**Hodge Bank**

**Treasury Discovery Project**

**Product and Vendor Selection**

**Presentation and Demonstration**

# Purpose of Document

To support and inform the selection of a new TMS and ALM system for implementation at Hodge Bank.

This document provides vendors with details of the approach to be undertaken and information to be provided so that their products and services can be fairly evaluated.

# Presentation and Demonstration

To facilitate our product selection, we will ask selected vendors to present their systems.

For the TMS system we will ask the vendor to demonstrate how the system would be used.

For the ALM system we will ask the vendor to demonstrate how the system would be used and for you to run through 8 scenario’s which the treasury team would perform.

For the demonstration, we wish the vendor to prepare the data set that matches the product set and financial assets that Hodge utilises. Details of the products and assets are provided in Annex A. The agenda will cumulate in a demonstration to key stakeholders of how your solution supports specific tasks.

The outcome of the demonstration, together with additional information provided will inform our selection and we will work with the selected vendor to agree terms prior to commencing implementation.

**Instructions to Vendors**

Our current IT strategy is to utilise Software-as-a-Service on a hosted cloud.

Can you please complete the cost model below to describe the charges for delivering the services.

Costs are to be provided for each phase so to enable appropriate cost benefit analysis.

  
Can you please provide the requested information by 25th May 2018 to

[Gareth.Davies2@Hodge.co.uk](mailto:Gareth.Davies2@Hodge.co.uk) & [David.Ryan@Hodge.co.uk](mailto:David.Ryan@Hodge.co.uk)

# Agenda

1. **Introductions**

Can you please give us an introduction to your company.

1. **Treasury Management System**

Can you please demonstrate how the treasury team will use the TMS system to manage the day to day treasury operations.

Some of the activities which we would like to see and not exhaustive are

* Daily cash and asset position
* Cashflow reporting and projections
* Pre-trade analysis
* Post-trade analysis
* Workflow management
* Reconciliations
* Document management feature
* MI, dashboard and reporting

1. **Asset and Liability Management System**

Can you please demonstrate how the treasury team will use the ALM system to manage the day to day balance sheet risk.

Can you please demonstrate your system for the following scenarios:

**Scenario 1** – The treasury team produces a weekly ALCO pack.

Can you please demonstrate how your system can assist the team in producing an ALCO pack.

These are some of the information we would like to see in a pack.

* Liquidity summary
* ILAA requirements
* LCR requirements
* Ratios
* Triggers & limits
* Collateral positions
* Aged graphs (for example cash, liquidity ratio, ILAA surplus)
* Cashflow forecast
* Liquidity & LCR forecast
* Swap spread risk

**Scenario 2** – Can you please demonstrate how we can model the balance sheet dynamically.

**Scenario 3** – Can you please demonstrate how the treasury team could run a IRRBB stress test

**Scenario 4** – Can you please demonstrate how the treasury team could run a range of interest rate parallel shifts. (For example 0.5%, 1%, 2%, 3%)

**Scenario 5** – Can you please demonstrate how to model non-standard cashflows?

For example, a commercial loan may have the following terms

* Loan £500,000
* Term 15 years
* 2 years Fixed rate @ 5%
* Remainder at 4% above 3m Libor, quarterly reset
* Interest added monthly
* Roll-up for first 3 years followed by quarterly capital repayments for 12 years.
* Balloon payment of £200,000

Legacy Lifetime mortgages (fixed for life roll-up) cashflows on a portfolio basis with behavioural assumptions. Our prophet system currently creates these cashflows.

**Scenario 6** – For the financial year end, the team need to complete notes in the statutory accounts.

Can you please demonstrate how your system can support the completion of the notes. Annex B has notes from our last financial statements.

**Scenario 7** – At year end audit, the team need to demonstrate to the auditors that the hedge accounting has been done compliantly.

Can you please demonstrate

* How the hedge accounting module works
* Transparency on calculations

**Scenario 8** – Can you please demonstrate how your system can support the population of a CoRep capital return report.

1. **IT and Implementation**

Please talk us through

* your implementation process
* your structured methodology
* training
* upgrade cycle and costs
* the system architectural design
* support cycle
* how to integrate data
* how to add new products and instruments

**Annex A: Background to Hodge**

Hodge was founded by Sir Julian Hodge and obtained authorised status under the Banking Act in 1987.  It comprises of two companies It comprises two lending divisions, "Hodge Bank Commercial" and "Hodge Lifetime", and a retail deposits division "Hodge Savings".   The trading divisions are supported by group functions including Finance, HR, Compliance, Risk, Treasury, IT and Projects. The bank currently employs around 170 people and is based at One Central Square, Cardiff.

Hodge Lifetime has been a specialist in the retirement market for over 50 years.  Its strategy is focused on the retirement lending and income markets.  It offers three types of product - retirement annuities, lifetime mortgages (equity release) and interest-only mortgages.  All products are offered to customers aged 55 or over and are sourced exclusively through regulated intermediaries. Current mortgages loans receivables are c£680m.

Hodge Bank Commercial offers a private-bank style relationship for corporate, private investor and developers to fund real estate and renewable energy projects. Loans size vary between £1m and £25m, typically up to 10 years. Current commercial loans receivables are c£290m.

Hodge Savings offers a range of savings products, including instant access, notice accounts, ISAs and fixed rate bonds. Retail savings is the primary funding source and at the year-end savings balances were c£940m. For additional funding, Hodge has utilised the Bank of England’s Term Funding Scheme (TFS).

The Group holds liquid assets to meet its financial obligations in both business as usual and stressed situations. As at the year end, the Group held c£450 million of liquid assets.

The treasury department consist of a head of treasury, supported by two treasury analysts.

At the financial year end, the group has assets of £1.8bn and pre-tax profit of £25.4m

More information about Hodge Bank and Hodge Lifetime can be found at <http://www.hodgebank.co.uk/>

**Hodge current product set includes**

* Notice accounts (7 days, 30 days, 90 days, 100 days, 180 days)
* Fixed term bonds (1 – 5 years)
* Instant access

Available for Personal, Corporate, SME & SIPPS

* 1st charge mortgages (Capital repayment and Interest only)
* Lifetime and equity release mortgages (Interest roll-up – repayable on death)
* Commercial loans (Various repayment type and interest terms)
* Sub-participation loans (Part of loan sold to SPV)

**Hodge Assets and Liabilities includes**

Cash

* Bank accounts
* Call accounts
* UK BoE Reserve
* Overnight deposit
* Term Deposit

Financial instruments

* Gilts
* Treasury Bills
* Bonds
* Floating Rate Notes

Facilities

* FLS
* TFS

SWAPS

* Vanilla
* Basis
* Amortising
* Accreting
* Rollercoaster
* Stepped Rate
* Forward Starting

**Annex B: Accounting Notes**

1. **Debt securities**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| **£m** | **£m** |
| Debt securities – listed on a UK recognised investment exchange | 125.8 | 134.5 |
| Fair value adjustment – hedge accounting | 0.9 | 1.4 |
| Fair value adjustment – available-for-sale | 4.6 | 4.7 |
|  | **131.3** | **140.6** |

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| **£m** | **£m** |
| ***Debt securities – maturity analysis*** |  |  |
| Within three months | 30.5 | 22.8 |
| Between three months and one year | 13.4 | 15.2 |
| More than one year but less than five years | 43.2 | 60.2 |
| Five years and over | 44.2 | 42.4 |
|  | **131.3** | **140.6** |

Of this amount £18.2m (2016: £21.2m) has been pledged as collateral under the Funding for Lending Scheme. Collateral is provided by the Bank of England in the form of Treasury Bills against residential mortgages, as part of the Group’s participation in the FLS, which it is permitted to re-use. Collateral that has been pledged is not restricted.

1. **Deposits from customers**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| **£m** | **£m** |
| Repayable on demand | 20.0 | 10.9 |
| With agreed maturity dates or periods of notice and repayable: |  |  |
| - within three months | 337.7 | 353.5 |
| - between three months and one year | 366.3 | 318.1 |
| - between one and five years | 214.8 | 293.6 |
| - over five years | - | - |
|  | **938.8** | **976.1** |
| Fair value adjustment for hedged risk | (0.3) | - |
|  | **938.5** | **976.1** |

1. **Derivative financial instruments**

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** | |
| **2017** | **2016** | **2017** | **2016** |
| **£m** | **£m** | **£m** | **£m** |
| **Derivative liabilities held for hedging purposes and designated fair value hedges:** | | | | |
| Interest rate swaps | 364.3 | 352.9 | 127.7 | 145.8 |
| RPI index linked interest rate swaps | 55.0 | 55.0 | (0.1) | 0.9 |
| Fair value adjustment for hedged risk | 176.5 | 179.3 | 4.7 | 5.8 |
| **Total recognised derivative liabilities** | **595.8** | **587.2** | **132.3** | **152.5** |

**36. Financial instruments (continued)  
  
e) Maturity profile of financial assets and liabilities**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 October 2017** | **Not more than three months** | **More than three months but not more than six months** | **More than six months but not more than one year** | **More than one year but not more than five years** | **More than five years** | **Total** |
| **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Assets** |  |  |  |  |  |  |
| Cash and balances held at central banks | 87.0 | - | - | - | - | 87.0 |
| Treasury bills | 4.1 | 7.5 | 9.2 | 66.1 | 10.4 | 97.3 |
| Debt securities | 0.3 | 0.1 | 0.6 | 10.3 | 120.0 | 131.3 |
| Investments | 6.8 | - | - | - | - | 6.8 |
| Loans and advances to customers | 37.2 | 29.3 | 19.4 | 288.8 | 780.3 | 1,155.0 |
| Loans and advances to credit institutions | 135.0 | - | - | - | - | 135.0 |
|  |  |  |  |  |  |  |
| **Total financial assets** | **270.4** | **36.9** | **29.2** | **365.2** | **910.7** | **1,612.4** |
| **Liabilities** |  |  |  |  |  |  |
| Deposit from banks | 2.8 | - | - | - | - | 2.8 |
| Deposit from customers | 357.4 | 114.0 | 252.3 | 214.8 | - | 938.5 |
| Derivative financial instruments | 0.3 | 0.2 | 0.7 | 11.0 | 120.1 | 132.3 |
| Other liabilities | 3.1 | - | - | - | - | 3.1 |
| Accruals and deferred income | 3.9 | - | - | - | - | 3.9 |
| **Total financial liabilities** | **367.5** | **114.2** | **253.0** | **225.8** | **120.1** | **1,080.6** |
|  |  |  |  |  |  |  |
| **Loan commitments liabilities** | **82.2** | **0.8** | **0.8** | **50.2** | **7.4** | **141.4** |

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

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 October 2017** | **Book value** | **Not more than three months** | **More than three months but not more than six months** | **More than six months but not more than one year** | **More than one year but not more than five years** | **More than five years** | **Total** |
| **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Financial liabilities** |  |  |  |  |  |  |  |
| Deposit from banks | 2.8 | 2.8 | - | - | - | - | 2.8 |
| Deposit from customers | 938.5 | 357.4 | 114.5 | 254.9 | 224.6 | - | 951.4 |
| Other liabilities | 3.1 | 3.1 | - | - | - | - | 3.1 |
| Accruals and deferred income | 3.9 | 3.9 | - | - | - | - | 3.9 |
| Derivative financial instruments | 132.3 | 7.9 | 4.5 | 7.2 | 45.8 | 91.2 | 156.6 |
| **Total financial liabilities** | **1,080.6** | **375.1** | **119.0** | **262.1** | **270.4** | **91.2** | **1,117.8** |

**37. Financial risk management objectives and policies**

**Treasury credit risk**

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

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| **£m** | **£m** |
| UK government and amounts held with central banks | 87.0 | 168.0 |
| Treasury bills | 97.3 | 84.7 |
| Loans and advances to credit institutions | 30.0 | 52.4 |
| Debt securities | 131.3 | 140.6 |
|  | **345.6** | **445.7** |

None of these exposures are past due or impaired.

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

The following shows the exposures broken down by rating:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| **£m** | **£m** |
| AAA to AA- | 298.5 | 365.3 |
| A+ to A- | 25.4 | 55.1 |
| BBB+ to BBB- | 17.8 | 21.9 |
| BB+ to BB- | 3.9 | 3.4 |
|  | **345.6** | **445.7** |