debt recovery		0.4	0.3
<b>Operating profit</b>		<b>2.8</b>	<b>1.0</b>
Other fair value gains	7	7.9	11.7
Loss on disposal of loans and advances to customers held at fair value		-	(5.5)
<b>Profit before taxation from continued operations</b>	<b>8</b>	<b>10.7</b>	<b>7.2</b>
Tax (charge)/credit on profit	9	(3.4)	1.8
<b>Profit for the financial year from continued operations</b>		<b>7.3</b>	<b>9.0</b>
<b>Discontinued operations</b>			
Loss after tax for the year from discontinued operations		-	(13.2)
<b>Profit/(loss) for the financial year from operations</b>		<b>7.3</b>	<b>(4.2)</b>

The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### Consolidated Statement of Other Comprehensive Income For the year ended 30 September 2022

	Notes	Year ended 30 September	Year ended 30 September
		2022	2021
		£m	£m
Items that will not be reclassified subsequently to profit and loss			
Profit/(loss) for the financial year		7.3	(4.2)
Re-measurement of defined benefit pension plan	28	9.0	2.6
Deferred tax thereon	20	(2.2)	(0.6)
<b>Total other comprehensive income</b>		<b>6.8</b>	<b>2.0</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>14.1</b>	<b>(2.2)</b>

The notes on pages 32 to 90 form part of these financial statements.


The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### Consolidated Balance Sheet As at 30 September 2022

		Notes	30 September 2022	30 September 2021
			£m	£m
<b>Assets</b>				
Cash and balances held at central banks	10		118.1	412.2
Loans and advances to credit institutions	11		0.9	46.3
Derivative financial instruments	25		75.8	-
Government bonds	12		126.2	29.8
Debt securities	13		116.2	42.3
Loans and advances to customers	14		1,404.6	1,061.1
Intangible assets	16		9.7	7.4
Property, plant and equipment	17		6.9	5.6
Investment properties	18		89.0	103.2
Investments	19		22.7	23.8
Deferred tax assets	20		6.2	11.4
Other assets	21		10.7	14.6
Inventory	22		0.1	0.1
<b>Total assets</b>			<b>1,987.1</b>	<b>1,757.8</b>
		Notes	30 September 2022	30 September 2021
			£m	£m
<b>Liabilities</b>				
Deposits from banks	23		221.0	145.0
Deposits from customers	24		1,413.7	1,248.3
Derivative financial instruments	25		-	15.3
Lease liabilities	26		5.8	4.2
Other liabilities	27		11.2	10.7
Pension liabilities	28		4.5	14.2
<b>Total liabilities</b>			<b>1,656.2</b>	<b>1,437.7</b>
<b>Share capital and reserves</b>				
Called-up share capital	29		1.1	1.1
Other reserves			329.8	319.0
<b>Total equity</b>			<b>330.9</b>	<b>320.1</b>
<b>Total equity and liabilities</b>			<b>1,987.1</b>	<b>1,757.8</b>

These financial statements were approved by the Board of Directors on 9 December 2022 and were signed on its behalf by:



**David Landen**  
Director

The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### Company Balance Sheet

As at 30 September 2022

As at 30 September 2022			
	Notes	30 September 2022	30 September 2021
		£m	£m
<b>Assets</b>			
Loans and advances to credit institutions	11	10.7	129.1
Government bonds	12	15.0	-
Property, plant and equipment	17	5.4	4.0
Investments	19	22.7	23.8
Other assets	21	0.6	1.2
Shares in group undertakings and participating interests	33	178.1	73.0
<b>Total assets</b>		<b>232.5</b>	<b>231.1</b>

	Notes	30 September 2022 £m	30 September 2021 £m
<b>Liabilities</b>			
Lease liabilities	26	5.8	4.2
Deferred tax liabilities	20	0.1	0.2
Other liabilities	27	-	0.5
<b>Total liabilities</b>		<b>5.9</b>	<b>4.9</b>
<b>Share capital and reserves</b>			
Called-up share capital	29	1.1	1.1
Other reserves		225.5	225.1
<b>Total equity</b>		<b>226.6</b>	<b>226.2</b>
<b>Total equity and liabilities</b>		<b>232.5</b>	<b>231.1</b>

These financial statements were approved by the Board of Directors on 9 December 2022 and were signed on its behalf by:



**David Landen**  
Director

The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### Consolidated Statement of Changes in Equity

For the year ended 30 September 2022

Group	Called up share capital	Retained earnings	Pension reserve	Total
	£m	£m	£m	£m
<b>2022</b>				
At beginning of year	1.1	329.7	(10.7)	320.1
Profit for the financial year	-	7.7	(0.4)	7.3
Other comprehensive income	-	-	6.8	6.8
Pension additional contribution	-	(1.2)	1.2	-
Dividend payments	-	(3.3)	-	(3.3)
<b>At end of the financial period</b>	<b>1.1</b>	<b>332.9</b>	<b>(3.1)</b>	<b>330.9</b>

Group	Called up share capital	Retained earnings	Pension reserve	Total
	£m	£m	£m	£m
<b>2021</b>				
At beginning of year	1.1	344.8	(17.0)	328.9
Loss for the financial year	-	(4.5)	0.3	(4.2)
Other comprehensive income	-	-	2.0	2.0
Pension additional contribution	-	(4.0)	4.0	-
Dividend payments	-	(6.6)	-	(6.6)
<b>At end of the financial period</b>	<b>1.1</b>	<b>329.7</b>	<b>(10.7)</b>	<b>320.1</b>

The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### Company Statement of Changes in Equity

For the year ended 30 September 2022

Company	Called up Share Capital	Profit and loss account	Total
	£m	£m	£m
<b>2022</b>			
At beginning of period	1.1	225.1	226.2
Profit for the financial year	-	3.7	3.7
Dividend payments	-	(3.3)	(3.3)
<b>At end of the financial period</b>	<b>1.1</b>	<b>225.5</b>	<b>226.6</b>

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

The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### Consolidated Statement of Cash Flows

For the year ended 30 September 2022

	Notes	Year ended 30 September	Year ended 30 September
		2022	2021
		£m	£m
<b>Cash (outflow)/inflow from operating activities</b>		(151.0)	100.7
Taxation received		0.8	0.4
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(150.2)</b>	<b>101.1</b>
<b>Cash flows from investing activities</b>			
Purchase of government bonds	12	(133.9)	-
Proceeds from sale of government bonds	12	34.0	18.1
Disposals due to sale of Hodge Life	12	-	29.3
Purchase of debt securities	13	(83.5)	-
Proceeds from sale of debt securities	13	6.6	8.3
Disposals due to sale of Hodge Life	13	-	74.1
Additions to intangible assets	16	(4.3)	(1.9)
Additions to property, plant and equipment	17	(2.4)	(0.2)
Purchase of investments	19	(5.3)	(18.8)
Proceeds from sale of investments	19	3.4	1.8
<b>Net cash (outflow) / inflow from investing activities</b>		<b>(185.4)</b>	<b>110.7</b>
<b>Cash flows from financing activities</b>			
Payments on lease liability	26	(0.6)	(0.5)
Dividends paid	35	(3.3)	(6.6)
<b>Net outflow from financing activities</b>		<b>(3.9)</b>	<b>(7.1)</b>
Net movement in cash and cash equivalents		(339.5)	204.7
Decrease due to disposal of Hodge Life		-	(11.4)
Cash and cash equivalents at start of year		458.5	265.2
<b>Cash and cash equivalents at end of year</b>		<b>119.0</b>	<b>458.5</b>
Cash held at central banks repayable on demand	10	118.1	412.2
Loans and advances to credit institutions repayable on demand (1)	11	0.9	46.3
<b>Cash and cash equivalents at year end</b>		<b>119.0</b>	<b>458.5</b>

(1) Loans and advances to credit institutions includes collateral held by swap counterparties of £nil (2021: £22.5m) 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.



The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### A Analysis of the balance of cash and cash equivalents

2022	Notes	At 30 September 2021	Cash flow	At 30 September 2022
		£m	£m	£m
Cash held at central banks repayable on demand	10	412.2	(294.1)	118.1
Loans and advances to credit institutions repayable on demand	11	46.3	(45.4)	0.9
		<b>458.5</b>	<b>(339.5)</b>	<b>119.0</b>

2021	Notes	At 31 October 2020	Cash flow	At 30 September 2021
		£m	£m	£m
Cash held at central banks repayable on demand	10	147.9	264.3	412.2
Loans and advances to credit institutions repayable on demand	11	117.3	(71.0)	46.3
		<b>265.2</b>	<b>193.3</b>	<b>458.5</b>

The Carlyle Trust Limited  
Registered number 0361131

## Financial Statements

### B Reconciliation of operating profit to operating cash flows

Reconciliation of operating profit to operating cash flows			
	Notes	Year ended 30 September	Year ended 30 September
		2022	2021
		£m	£m
<b>Cash flows from operating activities</b>			
Profit before tax		10.7	7.2
Net Income Statement losses on government bonds	12	3.5	0.7
Net Income Statement losses on debt securities	13	3.0	0.1
Net change in loans and advances to customers	14	(343.4)	370.2
Impairment provision (credit) / charge for losses on loans	15	(0.1)	0.1
Amortisation of intangible assets	16	2.0	1.8
Depreciation of plant property and equipment	17	1.1	1.0
Net change in investment property	18	14.2	76.7
Net Income Statement losses / (gains) on investments	19	3.0	(0.4)
Net change in reinsurance asset		-	0.9
Net change in other assets	21	3.1	(3.1)
Net change in inventory	22	-	7.6
Net change in deposits from banks	23	76.0	57.5
Net change in deposits from customers	24	165.4	179.4
Net change in derivatives	25	(91.1)	(67.5)
Net change in provision for long term business liabilities		-	(528.0)
Net change in lease liability	26	2.2	0.2
Net change in other liabilities	27	-	5.8
Net change in pension scheme deficit	28	(0.6)	(9.5)
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(151.0)</b>	<b>100.7</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### Notes to the Financial Statements

#### 1 Accounting policies

##### Basis of preparation

The Group's financial statements have been prepared in accordance with UK-adopted International Accounting Standards issued by the International Accounting Standards Board in conformity with the requirements of the Companies Act 2006.

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

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

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

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

- Disclosures in respect of transactions with members of a group;
- Disclosures in respect of the compensation of key management Personnel and related parties.

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

The parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own Income Statement in these financial statements. The parent Company profit for the year after taxation was £3.7m (2021: profit of £143.2m) which is dealt with in the consolidated financial statements.

##### Going concern

The financial statements have been prepared on a going concern basis. The Board has 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 higher interest rate and high inflation environment on the Group's capital and funding position. As part of this assessment the Board considered:

- The impact on Group's profits from an expected reduction in income from retail 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 high interest rate environment; and,
- The adequacy of the Group's liquidity.

The Group's forecasts and projections include scenario testing undertaken in accordance with the ICAAP and ILAAP, 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 to 31 December 2023. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

### For the year ended 30 September 2022

## 1 Accounting policies (continued)

### Climate Risk

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

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

The Group has considered a number of amendments to published International Financial Reporting Standards and interpretations effective for the year ended 30 September 2022. They are either not relevant to the Group or do not have a significant impact on the Group's financial statements.

### Standards and interpretations effective for the Group in future periods:

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

### Summary of Significant Accounting Policies

#### Measurement convention

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

#### Interest receivable and interest payable

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

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 1 Accounting policies (continued)

#### Revenue Recognition

##### *Investment income*

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

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

##### *Fees and commissions*

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

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

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.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 1 Accounting policies (continued)

#### Financial assets

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

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

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

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

#### Financial liabilities

The Group has classified its financial liabilities as follows:

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

#### 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 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 30. Levels are reviewed at each reporting date and this determines whether transfers between levels are required.

**Notes to the Financial Statements**  
For the year ended 30 September 2022**1 Accounting policies (continued)****Retirement mortgages**

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

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

**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 retirement 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 30(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.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 1 Accounting policies (continued)

#### 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 160bps for retail mortgages. The quantitative criteria for which our commercial, portfolio buy-to-let and retail mortgages are assessed are annually reviewed by our credit risk teams.
- Qualitative criteria: this includes the observation of specific events such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms.
- Backstop criteria: IFRS 9 includes a backstop that 30-days past due is an indicator of a significant increase in credit risk. The Group considers 30-days past due to be an appropriate backstop measure and does not rebut this presumption.

#### Definition of default and credit-impaired assets

The 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.

#### 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.

#### Post model adjustments

At 30 September 2022, the Group has recognised a post model adjustment in the financial statements to reflect the high inflation and higher interest rate environment. The adjustments to the retail, portfolio buy-to-let and commercial provisions reflect the lag in the current economic climate filtering through into lower credit scores / credit ratings for our customers which impact the probability of default used within the ECL provision calculations. In addition, a post model adjustment has been recognised to reflect the lag in the current economic climate filtering through to a reduction in residential property prices for the Group's Retail portfolio. Further information is provided in note 15.

#### 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.



The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 1 Accounting policies (continued)

#### Hedge accounting (continued)

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

#### Intangible assets

Where software costs are capitalised, they are amortised using the straight-line method over their estimated useful lives which is three to ten 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.

#### 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.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 1 Accounting policies (continued)

#### **Investment properties – reversionary interests in properties**

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

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

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

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

#### **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.

#### **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 based on the latest five year strategic plan.

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

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

Corporation tax is charged directly to the Income Statement.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 1 Accounting policies (continued)

#### Employee benefits

##### i) Pensions

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

##### **Defined Benefit Pension**

The Group operated a defined benefit pension scheme which is now closed to further accrual. The Company's subsidiary undertaking Julian Hodge Bank Limited is a participating employer in The Carlyle (1972) Pension and Life Assurance Scheme, a defined benefits scheme operated by The Carlyle Trust Limited. The assets of the scheme are held separately from those of the Group.

The Group's net obligation under the defined benefit pension scheme is assessed annually by an independent qualified actuary. The net obligation is calculated as the difference between the fair value of the scheme's assets and the amount of future entitlements earned by scheme members from service in the current and prior periods, discounted back to present values using a rate based on an index of long-dated AA rated corporate bonds using the projected unit method. This calculation allows the net obligation of the scheme to be expressed as either a surplus or deficit, which is recognised as either an asset or liability respectively in the Group's accounts at the Balance Sheet date.

##### **Defined Contribution Scheme**

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

##### ii) Reimbursement asset / liability on pension deficit

The Company has recognised a reimbursement asset in respect of its pension scheme deficit which relates to retired employees that were contracted to the parent Company (note 28). The movement in the reimbursement asset / liability each year is recognised in the Income Statement to the extent that the reimbursement relates to a charge or a gain in the parent Company's Income Statement. The defined benefit pension scheme liabilities are split between the parent Company and its subsidiary the Julian Hodge Bank Limited based on the split of scheme members by employer. The defined benefit pension scheme assets have been split in proportion to the scheme's liabilities at 30 September 2020. Any payments made into the scheme from this date are allocated to the assets of the employer making the payment. The reimbursement asset / liability represents the value of the parent Company's defined benefit pension scheme assets less its share of the scheme's liabilities.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

## 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 financial statements of the Group. In addition, estimates and assumptions are made that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The 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 note 25.

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 retirement mortgages. The key assumptions used, and the related sensitivities are outlined in note 30.

### Estimates and assumptions

#### **Impairment losses on loans and advances to customers**

IFRS 9 has a single impairment model that applies to all financial instruments in its scope. Under this model, an entity must recognise either a 12-month or lifetime expected credit loss. ECLs are the present value of all cash shortfalls over the expected life of the financial instrument. The key assumptions used, and the related sensitivities, are outlined in note 31.

#### **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 18.

- 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 28.

#### **Value of retirement mortgages including the value of the no-negative equity guarantee**

There is significant judgement applied in setting the assumptions used in calculating the fair value of lifetime mortgages and the liability arising from the no-negative equity guarantee. Further information on the following assumptions is provided in note 30.

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 3 Segmental information

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

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

Year ended 30 September 2022	Hodge Bank	Other Investments	Consolidation Adjustments & Reclassification	Total
	£m	£m	£m	£m
Interest receivable and similar income	50.5	0.5	-	51.0
Interest payable and similar charges	(21.1)	(0.6)	-	(21.7)
Fees and commissions receivable	2.6	-	-	2.6
Fees and commissions payable	(0.1)	(0.2)	-	(0.3)
Dividend income receivable	-	7.1	(7.1)	-
Investment income	6.7	0.4	0.1	7.2
Other operating income	-	1.3	-	1.3
Profit on sale of inventory	-	0.1	-	0.1
Administrative expenses	(34.2)	(0.7)	0.2	(34.7)
Depreciation and amortisation	(2.5)	(0.6)	-	(3.1)
Impairment gains/(losses) on loans and advances to customers	-	-	-	-
Bad debt recovery	0.4	-	-	0.4
Impairment losses relating to investments in subsidiaries	-	(0.6)	0.6	-
<b>Operating profit/(loss)</b>	<b>2.3</b>	<b>6.7</b>	<b>(6.2)</b>	<b>2.8</b>

Total assets by business segments	2022	2021
	£m	£m
Hodge Bank	1,860.8	1,713.4
Other investments	423.4	177.1
Consolidation adjustments and reclassification	(297.1)	(132.7)
	<b>1,987.1</b>	<b>1,757.8</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 3 Segmental information (continued)

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

### 4 Interest receivable and similar income

	Year ended 30 September	Year ended 30 September
	2022	2021
	£m	£m
Loans and advances to customers	47.4	39.1
Loans and advances to credit institutions	1.6	0.3
On other loans	-	0.1
Interest and other income on government bonds and debt securities	2.0	0.5
	<b>51.0</b>	<b>40.0</b>

### 5 Interest payable and similar charges

	Year ended 30 September	Year ended 30 September
	2022	2021
	£m	£m
On customer accounts	16.7	13.9
On defined benefit pension scheme	0.3	0.3
On term funding scheme	1.9	0.1
On derivative financial instruments	2.6	8.0
Lease interest expense	0.2	0.2
	<b>21.7</b>	<b>22.5</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 6 Administrative expenses

	Year ended 30 September	Year ended 30 September
	2022	2021
	£m	£m
<b>Staff costs</b>		
Wages and salaries	17.7	14.5
Social security	2.0	1.4
Pension costs – defined benefit scheme (note 28)	-	1.4
Pension costs – defined contribution scheme	1.8	0.8
Curtailment gain (note 28)	-	(0.7)
	<b>21.5</b>	<b>17.4</b>
Other administrative expenses	13.2	10.0
	<b>34.7</b>	<b>27.4</b>

#### Directors and employees

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

	2022	2021
Provision of finance and banking	354	321
	<b>354</b>	<b>321</b>

Staff costs include remuneration in respect of Directors as follows:

	Year ended 30 September	Year ended 30 September
	2022	2021
	£m	£m
Fees	0.4	0.5
Aggregate emoluments as executives	1.0	0.9
	<b>1.4</b>	<b>1.4</b>

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

	Year ended 30 September	Year ended 30 September
	2022	2021
	£'000	£'000
Aggregate emoluments	418	240
	<b>418</b>	<b>240</b>

The pension accrued for the highest paid director was £2,609 (2021: £23,072).

No director accrued benefits in the defined benefit pension scheme in 2022 (2021: two).

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 7 Other fair value gains / (losses)

	Year ended 30 September	Year ended 30 September
	2022	2021
	£m	£m
Movement in fair value of derivatives (note 25)	20.4	22.4
Movement in fair value of equity release and retirement mortgages	(1.1)	(11.5)
Reversal of unrealised gains on disposal of investment properties	(7.0)	(6.1)
Movement in fair value of investment properties (note 18)	(3.9)	6.2
Movement in fair value of equity investments (note 19)	(3.0)	0.4
Movement in fair value of derivatives held within an effective macro hedge relationship	61.1	1.3
Movement in fair value of hedged items attributable to hedged risk	(58.6)	(1.0)
	<b>7.9</b>	<b>11.7</b>

### 8 Profit on ordinary activities before taxation

	Year ended 30 September	Year ended 30 September
	2022	2021
	£000	£000

**Profit on ordinary activities before taxation is stated after charging:**

Remuneration of the auditor and its associates

Audit of these financial statements	28	25
Audit of discontinued operations	-	30
Audit of financial statements of subsidiaries- current year	406	298
Audit of financial statements of subsidiaries- prior year	30	-
Audit of pension scheme	15	11
Other assurance fees	30	-
Rental income from operating leases	921	718
Impairment provision (credit) / expense	(100)	7
Amortisation (note 16)	2,010	1,855
Depreciation (note 17)	1,100	940



The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 9 Tax charge/(credit) on profit

	Year ended 30 September		Year ended 30 September	
	2022		2021	
	£m	£m	£m	£m
<b>Analysis of charge in year</b>				
<b>UK corporation tax</b>				
Current tax on income for the year	0.6		-	
Prior period adjustment	(0.2)		-	
<b>Total current tax</b>		<b>0.4</b>		<b>-</b>
<b>Deferred tax (note 20)</b>				
Original reversal/timing difference				
Current year	2.9		1.5	
Prior period adjustment	0.1		(0.3)	
Effect of tax rate change on opening balance	-		(3.0)	
<b>Total deferred tax</b>		<b>3.0</b>		<b>(1.8)</b>
<b>Tax charge/(credit) on profit on ordinary activities</b>		<b>3.4</b>		<b>(1.8)</b>

The total tax charge for the year is higher (2021: lower) than the blended rate of corporation tax in the UK. The differences are explained below.

	Year ended 30 September		Year ended 30 September	
	2022		2021	
	£m	£m	£m	£m
<b>Total tax reconciliation</b>				
Profit on ordinary activities before tax	10.7		7.2	
<b>Current tax at 19.00% (2021: 19.00%)</b>	<b>2.0</b>		<b>1.4</b>	
Expenses not deductible	0.9		0.5	
Rate differences	-		(3.0)	
Effect of deferred tax unwinding at current tax rate	0.6		-	
Adjustments in respect of previous years	(0.1)		(0.3)	
Relief for pension contribution	-		(0.4)	
<b>Total tax charge/(credit) (see above)</b>	<b>3.4</b>		<b>(1.8)</b>	

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 9 Tax charge/(credit) on profit (continued)

	Year ended 30 September	Year ended 30 September
	2022	2021
	£m	£m
<b>Tax relating to other comprehensive income</b>		
Temporary difference in relation to the defined benefit pension scheme	2.2	0.6
<b>Tax charge relating to other comprehensive income</b>	<b>2.2</b>	<b>0.6</b>

### 10 Cash and balances held at central banks

	2022	2021
	£m	£m
Repayable on demand:		
Deposits with central banks	118.1	412.2
	<b>118.1</b>	<b>412.2</b>

### 11 Loans and advances to credit institutions

Group	2022	2021
	£m	£m
Repayable on demand	0.9	23.8
Collateral held by swap counterparties	-	22.5
	<b>0.9</b>	<b>46.3</b>

The collateral is pledged against the market value of derivative instruments and comprises interest-bearing cash deposits (note 25). 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 (2021: £nil).

Company	2022	2021
	£m	£m
Repayable on demand	10.7	129.1
	<b>10.7</b>	<b>129.1</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 12 Government bonds

	2022	2021
	£m	£m
Government bonds – at amortised cost	129.5	29.8
Fair value adjustment for hedged risk	(3.3)	-
	126.2	29.8

The movement in government bonds is summarised as follows:

	2022	2021
	£m	£m
At start of year	29.8	77.9
Additions	133.9	-
Redemptions and interest received	(34.0)	(18.1)
Disposals due to sale of Hodge Life	-	(29.3)
Losses from hedge accounting – Income Statement	(3.3)	-
Premium unwind	(0.2)	(0.7)
At 30 September	126.2	29.8

Company	2022	2021
	£m	£m
Government bonds – at amortised cost	15.0	-
	15.0	-

### 13 Debt securities

Group	2022	2021
	£m	£m
Debt securities – at amortised cost	119.8	42.3
Fair value adjustment for hedged risk	(3.6)	-
	116.2	42.3

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 13 Debt securities (continued)

The movement in debt securities is summarised as follows:

Group	2022	2021
	£m	£m
At start of year	42.3	124.8
Additions	83.5	-
Redemptions and interest received	(6.6)	(8.3)
Disposals due to sale of subsidiary	-	(74.1)
Losses from hedge accounting - Income Statement	(3.6)	(0.1)
Discount unwind	0.6	-
	<b>116.2</b>	<b>42.3</b>

### 14 Loans and advances to customers

	2022	2021
	£m	£m
<i>Loans and advances – classified at amortised cost</i>		
Commercial	182.2	233.9
Retail	1,140.0	679.0
Portfolio Buy-to-Let	76.5	70.5
	<b>1,398.7</b>	<b>983.4</b>
Fair value adjustment for hedged risk	(52.7)	(1.0)
Loans and advances (retirement mortgages) – classified as FVTPL (note 30)	58.6	78.7
	<b>1,404.6</b>	<b>1,061.1</b>

Of this amount at 30<sup>th</sup> September 2022, £334.4m (2021: £190.4m) has been pledged as collateral under the TFSME. Collateral that has been pledged is restricted.

	2022	2021
	£m	£m
Loans and advances to customers held at amortised cost		
Gross balances	1,403.6	989.9
Less: Provision for impairment	(8.6)	(8.4)
Plus: Net loan fee deferral	3.7	1.9
<b>Net balance</b>	<b>1,398.7</b>	<b>983.4</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 15 Impairment provisions on loans and advances to customers

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

During the year, the Group has recovered £0.4m (2021: £0.3m) on a bad debt previously written off.

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
<b>2021</b>				
At start of period	1.5	1.7	6.7	9.9
Utilised in the period	-	-	(2.1)	(2.1)
<b>Income Statement</b>				
Impairment (gains)/losses	(0.2)	0.3	0.3	0.4
Interest reduction for credit-impaired financial assets	-	-	0.2	0.2
<b>At 30 September 2021</b>	<b>1.3</b>	<b>2.0</b>	<b>5.1</b>	<b>8.4</b>

The impact of modifications to contractual cash flows that has not resulted in derecognition is immaterial in 2022. The methodology and assumptions used to calculate the IFRS 9 ECL provision is disclosed in note 31.

#### Post model adjustments

At 30 September 2022, the Group has recognised a post model adjustment in the financial statements to reflect the high inflation and higher interest rate environment. The adjustments to the retail, portfolio buy-to-let and commercial provisions reflect the lag in the current economic climate filtering through into lower credit scores / credit ratings for our customers which impact the probability of default used within the ECL provision calculations. In addition, a post model adjustment has been recognised to reflect the lag in the current economic climate filtering through to a reduction in residential property prices for the Group's retail portfolio. The anticipated fall in commercial and residential property prices for commercial and portfolio buy-to-let has been reflected within the underlying ECL models for these portfolios.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 15 Impairment provisions on loans and advances to customers (continued)

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

Post Model Adjustments	2022	2021
	£m	£m
Retail – inflation and higher interest rates	0.1	-
Retail – 10% reduction in residential property prices	0.1	-
Portfolio Buy-to-Let – inflation and higher interest rates	0.2	-
Commercial – inflation and higher interest rates	0.4	-
	<b>0.8</b>	<b>-</b>

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

### 16 Intangible assets

	Computer software	
	2022	2021
	£m	£m
<b>Cost:</b>		
At start of period	12.0	10.1
Additions	4.3	1.9
<b>At 30 September</b>	<b>16.3</b>	<b>12.0</b>
<b>Amortisation:</b>		
At start of period	(4.6)	(2.8)
Amortisation	(2.0)	(1.8)
<b>At 30 September</b>	<b>(6.6)</b>	<b>(4.6)</b>
<b>Net book value:</b>		
<b>At 30 September</b>	<b>9.7</b>	<b>7.4</b>

£1.1m (2021: £1.5m) of expenditure relating to intangible projects was expensed during the year as it did not meet the development criteria of IAS 38 and has therefore been expensed as incurred.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 17 Property, plant and equipment

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

#### Cost:

At start of period	4.9	2.9	7.8
Additions	2.0	0.4	2.4
<b>At 30 September 2022</b>	<b>6.9</b>	<b>3.3</b>	<b>10.2</b>

#### Depreciation:

At start of period	(0.9)	(1.3)	(2.2)
Depreciation	(0.6)	(0.5)	(1.1)
<b>At 30 September 2022</b>	<b>(1.5)</b>	<b>(1.8)</b>	<b>(3.3)</b>

#### Net book value:

<b>At 30 September 2022</b>	<b>5.4</b>	<b>1.5</b>	<b>6.9</b>
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At 30 September 2021 4.0 1.6 5.6

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.

### 18 Investment properties

Group	Freehold	Reversionary Interest	Total
	£m	£m	£m
At start of year	8.6	94.6	103.2
Additions	-	-	-
Disposals	-	(10.3)	(10.3)
Fair value adjustments	(0.9)	(3.0)	(3.9)
<b>At 30 September 2022</b>	<b>7.7</b>	<b>81.3</b>	<b>89.0</b>

The historical cost of the reversionary interests in properties is £30.4m at 30 September 2022 (2020: £38.1m).

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

Group	2022	2021
	£m	£m
Rental income from investment properties	0.8	0.7
	<b>0.8</b>	<b>0.7</b>

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.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

### For the year ended 30 September 2022

## 18 Investment properties (continued)

### Reversionary interests - principal assumptions

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

### Mortality or entry into long term care

This is based on the expected death or entry into long term care of the tenant or the last remaining tenant in relation to a joint contract. Mortality assumptions have been derived by reference to the PCMA00/PCFA00 mortality tables and include an allowance for mortality improvements. This table is adjusted from 1 January 2000 to 1 January 2019 for mortality improvements based on the CMI 2017 mortality projection model. The table is adjusted for mortality improvements after this date using the CMI 2018 model. Finally, the mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor. Given that CMI 2018, 2019, 2020 and 2021 produce similar life expectancies, the mortality improvement assumptions for the 2022-year end are unchanged.

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

### Expenses

Assumptions for future policy expense levels are based on the Group's recent expense analysis. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate allowance of 4.85% at 30 September 2022 (2021: 4.59%). This rate is equal to the market implied rate of RPI inflation (appropriate for the average duration of the reversion portfolio) plus an allowance for expenses increasing faster than the market expectation of prices.

### Discount rate

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

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

The average discount rate for the portfolio (assumed to be the 5-year point (2021: 8 year point) on the yield curve based on the expected average duration) at 30 September 2022 was 7.2% (2021: 3.03%), including an illiquidity spread of 2.17% (2021: 2.17%).

### Property prices

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



The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 18 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%	Interest rate +1%
	£m	£m	£m	£m	£m
<b>At 30 September 2022</b>	<b>(0.6)</b>	<b>(1.8)</b>	<b>(0.4)</b>	<b>(6.8)</b>	<b>(3.5)</b>
At 30 September 2021	(0.9)	(1.5)	(0.4)	(8.6)	(5.3)

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.

### 19 Investments

Group and the Company	2022	2021
	£m	£m
Equity investments	22.7	23.8
<b>At 30 September</b>	<b>22.7</b>	<b>23.8</b>

Group and the Company	2022	2021
	£m	£m
At start of period	23.8	6.4
Additions	5.3	18.8
Disposals	(3.4)	(1.8)
Fair Value Adjustments	(3.0)	0.4
<b>At 30 September</b>	<b>22.7</b>	<b>23.8</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 20 Deferred tax

Group	2022	2021
	£m	£m
At start of year	11.4	6.8
Discontinued operations	-	3.4
<b>Adjusted opening balance</b>	<b>11.4</b>	<b>10.2</b>
(Charge)/Credit to the Income Statement – current period	(2.9)	1.5
(Charge)/Credit to the Income Statement – prior period	(0.1)	0.3
Charge to the Statement of Other Comprehensive Income	(2.2)	(0.6)
	<b>6.2</b>	<b>11.4</b>

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

Group	2022	2021
	£m	£m
Accelerated capital allowances	(0.4)	(0.5)
Other timing differences	3.5	4.4
Defined benefit pension scheme	1.2	3.6
Tax losses	1.9	3.9
<b>Deferred tax asset</b>	<b>6.2</b>	<b>11.4</b>

Company	2022	2021
	£m	£m
At start of year	(0.2)	0.5
Credit/(Charge) to the Income Statement	0.1	(0.1)
Credit to the Statement of Other Comprehensive Income	-	(0.6)
<b>Deferred tax liability</b>	<b>(0.1)</b>	<b>(0.2)</b>

### 21 Other assets

Group	2021	2020
	£m	£m
<b>Due within one year</b>		
Prepayments and accrued income	3.5	3.0
Corporation tax debtor	0.1	0.8
Other assets	4.1	4.5
Deferred consideration	1.2	-
<b>Due greater than one year</b>		
Deferred consideration	1.8	6.3
	<b>10.7</b>	<b>14.6</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 21 Other assets (continued)

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 7-month period remaining to the 30<sup>th</sup> of April 2023.

The Group entered into a further agreement with a third-party in the year ended 30 September 2021 to dispose of land for a minimum consideration of £2.2m. This contract contains a significant financing arrangement where the deferred consideration is to be received over the 52-month period remaining to January 2027.

The initial revenue was calculated by discounting the minimum consideration using the prevailing interest rate in the market at the time of entering the agreement. The finance income component will be unwound over the remaining 7 and 52 months and recognised separately from the contract revenue in the Income Statement as interest receivable and similar income.

Company	2022	2021
	£m	£m
Amounts due from group undertakings	0.1	0.7
Group relief	0.2	0.4
Other debtors	0.3	0.1
	<b>0.6</b>	<b>1.2</b>

### 22 Inventory

	2022	2021
	£m	£m
At start of period	0.1	7.7
Disposals	-	(7.6)
	<b>0.1</b>	<b>0.1</b>

### 23 Deposits from banks

	2022	2021
	£m	£m
Collateral held on behalf of swap counterparties	16.0	-
Term funding scheme	205.0	145.0
	<b>221.0</b>	<b>145.0</b>

### 24 Deposits from customers

	2022	2021
	£m	£m
Deposits from customers	1,410.5	1,243.1
Amounts owed to a shareholder of the Company	3.4	5.3
Fair value adjustment for hedged risk	(0.2)	(0.1)
	<b>1,413.7</b>	<b>1,248.3</b>

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 25 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
	2022	2022
	£m	£m

#### Derivative assets:

Interest rate swaps	123.2	11.1
Derivatives held in fair value hedges	507.1	64.7
<b>Total recognised derivative assets</b>	<b>630.3</b>	<b>75.8</b>

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

#### Derivative liabilities:

Interest rate swaps	161.2	(16.4)
Derivatives held in fair value hedges	164.0	1.1
<b>Total recognised derivative liabilities</b>	<b>325.2</b>	<b>(15.3)</b>

At 30 September 2022, the fixed interest rates vary from 0.0% to 4.0% (2021: 0.0% to 4.9%) and the main floating rates are SONIA (2021: LIBOR). Gains and losses recognised on interest rate swap contracts are credited/(charged) to the Income Statement.

#### Hedge Accounting

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

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

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

Balance Sheet Item	2022			2021		
	Book Value £m	Hedged Items £m	Hedged Fair Value £m	Book Value £m	Hedged Items £m	Hedged Fair Value £m
<b>Hedged Assets</b>						
Government bonds	126.2	32.4	(5.3)	29.8	-	-
Debt securities	116.2	29.9	(3.7)	42.3	3.5	-
Loans advances to customers	1,404.6	439.6	(52.9)	1,061.1	78.1	(1.0)
<b>Hedged Liabilities</b>						
Customer deposits	-	-	-	(1,248.3)	(69.3)	0.2
	<b>1,647.0</b>	<b>501.9</b>	<b>(61.9)</b>	<b>(115.1)</b>	<b>12.3</b>	<b>(0.8)</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 25 Derivative financial instruments and hedge accounting (continued)

At 30 September 2022, the hedge ineffectiveness on the hedged asset portfolio amounted to £2.7m (2021: £0.2m). A hedge ineffectiveness gain of £2.5m has been recognised within the Income Statement in the year ended 30 September 2022 (2021: £nil).

The immaterial hedge liability portfolio was ineffective at 30 September 2022 and therefore the hedge accounting for this portfolio has been discontinued from the date that the portfolio was last effective. The hedge ineffectiveness on the hedged liability portfolio at 30 September 2021 amounted to £0.1m. The cumulative unamortised fair value adjustment for hedges that have been discontinued at 30 September 2022 amounts to £0.2m (2021: £nil).

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

#### Fair Value

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

	2022	2021
	£m	£m
Movement in fair value of interest rate swaps	20.4	22.4
	20.4	22.4

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

#### Offsetting

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

	Amounts subject to netting arrangements		
	Gross amounts	Amounts offset	Net amounts reported on Balance Sheet
	£m	£m	£m
<b>2022</b>			
Derivative financial assets	76.1	(0.3)	75.8
<b>Impact on total assets</b>	<b>76.1</b>	<b>(0.3)</b>	<b>75.8</b>
Derivative financial (liabilities)	(0.3)	0.3	-
<b>Impact on total (liabilities)</b>	<b>(0.3)</b>	<b>0.3</b>	<b>-</b>
<b>2021</b>			
Derivative financial assets	2.3	(2.3)	-
<b>Impact on total assets</b>	<b>2.3</b>	<b>(2.3)</b>	<b>-</b>
Derivative financial (liabilities)	(17.6)	2.3	(15.3)
<b>Impact on total (liabilities)</b>	<b>(17.6)</b>	<b>2.3</b>	<b>(15.3)</b>

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 11).

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 26 Leases

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

The carrying amount of the right-of-use assets and the movements during the year are set out in note 17.

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

Group & Company	2022	2021
	£m	£m
At start of year	4.2	4.5
Additions	2.0	-
Interest expense	0.2	0.2
Payments	(0.6)	(0.5)
<b>At 30 September 2022</b>	<b>5.8</b>	<b>4.2</b>

The maturity analysis of lease liabilities is presented note 30 (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	2022 Total
	£m	£m	£m
Depreciation expense of right-of-use assets	0.6	-	0.6
Interest expense on lease liabilities	-	0.2	0.2
Rental expense on low value assets	-	-	-
	<b>0.6</b>	<b>0.2</b>	<b>0.8</b>

In the year ended 30 September 2022, cash outflows for leases included in the Statement of Cash Flows were £0.6m (2021:£0.5m). This comprised £0.2m (2021: £0.2m) for payment of the interest portion of the lease liability and £0.4m (2021:£0.3m) for payment of the principal portion of the lease liability.

As 30 September 2022, the Group is not committed to any new lease contracts that have not yet commenced.

### 27 Other liabilities

Group	2022	2021
	£m	£m
<b>Due within one year:</b>		
Amounts owed in relation to mortgages administered for third parties	4.9	6.1
Other creditors	0.5	0.7
Corporation tax liability	0.5	-
Other taxation and social security	0.5	0.5
Accruals	4.8	3.4
	<b>11.2</b>	<b>10.7</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 27 Other liabilities (continued)

Company	2022	2021
	£m	£m
<b>Due within one year:</b>		
Amounts due to group undertakings	-	0.4
Other creditors	-	0.1
	-	0.5

### 28 Pension scheme

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

The assets of the scheme are administered by the Trustees and are held in a fund that is separate and independent of other group funds. The scheme was established with effect from 1972 and is fully approved under Chapter I Part XIV of the Income and Corporation Taxes Act 1988.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities. This would detrimentally impact the Balance Sheet and may give rise to increased charges in future periods. The Group has not changed its processes used to manage its risks from previous periods.

The weighted average duration of the defined pension obligation is 23 years (2021: 24 years).

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

The calculations are based upon an assessment of the scheme's liabilities at 30 September 2022. 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 is being carried out at 1 April 2022.

The Group's total expense for the year amounted to £0.4m (2021: £1.0m). The Company, reimbursed JHB £nil (2021: £nil) for their share of the employer contribution expense. The Group has agreed that it will aim to eliminate the pension scheme deficit over the next 6 years and additional contributions of £1.2m (2021: £1.6m) were paid into the scheme in the year ended 30 September 2022.

The IAS 19 valuation as at 30 September 2022 has been produced by a qualified independent actuary and is based on the results of the valuation as at 1 April 2019.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 28 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:

	2022	2021
	£m	£m
Fair value of plan assets	25.5	37.9
Present value of defined benefit obligations	(30.0)	(52.1)
<b>Deficit</b>	<b>(4.5)</b>	<b>(14.2)</b>

#### Movements in fair value of plan assets

	2022	2021
	£m	£m
Market value of assets at the beginning of the year	37.9	30.3
Interest income	0.8	0.5
Actuarial (loss)/gain	(12.9)	2.7
Member contributions	-	0.3
Employer contributions	1.2	5.2
Benefits paid	(1.5)	(1.1)
<b>Market value of assets at the end of the year</b>	<b>25.5</b>	<b>37.9</b>

#### Movements in present value of defined benefit obligations

	2022	2021
	£m	£m
Present value of scheme liabilities at the beginning of the year	52.1	51.3
Interest cost	1.1	0.8
Current service cost	-	1.4
Member contributions	-	0.3
<b>Actuarial (gain)/ loss on defined benefit obligation of which:</b>		
due to experience	1.5	(0.3)
due to financial assumptions	(23.2)	0.4
Benefits paid	(1.5)	(1.1)
Curtailments	-	(0.7)
<b>Present value of scheme liabilities at end of the year</b>	<b>30.0</b>	<b>52.1</b>



The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 28 Pension scheme (continued)

#### Expense recognised in the Income Statement

	2022	2021
	£m	£m
Current service cost – staff costs	-	1.4
Net interest expense – other finance costs	0.3	0.3
Curtailment gain	-	(0.7)
Other admin costs	0.1	0.1
	<b>0.4</b>	<b>1.1</b>

The total amount recognised in the Statement of Other Comprehensive Income in respect of actuarial gains and losses is a gain of £9.0m (2021: gain of £2.6m) before tax.

Cumulative losses reported in the Statement of Other Comprehensive Income since the date of transition to FRS 101 are losses of £3.1m (2021: losses of £10.7m) after deferred tax.

A curtailment gain of £nil (2021: £0.7m) was recognised in the Income Statement as a result of the closure in April 2021 of the defined benefit scheme to further accrual.

#### Plan assets

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

	Fair Value	
	2022	2021
	£m	£m
Quoted equity investments	4.6	7.2
Diversified growth funds	6.1	7.6
Private investments	4.6	5.7
Bonds	3.8	7.6
LDI	6.1	8.7
Cash	0.3	1.1
<b>Total market value of assets</b>	<b>25.5</b>	<b>37.9</b>

The actual return on assets was a loss of £12.1m (2021: gain £3.2m).

#### Future contributions

The Group expects to contribute approximately £1.6m to its defined benefit plan in the next financial year.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 28 Pension scheme (continued)

#### Major assumptions

The major assumptions underpinning the defined benefit obligation are:

	2022	2021
	%	%
Rate of increase for pensions in payment – RPI capped at 5.0% per annum	3.8	3.4
Discount rate applied to scheme liabilities	5.1	2.1
RPI inflation assumption	4.0	3.5

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:

	2022	2021
Current pensioners age 65 – male	86.8	86.8
Current pensioners age 65 – female	89.2	89.1
Future pensioners age 65 (current age 45) – males	87.8	87.8
Future pensioners age 65 (current age 45) – females	90.3	90.3

#### Sensitivities

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

Impact on present value of obligation:	Change in assumption	Change in deficit £m
Discount rate	0.1%	0.6
Rate of inflation (RPI or CPI)	0.1%	0.3
Life expectancy	1 year	0.7

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 28 Pension scheme (continued)

#### History of the scheme Balance Sheet position

	2022	2021	2020	2019	2018
	£m	£m	£m	£m	£m
Fair value of plan assets	25.5	37.9	30.3	27.3	24.2
Present value of funded defined benefit obligations	(30.0)	(52.1)	(51.3)	(43.9)	(37.0)
<b>Deficit</b>	<b>(4.5)</b>	<b>(14.2)</b>	<b>(21.0)</b>	<b>(16.6)</b>	<b>(12.8)</b>

#### History of experience gains and losses

	2022	2021	2020	2019	2018
<b>Difference between the expected and actual return on scheme assets:</b>					
Amount	<b>£(12.9)m</b>	£2.7m	£(0.4)m	£0.6m	£(1.4)m
Percentage of year-end scheme assets	<b>(50.6)%</b>	7.1%	(1.3)%	2.2%	(5.6)%
<b>Experience gains and losses on scheme liabilities:</b>					
Amount	<b>£1.5m</b>	£(0.3)m	£0.0	£(1.9)m	£0.0m
Percentage of year-end present value of scheme liabilities	<b>5.0%</b>	(0.6)%	0.0%	(4.4)%	0.0%
<b>Total amount recognised in statement of comprehensive income:</b>					
Gain /(loss) before tax	<b>£9.0m</b>	£2.6m	£(4.4)m	£(3.3)m	£0.6m
Percentage of year-end present value of scheme liabilities	<b>30.0%</b>	5.0%	(8.5)%	(7.5)%	1.6%

### 29 Called up share capital

	2022	2021
	£m	£m
<b>Authorised, allotted, called-up and fully paid:</b>		
1,100,000 (2021: 1,100,000) ordinary shares of £1 each	1.1	1.1
	<b>1.1</b>	<b>1.1</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 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.

At 30 September 2022	At amortised cost	Fair value through profit and loss	Total
	£m	£m	£m
<b>Assets</b>			
Cash and balances held at central banks	118.1	-	118.1
Loans and advances to credit institutions	0.9	-	0.9
Derivative financial instruments	-	75.8	75.8
Government bonds	126.2	-	126.2
Debt securities	116.2	-	116.2
Loans and advances to customers	1,346.0	58.6	1,404.6
Investments	-	22.7	22.7
Other assets	10.7	-	10.7
<b>Total financial assets</b>	<b>1,718.1</b>	<b>157.1</b>	<b>1,875.2</b>
Total non-financial assets	22.9	89.0	111.9
<b>Total assets</b>	<b>1,714.0</b>	<b>246.1</b>	<b>1,987.1</b>
<b>Liabilities</b>			
Deposits from banks	221.0	-	221.0
Deposits from customers	1,413.7	-	1,413.7
Lease liabilities	5.8	-	5.8
Other liabilities	11.2	-	11.2
<b>Total financial liabilities</b>	<b>1,651.7</b>	<b>-</b>	<b>1,651.7</b>
Total non-financial liabilities	4.5	-	4.5
Share capital and other reserves	330.9	-	330.9
<b>Total equity and liabilities</b>	<b>1,987.1</b>	<b>-</b>	<b>1,987.1</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 Financial instruments (continued)

#### a) Categories of financial assets and liabilities (continued)

At 30 September 2021	At amortised cost	Fair value through profit and loss	Total
	£m	£m	£m
<b>Assets</b>			
Cash and balances held at central banks	412.2	-	412.2
Loans and advances to credit institutions	46.3	-	46.3
Government bonds	29.8	-	29.8
Debt securities	42.3	-	42.3
Loans and advances to customers	982.4	78.7	1,061.1
Investments	-	23.8	23.8
Other assets	14.6	-	14.6
<b>Total financial assets</b>	<b>1,527.6</b>	<b>102.5</b>	<b>1630.1</b>
Total non-financial assets	24.5	103.2	127.7
<b>Total assets</b>	<b>1,552.1</b>	<b>205.7</b>	<b>1757.8</b>
<b>Liabilities</b>			
Deposits from banks	145.0	-	145.0
Deposits from customers	1,248.3	-	1,248.3
Derivative financial instruments	-	15.3	15.3
Lease liabilities	4.2	-	4.2
Other liabilities	10.7	-	10.7
<b>Total financial liabilities</b>	<b>1,408.2</b>	<b>15.3</b>	<b>1,423.5</b>
Total non-financial liabilities	14.2	-	14.2
Share capital and other reserves	320.1	-	320.1
<b>Total equity and liabilities</b>	<b>1,742.5</b>	<b>15.3</b>	<b>1,757.8</b>

#### 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.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 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:

At 30 September 2022	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Financial assets at fair value through profit or loss</b>				
Loans and advances to customers	-	-	58.6	58.6
Investments	20.3	-	2.4	22.7
Derivative financial instruments		75.8		75.8
<b>Total financial assets at FVTPL</b>	<b>20.3</b>	<b>75.8</b>	<b>61.0</b>	<b>157.1</b>
At 30 September 2021	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Financial assets at fair value through profit or loss</b>				
Loans and advances to customers	-	-	78.7	78.7
Investments	22.6	-	1.2	23.8
<b>Total financial assets at FVTPL</b>	<b>22.6</b>	<b>-</b>	<b>79.9</b>	<b>102.5</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial instruments	-	15.3	-	15.3
<b>Total financial liabilities at FVTPL</b>	<b>-</b>	<b>15.3</b>	<b>-</b>	<b>15.3</b>

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

##### 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.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 Financial instruments (continued)

#### d) Level 3 assets and liabilities measured at fair value

##### Investments

The primary method for valuing unlisted equity investments is the price of a recent investment approach, which can be either the price of a recent funding round or cost in the case of a new direct investment. The Group also measure certain unlisted equity investments using the multiples-based approach, based on a multiple of revenue. The appropriate multiple of revenue is derived by reference to recent market investments for comparable third-party entities that have similar revenue streams.

##### Loans and advances to customers –retirement mortgages:

Loans and advances to customers include £58.6m (2021: £78.7m) of assets which have been classed as FVTPL as they relate to retirement mortgages.

	Fair Value		Book Value	
	2022	2021	2022	2021
	£m	£m	£m	£m
Loans and advances (retirement mortgages) – classified as FVTPL	58.6	78.7	58.9	77.7
	58.6	78.7	58.9	77.7

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

	2022	2021
	£m	£m
At start of period	78.7	729.7
Disposal of subsidiary	-	(503.0)
Disposal of equity release portfolio to a third party	-	(112.0)
Loss on disposal	-	(5.5)
Fair value losses in the Income Statement	(1.2)	(3.9)
Loans advanced	0.2	0.6
Transfer to amortised cost	(1.2)	-
Redemptions	(17.9)	(27.2)
<b>At end of period</b>	<b>58.6</b>	<b>78.7</b>

The 9-year point on the risk-free yield curve plus illiquidity spread used for discounting the future retirement mortgage cash flows has increased from 0.89% plus a 2.44% illiquidity spread in 2021 to 4.43% plus a 2.44% illiquidity spread in 2022. The 9-year point reflects the current duration of the retirement mortgage portfolio.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 Financial instruments (continued)

#### **Retirement mortgages - principal assumptions**

Principal assumptions in the calculation of retirement mortgages include:

##### **Mortality or entry into long term care**

This is based on the expected death or entry into long term care of the tenant or the last remaining tenant in relation to a joint contract. Mortality assumptions have been derived by reference to the PCMA00/PCFA00 mortality tables and include an allowance for mortality improvements. This table is adjusted from 1 January 2000 to 1 January 2019 for mortality improvements based on the CMI 2017 mortality projection model. The table is adjusted for mortality improvements after this date using the CMI\_2018 model. Finally, the mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor. Given that CMI 2018, 2019, 2020 and 2021 produce similar life expectancies, the mortality improvement assumptions for the 2022-year end are unchanged.

##### **Lapses**

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

##### **Expenses**

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

##### **Interest rate**

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

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

The average discount rate for the portfolio (assumed to be the 9-year point (2021:15-year point) on the yield curve based on the average duration of our business) at 30 September 2022 was 6.87% (2021: 3.33%) - including an illiquidity spread of 2.44% (2021: 2.44%).

##### **No-negative equity guarantee**

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

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

The property growth (net of underperformance) and volatility assumed at 30 September 2022 is 3.57% (2021: 3.71%) and 15.0% (2021: 15.0%) respectively. The value of the no-negative equity guarantee at 30 September 2022 is £0.1m (2021:£0.1m).



The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 Financial instruments (continued)

#### Sensitivity analysis

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

	Interest rates +100 BP	Maintenance expenses +10%	Property inflation -100bps	Property prices -10%	Lapses +10%	Increase in mortality by 10%
	£m	£m	£m	£m	£m	£m
<b>30 September 2022</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>
30 September 2021	(0.5)	(0.4)	(0.1)	(0.1)	-	-

The sensitivity factors are applied via actuarial models. The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts cannot be interpolated or extrapolated from these results. These sensitivities are chosen as they are all key components of the fair value calculation. The sensitivity factors take into consideration that the 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.

At 30 September 2022	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
<b>Assets</b>						
Cash and balances held at central banks	118.1	-	-	-	-	118.1
Loans and advances to credit institutions	0.9	-	-	-	-	0.9
Derivative financial instruments	(0.2)	-	-	61.9	14.1	75.8
Government bonds	39.2	14.5	44.1	-	28.4	126.2
Debt securities	3.2	4.9	26.6	80.6	0.9	116.2
Loans and advances to customers	12.4	19.9	5.0	164.2	1,203.1	1,404.6
Investments	22.7	-	-	-	-	22.7
Other assets	10.7	-	-	-	-	10.7
<b>Total financial assets</b>	<b>207.0</b>	<b>39.3</b>	<b>75.7</b>	<b>306.7</b>	<b>1,246.5</b>	<b>1,875.2</b>
<b>Liabilities</b>						
Deposit from banks	16.0	-	-	205.0	-	221.0
Deposit from customers	248.2	121.8	375.3	668.3	0.1	1,413.7
Lease liabilities	0.1	0.1	0.2	2.4	3.0	5.8
Other liabilities	11.2	-	-	-	-	11.2
<b>Total financial liabilities</b>	<b>275.5</b>	<b>121.9</b>	<b>375.5</b>	<b>875.7</b>	<b>3.1</b>	<b>1,651.7</b>
<b>Loan commitments</b>	<b>70.2</b>	<b>0.4</b>	<b>3.0</b>	<b>12.6</b>	<b>-</b>	<b>86.2</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 Financial instruments (continued)

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

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 30 Financial instruments (continued)

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

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the period to maturity at the Balance Sheet date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cashflows.

At 30 September 2022	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
<b>Financial liabilities</b>							
Deposit from banks	221.0	16.0	-	-	218.3	-	234.3
Deposit from customers	1,413.7	248.3	122.3	379.7	686.9	0.1	1,437.3
Lease liabilities	5.8	0.2	0.2	0.3	3.2	3.2	7.1
Other liabilities	11.2	11.2	-	-	-	-	11.2
<b>Total financial liabilities</b>	<b>1,651.7</b>	<b>275.7</b>	<b>122.5</b>	<b>380.0</b>	<b>908.4</b>	<b>3.3</b>	<b>1,689.9</b>

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

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

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

#### g) Foreign currencies

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

### For the year ended 30 September 2022

## 31 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 Board Risk 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 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 at 30 September is the carrying value recognised on the Balance Sheet as disclosed in the table in note 30(a), along with the loan commitments also disclosed in the table in note 30(a).

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 the retirement mortgages and reversionary interests in property is a fall in house prices, which would cause credit losses should house prices fall sufficiently in real terms at the date of redemption.

The primary driver of credit risk within the treasury assets portfolio, which comprises deposits with other banks, government bonds and debt securities is counterparty default, meaning 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 retail 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 retail 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 retail lending credit risk, commercial lending credit risk, portfolio buy-to-let credit risk and credit risk in relation to treasury financial instruments is described in the relevant sections below.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

##### Expected Credit Loss Provisioning

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

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

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

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

##### Key Economic Scenario Assumptions

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

Economic Assumption	Y1	Y2	Y3	Y4	Y5
	%	%	%	%	%
<u>UK GDP Growth</u>					
Upside	(0.91)	1.31	2.00	1.96	1.85
Baseline	(1.41)	0.88	1.58	1.61	1.65
Downside	(1.74)	0.56	1.25	1.39	1.51
Scenario weighted forecasts	(1.45)	0.84	1.53	1.59	1.63
<u>UK Unemployment Rate</u>					
Upside	3.99	4.70	4.86	4.73	4.54
Baseline	4.54	5.50	5.65	5.52	5.31
Downside	5.05	6.12	6.36	6.31	6.19
Scenario weighted forecasts	4.63	5.59	5.78	5.68	5.51
% Change in S&P 500 Index <sup>1</sup>	(16.80)				
% Change in Energy Index	50.52	(12.4)	(11.92)	n/a	n/a
% Change in Non-Energy Index	19.20	(8.84)	(3.2)	n/a	n/a
% Change in Proportion of Downgrades <sup>1</sup>	(70.10)				

<sup>1</sup> - 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.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

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

Scenario	Scenario assumptions	Weighting
Upside	<ul style="list-style-type: none"> <li>Sanctions lift: an end to conflict in Ukraine and the lifting of curbs on Russian gas exports to Europe represents the most significant upside benefit to the forecast.</li> <li>Productivity: the Government's Capital Allowance Super Deduction could spur stronger growth in business investment over the next year than in the base case.</li> <li>Fiscal Policy: the UK government is under pressure to increase support for household finances as the cost-of-living crisis worsens. This could see a less severe contraction in real personal disposable incomes and stronger outlook for consumer spending and GDP.</li> </ul>	30.0%
Central	<ul style="list-style-type: none"> <li>No COVID-19 related restrictions are reimposed.</li> <li>Continued conflict in Ukraine. Current sanctions remain. The global oil price peaks at \$100 - \$110 a barrel on a quarterly average basis.</li> <li>30% increase in the Ofgem energy price cap in January, and 15% in April.</li> <li>The unemployment rate is expected to rise gradually to a peak of 5.7% in 2024.</li> <li>CPI peaks at 14% in 2023 Q1. Bank Rate rises to at least 3% in the spring.</li> <li>In the long-term GDP is roughly 7% lower than in our pre-pandemic base case.</li> </ul>	40.0%
Downside	<ul style="list-style-type: none"> <li>Russian oil and gas: at least a dozen European countries have been affected by cuts to gas supplies from Russia. Further cuts would send European wholesale prices higher.</li> <li>Smaller labour force: long-term sickness and retirement have reduced the size of the labour force relative to before the pandemic. If the fall in the participation rate persists, GDP growth could underperform the base case.</li> <li>Domestic wage pressures: persisting externally generated price inflation, specifically from rising global commodity prices could lead to domestically generated price and wage pressures becoming entrenched.</li> <li>COVID-19 related restrictions elsewhere: the potential widening of lockdown restrictions in China is of particular concern.</li> </ul>	30.0%

The scenario weightings and the three distinct scenarios used to reflect the expectations of the wider economy that feed into the PD models for the year ended 30 September 2021 are:

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

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

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

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

#### **Credit risk: Retail exposures**

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

	2022	
	£m	%
Fully secured by a first charge on residential property	1,198.9	100.0
	1,198.9	100.0
Fair value adjustments	(0.3)	
	1,198.6	
	2021	
	£m	%
Fully secured by a first charge on residential property	756.7	100.0
	756.7	100.0
Fair value adjustments	1.0	
	757.7	

The cumulative change in fair values due to credit risk amounts to losses of £0.1m (2021: £0.1m), and the change in the year is a profit of £nil (2021: £2.1m).

#### **Retail: risk concentrations**

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

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

##### Retail: performance

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

Stage	Description	Gross Loan Balance £m	ECL Provision £m
Stage 1	Satisfactory	1,076.7	(0.1)
Stage 2	Watchlist	56.6	(0.1)
Stage 3	Default	2.2	(0.1)
Post model adjustment		-	(0.2)
		<b>1,135.5</b>	<b>(0.5)</b>
Plus: Loan fee deferral		5.0	
Provisions for impairment		(0.5)	
<b>Total</b>		<b>1,140.0</b>	

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

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

Stage	Description	Gross Loan Balance £m	ECL provision £m
Stage 1	Satisfactory	654.3	(0.1)
Stage 2	Watchlist	21.4	-
Stage 3	Default	0.8	-
		<b>676.5</b>	<b>(0.1)</b>
Less: Loan fee deferral		2.6	
Provisions for impairment		(0.1)	
<b>Total</b>		<b>679.0</b>	

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

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 30 September 2021	654.3	21.4	0.8	676.5
Advances	512.4	-	-	512.4
Stage transfers	(40.2)	38.8	1.4	-
Repayment and settlement	(49.8)	(3.6)	-	(53.4)
<b>At 30 September 2022</b>	<b>1,076.7</b>	<b>56.6</b>	<b>2.2</b>	<b>1,135.5</b>

##### Arrears

Performance risk is measured by those accounts in arrears. The total balances in arrears at 30 September 2022 amounted to £5.5m (2021: £1.5m).

##### Past due but not impaired and forbearance

At 30 September 2022 there were no residential exposures that were past due but not impaired (2021: £nil). There have been no instances of forbearance arising during the year.



The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

##### Sensitivity

A 100% weighting for a negative scenario produces an additional ECL provision for Stage 1, 2 and 3 of £nil (2021:£0.1m).

The maximum post model adjustment for the lag in the current economic climate filtering through to lower credit scores for retail customers that are deemed to be the highest risk of default in the next 12 months from the impact of high inflation and higher interest rates amounts to £1.0m.

#### Credit risk: Commercial lending

##### Commercial: analysis of risk concentration

Loans secured on commercial property are as follows:

	2022		2021	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
Commercial mortgage	29.9	46.5	30.2	46.9
Development finance	12.9	14.7	19.1	26.4
Investment loans	135.8	245.6	176.7	292.6
Renewable energy	11.7	-	16.3	-
	<b>190.3</b>	<b>306.8</b>	<b>242.3</b>	<b>365.9</b>
Less: Loan fee deferral	(1.0)	-	(1.1)	-
Provisions for impairment	(7.1)	-	(7.3)	-
	<b>182.2</b>	<b>306.8</b>	<b>233.9</b>	<b>365.9</b>

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:

	2022		2021	
	£m	%	£m	%
Wales	35.6	18.7	44.0	18.2
London – England	88.4	46.4	99.5	41.1
South East & East of England	7.4	3.9	9.7	4.0
Midlands – England	20.9	11.0	26.4	10.9
South West of England	33.7	17.7	47.1	19.4
North West & North East of England	1.7	0.9	7.5	3.1
Scotland	2.6	1.4	8.1	3.3
	<b>190.3</b>	<b>100.0</b>	<b>242.3</b>	<b>100.0</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

The average loan to value (LTV) in respect of commercial loans is estimated to be 63.3% (2021: 63.7%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term, tenant as well as geographical location.

£5.5m (2021: £10.6m) of exposures have an LTV of greater than 100%. Of these, £5.5m (2021: £7.3m) are already classified as in default.

The largest exposure to one counterparty is £15.2m (2021: £15.2m) or 8.0% (2021: 6.3%) of gross balances.

#### 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:

	2022		2021	
	£m	%	£m	%
Stage 1	142.7	75.0	159.0	65.6
Stage 2 – significant increase in credit risk	31.8	16.7	66.3	27.4
Stage 3 - default	15.8	8.3	17.0	7.0
	<b>190.3</b>	<b>100.0</b>	<b>242.3</b>	<b>100.0</b>

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

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 30 September 2021	159.0	66.3	17.0	242.3
Advances and interest	20.4	-	0.3	20.7
Stage transfers	3.6	(3.6)	-	-
Repayment and settlement	(40.3)	(30.9)	(1.5)	(72.7)
<b>At 30 September 2022</b>	<b>142.7</b>	<b>31.8</b>	<b>15.8</b>	<b>190.3</b>

#### 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 2022 is disclosed below:

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

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

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

#### Arrears

At 30 September 2022 there were £17.2m of commercial loans in arrears (2021: £3.0m).

#### Past due but not impaired and forbearance

At 30 September 2022 there was £nil (2020: £nil) commercial loan balances that were past due but not impaired. There has been one instance of forbearance arising during the year with a loan balance of £9.9m (2021: £6.6m).

#### Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and Stage 2 of £1.1m (2021 £0.9m).

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

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

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

##### **PBTL: analysis of risk concentration**

Loans secured on PBTL property are as follows:

	2022		2021	
	Loan Balance £m	Collateral Held £m	Loan Balance £m	Collateral Held £m
PBTL lending	77.8	115.7	71.5	106.9
	<b>77.8</b>	<b>115.7</b>	<b>71.5</b>	<b>106.9</b>

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

The Group's PBTL loan portfolio comprises the following:

	2022		2021	
	£m	%	£m	%
Loans secured on PBTL property	77.8	100.0	71.5	100.0
	<b>77.8</b>	<b>100.0</b>	<b>71.5</b>	<b>100.0</b>
Less: Loan fee deferral	(0.1)		(0.1)	
Provisions for impairment	(1.2)		(0.9)	
	<b>76.5</b>		<b>70.5</b>	

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

	2022		2021	
	£m	%	£m	%
Wales	3.8	4.9	3.0	4.2
London – England	47.5	61.0	56.4	78.8
South East & East of England	13.5	17.4	2.2	3.1
Midlands – England	7.5	9.6	3.8	5.3
North West - England	1.3	1.7	1.3	2.0
South West of England	4.2	5.4	4.8	6.6
	<b>77.8</b>	<b>100.0</b>	<b>71.5</b>	<b>100.0</b>

The average LTV in respect of PBTL loans is 65.8% (2021:64.2%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term, tenant as well as geographical location. No exposures have an LTV of greater than 100%.

The largest exposure to one counterparty is £11.0m (2021:£11.4m) or 14.1% (2021:16.0%) of gross balances.

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

##### PBTL: lending performance

Procedures are in place which grade borrowers in line with the perceived severity of the risk and are designed to identify cases of potential cause for concern to facilitate early risk mitigation or forbearance activity where appropriate. Using this risk grading system, the gross value of the PBTL portfolio is classified as follows:

	2022		2021	
	£m	%	£m	%
Stage 1	71.3	91.6	55.9	78.2
Stage 2 – significant increase in credit risk	6.5	8.4	13.4	18.7
Stage 3 – default	-	-	2.2	3.1
	<b>77.8</b>	<b>100.0</b>	<b>71.5</b>	<b>100.0</b>

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

Stage	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 30 September 2021	55.9	13.4	2.2	71.5
Stage transfers	8.6	(6.4)	(2.2)	-
Advances	6.7	-	-	6.7
Repayment and settlement	-	(0.4)	-	(0.4)
<b>At 30 September 2022</b>	<b>71.2</b>	<b>6.6</b>	<b>-</b>	<b>77.8</b>

##### PBTL: lending provisions

##### Exposure by credit rating

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

##### 30 September 2022

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

##### 30 September 2021

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

##### Arrears

At 30 September 2022 there were £2.2m PBTL loans in arrears (2021: £2.2m).

##### Past due but not impaired & forbearance

At 30 September 2022 there were no PBTL loans that were past due but not impaired (2021: £nil). There have been no instances of forbearance arising during the year

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### (a) Credit risk (continued)

##### Sensitivity

A 100% weighting for a Negative scenario produces an additional ECL provision for Stage 1 and 2 of £0.1m (2021: £0.4m).

The maximum post model adjustment for the lag in the current economic climate filtering through to lower credit ratings for portfolio buy-to-let customers that are deemed to be the highest risk of default in the next 12 months from the impact of high inflation and higher interest rates amounts to £2.5m.

##### 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:

	2022	2021
	£m	£m
Cash and balances held at central banks	118.1	412.2
Loans and advances to credit institutions	0.9	46.3
Government bonds	126.2	29.8
Debt securities	116.2	42.3
	<b>361.4</b>	<b>530.6</b>

None of these exposures are past due or impaired.

##### Credit quality of financial assets that are neither past due nor impaired

The following shows the exposures broken down by credit rating:

	2022	2021
	£m	£m
AAA to AA-	361.2	530.6
A+ to A-	0.2	-
	<b>361.4</b>	<b>530.6</b>

##### Concentration of credit risk

The geographical exposure is as follows:

	2022	2021
	£m	£m
UK	270.3	517.4
Other	91.1	13.2
	<b>361.4</b>	<b>530.6</b>

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

## Notes to the Financial Statements

### For the year ended 30 September 2022

## 31 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 30 (e) & (f) to the financial statements.

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

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

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

### c) Interest rate risk

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

The table in note 30 (d) shows an estimate of the interest rate sensitivity gap at 30 September 2022. 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.

### (c) Interest rate risk (continued)

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 Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 31 Financial risk management objectives and policies (continued)

#### f) House price risk

House price risk is the risk that arises when there is an adverse mismatch between actual house prices and those implicit in the costing of the Group's, retirement mortgages and reversionary interests held at FVTPL such that the ultimate realisation of the property would not yield the expected return to the Group and could, in certain circumstances, result in a capital loss. The Group mitigates house price risk by monitoring maximum loan to value at inception of the loan and reversionary interests.

#### *Geographical analysis of retirement mortgages*

An analysis of residential property by geographical location is provided below.

	2022		2021	
	£m	%	£m	%
Wales	3.0	5.1	3.3	4.4
East Anglia	2.3	3.9	2.9	3.8
East Midlands	2.5	4.3	3.5	4.7
Greater London	3.4	5.8	5.0	6.6
Yorkshire & Humberside	4.4	7.5	5.5	7.3
North West	6.0	10.2	7.2	9.5
Scotland	11.0	18.8	14.4	19.0
Outer Metropolitan	3.5	6.0	5.2	6.9
Outer South East	8.5	14.5	10.6	14.0
South West	6.5	11.1	9.0	11.9
West Midlands	4.7	8.0	5.4	7.1
North	2.8	4.8	3.7	4.8
	<b>58.6</b>	<b>100.0</b>	<b>75.7</b>	<b>100.0</b>

#### g) Conduct risk

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

The Group holds a provision of £nil at 30 September 2022 (2021: £nil).

#### h) Pension risk

The Group is exposed to pension risk through its defined benefit scheme. Further information is provided in note 28.

#### 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 Board Risk Conduct Committee.



The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 32 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.

### 33 Shares in Group undertakings

Company	£m
At beginning of year	73.0
Additions	106.1
Impairment	(1.0)
<b>At end of year</b>	<b>178.1</b>

The additions in the year related to an investment of £25m in Hodge Limited which was used to finance an increase in the share capital of its subsidiary, Julian Hodge Bank Limited and an investment of £81.1m in Hodge Reversions Limited, which was used to finance the acquisition of a portfolio of reversionary interests from Julian Hodge Bank Limited.

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

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

### 34 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 2022.

Company Name	Company Number
Wingwest (Fountain Lane) Limited	06127896
Sterling House Limited	06589142
Hodge (Clevedon Estates) Limited	11209025
Carlyle Property Development Company Limited	00561281
Hodge Limited	00390216

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 35 Financial commitments

	2022	2021
	£m	£m
<b>Loan commitments</b>		
Expiring in less than one year	73.6	96.4
Expiring in more than one year	12.6	-
	<b>86.2</b>	<b>96.4</b>

#### Capital commitments

The Group had contracted capital commitments amounting to £nil at 30 September 2022 (2021: £nil).

### 36 Related parties

The Company has relationships with its parent company, The Carlyle Trust (Jersey) Limited, fellow subsidiaries of The Carlyle Trust Limited and the Jane Hodge Foundation. The Company paid dividends to its shareholders during the year to 30 September 2022 of £3.3m (2021: £6.6m).

The other group related party transactions are disclosed below:

During the year, development costs of £nil (2021: £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 £2.0m (2021: £5.3m) with the Jane Hodge Foundation – a shareholder of The Carlyle Trust Limited.

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

Company	2022	2021
	£m	£m
<b>Deposits held by subsidiary</b>		
Julian Hodge Bank Limited	10.0	128.6
<b>Amounts owed from subsidiaries</b>		
Hodge Limited	-	0.4
Carlyle Property Development Company Limited	-	0.2
Reimbursement asset due from Julian Hodge Bank Limited	0.2	-
<b>Amounts owed to subsidiaries</b>		
Julian Hodge Bank Limited	-	(0.4)
Hodge Reversions Limited	(0.3)	-
	<b>9.9</b>	<b>128.8</b>

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:

	2022	2021
	£m	£m
Short-term employee benefits	1.4	1.4

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 37 Maturity analysis of assets and liabilities

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

At 30 September 2022	Due within 12 months	Due after 12 months	Total
	£m	£m	£m
<b>Assets</b>			
Cash and balances held at central banks	118.1	-	118.1
Loans and advances to credit institutions	0.9	-	0.9
Derivative financial instruments	(0.2)	76.0	75.8
Government bonds	97.8	28.4	126.2
Debt securities	34.7	81.5	116.2
Loans and advances to customers	37.3	1,367.3	1,404.6
Intangible assets	2.0	7.7	9.7
Property, plant & equipment	1.1	5.8	6.9
Investment properties	18.1	70.9	89.0
Investments	22.7	-	22.7
Deferred tax assets	1.6	4.6	6.2
Other assets	10.7	-	10.7
Inventory	0.1	-	0.1
<b>Total assets</b>	<b>344.9</b>	<b>1,642.2</b>	<b>1,987.1</b>
<b>Liabilities</b>			
Deposits from banks	16.0	205.0	221.0
Deposits from customers	745.3	668.4	1,413.7
Lease liabilities	0.4	5.4	5.8
Other liabilities	11.2	-	11.2
Pension liabilities	1.6	2.9	4.5
<b>Total liabilities</b>	<b>774.5</b>	<b>881.7</b>	<b>1,656.2</b>

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 37 Maturity analysis of assets and liabilities (continued)

At 30 September 2021	Due within 12 months	Due after 12 months	Total
	£m	£m	£m
<b>Assets</b>			
Cash and balances held at central banks	412.2	-	412.2
Loans and advances to credit institutions	46.3	-	46.3
Government bonds	-	29.8	29.8
Debt securities	6.6	35.7	42.3
Loans and advances to customers	163.6	897.5	1,061.1
Intangible assets	1.8	5.6	7.4
Property, plant & equipment	1.0	4.6	5.6
Investment properties	14.2	89.0	103.2
Investments	22.6	1.2	23.8
Deferred tax assets	5.1	6.3	11.4
Other assets	14.6	-	14.6
Inventory	0.1	-	0.1
<b>Total assets</b>	<b>688.1</b>	<b>1,069.7</b>	<b>1,757.8</b>
<b>Liabilities</b>			
Deposits from banks	-	145.0	145.0
Deposits from customers	676.5	571.8	1,248.3
Derivative financial instruments	0.3	15.0	15.3
Lease liabilities	0.4	3.8	4.2
Other liabilities	10.7	-	10.7
Pension liabilities	1.6	12.6	14.2
<b>Total liabilities</b>	<b>689.5</b>	<b>748.2</b>	<b>1,437.7</b>

### 38 Post balance sheet events

There have been no post balance sheet events.

### 39 Contingent assets and liabilities

There are no contingent assets or liabilities at 30 September 2022 (2021: £nil).

The Carlyle Trust Limited  
Registered number 0361131

## Notes to the Financial Statements

For the year ended 30 September 2022

### 40 Capital risk management (unaudited)

#### Banking segment

The Bank conducts an Internal Capital Adequacy Assessment Process ('ICAAP'), at least annually, which is approved by the Board. This is used to assess the Bank's capital adequacy and to determine the level of capital required to support the future development of the business as set out in the strategic plan.

The ICAAP considers all of the Bank's material risks and includes board approved stress scenarios which are intended, as a minimum, to meet regulatory requirements. The ICAAP is used by the PRA to set the Bank's Total Capital Requirement ('TCR').

The Bank's capital resources requirements are calculated based on the CRD IV and CRR regulatory framework as implemented by the PRA, namely:

- Pillar 1-based on a standardised approach for credit risk, operational risk and market risk;
- Pillar 2-set by the PRA via the TCR to address those risks not covered under Pillar 1.

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

This means that the Bank will:

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

	2022 Unaudited	2021 Unaudited
	£m	£m
Common Equity Tier 1 capital	177.4	143.8
Total risk weighted assets	705.0	711.0
<b>Common Equity Tier 1 capital ratio</b>	<b>25.2%</b>	<b>20.2%</b>
Total own funds	177.4	143.8
Total risk weighted assets	705.0	711.0
<b>Total capital ratio</b>	<b>25.2%</b>	<b>20.2%</b>

#### Capital Requirements Directive

Article 89 of the Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information:

- Name, nature of activities and geographical location: The Bank operates only in the United Kingdom. The principal activities of the Bank are noted in the Strategic Report.
- Average number of employees: as disclosed in note 6 to the financial statements.
- Annual turnover (Net interest income) and profit before tax: as disclosed in the Income Statement.
- Corporation Tax paid by Julian Hodge Bank Limited: 2022 £nil (2021: £nil).

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

The banking segment's objectives when managing capital are:

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

**Registered  
Office**

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