Hodge Life Assurance Company Limited

Directors' report and financial statements

31 October 2013

Registered number 837457

Officers and professional advisers

Directors	Keith James	O.B.E., M.A	Chairman
	Jonathan Hodge		Deputy Chairman
	Deian Jones	A.C.A	Managing Director
	David Austin	LL.B., A.C.A	
	Adrian Piper	B.A., M.Sc., M.C.I.P.D., M.C.I.M	
	Alun Bowen	M.A., F.C.A., F.R.S.A.	
Company Secretary	Rhian Yates	F.C.C.A	
Registered Office	31 Windsor Place Cardiff CF10 3UR		
Auditor	KPMG Audit Plc Cardiff		
Principal bankers	Lloyds Bank Plc London		
Actuaries	Milliman London		
Economic adviser	Professor Patrick Minford Cardiff Business School		

Contents

Chairman’s statement

I am pleased to present the results for the year ended 31 October 2013. The Company has enjoyed considerable success this year, making a pre-tax profit of £14.5 million *(2012: £9.6 million)*.

Highlights

- Assets under management increased by almost 19% to £308 million.
- Pillar I capital resources in excess of the regulatory requirement increased by 64% to £48.9 million.

Economic Environment

The early part of the year followed the pattern of previous years, with limited growth, an absence of business investment and little confidence being shown by consumers or businesses.

However as the year progressed, there was an upturn in confidence and growth began to return. The extent to which various government and Bank of England initiatives played a part in this is difficult to assess, but the Help to Buy and Funding for Lending Scheme will have undoubtedly helped.

The Bank of England’s attempts at forward guidance are a new development and are beginning to be tested by financial markets, but the desire to maintain a low interest environment is clear. The question is whether in maintaining interest rates so low, the Bank of England will be forced further down the line to raise them higher than it would like to control inflation, rather than adopting a policy of small but gradual increases.

What is undoubtedly clear is that the UK and the USA are outperforming their European counterparts, where the Euro “one size fits all” straightjacket precludes individual nations from adopting recovery strategies relevant to their particular circumstances.

Regulatory Matters

The early part of the financial year saw the introduction of the Retail Distribution Review (‘RDR’) and the EU Gender Directive which requires gender neutral pricing of insurance products. These developments created some dislocation in the core annuity markets during the first half, particularly as providers got to grips with the pricing implications.

As I write this statement, it appears highly likely that the European Parliament will vote on the Omnibus II Directive on 3 February 2014, and if the vote is passed it will pave the way for the Solvency II framework to be implemented on 1 January 2016.

During the year, our preparations for Solvency II included a detailed review of the draft rules. It is apparent that these rules do not translate directly to equity release. This is no surprise given the pan-European nature of the rules set against a niche area of the UK financial services market. We anticipate undertaking further work in this area during 2014, but at the present time there remains a significant risk that interpretation of the rules in their current form could be detrimental to the equity release market in the UK, which would in turn require modifications to the Company’s strategy and business model.

Chairman's statement *(continued)*

Financial Performance

The company enjoyed a very profitable year, and it is important to note that elements of this profit are not expected to re-occur next year. A consequence of our preparations for RDR and the EU Gender Directive on gender neutral pricing was that the Company built up a significant cash surplus towards the end of the previous financial year. During the current year, a proportion of this cash was reinvested into lifetime mortgages, with our total holdings of lifetime mortgages increasing by £66.5 million year on year, to a total of £198 million. This reinvestment created a one-off boost to profit. More generally, pricing conditions in our markets were benign during the first half of the year, which also resulted in stronger than expected profit.

Pension annuity premiums written in the year were £51.6 million, a reduction of 5% over the previous year. This reduction is attributable to the effects of the introduction of the RDR and more particularly the EU Gender Directive on gender neutral pricing. As a smaller player in the standard annuity market, we took a very cautious approach during this transitional period, in order to avoid any potential pricing or selection risks as the market adapted to pricing on a gender neutral basis. In effect, this resulted in us writing the bulk of our business this year over a 10 month period. As the year drew to a close, annuity rates have shown modest increases, a trend we expect to continue into 2014.

Holdings of reversionary interests in property reduced by £3.8 million to £71.0 million at 31 October 2013. As the asset mix continues to move more in favour of lifetime mortgages instead of home reversion schemes, this reduces the impact of house price movements on the Company's results.

Mortality experience on our liability and asset portfolios was generally favourable across the year.

The Company's solvency position remains strong. During the year, the capital resources in excess of the regulatory requirement increased by £18.8 million to £48.9 million, an excellent result.

Five Year Summary

	2013	2012	2011	2010*	2009
	£m	£m	£m	£m	£m
Premium income	51.6	54.3	26.7	24.6	5.7
Profit before tax	14.5	9.6	5.2	3.3	1.5
Total assets	307.6	257.8	199.4	172.2	151.6
Shareholders' funds	80.7	67.6	59.2	53.3	49.3

*14 month accounting period

Pension annuities

The Company's strategy revolves around offering a simple, straightforward annuity product at competitive rates. We believe that this market offers significant growth potential, underpinned as it is by strong demographic trends. The greater use of the Open Market Option within the pension annuity market has been a positive development, particularly since the ABI announced its compulsory code of conduct for pension firms, requiring them to mandate the use of this option.

Chairman's statement *(continued)*

Equity release

Residential property remains the principal form of saving for the majority of retirees and it is inevitable that a growing proportion will utilise their major asset to improve their retirement prospects through equity release.

Our interest roll-up lifetime mortgages are amongst the most flexible plans in the market, offering two unique features: the ability to repay an element of the loan capital should the customer's circumstances change, and the freedom to downsize to a smaller property and repay the loan without incurring any early repayment charges. These products highlight our commitment to innovation and serving the needs of the customer, and we were extremely pleased to be named the Best Equity Release Provider at the 2013 Moneyfacts Investment, Life and Pensions awards, and the Best Lifetime Mortgage Provider at the 2013 Equity Release Awards.

Retirement Mortgage

There is a growing trend for lending into retirement for a variety of reasons – not least because the 'Bank of Mum and Dad' continues to be called upon to help children onto, and up, the property ladder. It is also more common for people to enter retirement without having paid off their mortgage.

During the year, we launched the Retirement Mortgage, aimed at a different market segment to our other equity release products. For those retirees that benefit from a reasonable level of pension income, a retirement mortgage offers a more flexible way of borrowing in retirement, with the interest on the loan being paid from pension income.

Risk Management

Since the year end we have established a new board committee – the Risk and Conduct Committee. All members of the Risk and Conduct Committee are non-executive directors. The committee will be chaired by Alun Bowen. The committee will meet at least four times a year.

The committee has been established to provide greater oversight of the management of risk and the conduct of business to ensure that significant risks are identified, understood, addressed and managed and that good outcomes are achieved for our customers.

Our People

I cannot thank our staff highly enough for their efforts over the last year to ensure that we deliver on our strategic objectives and continue to provide the best possible service to brokers and customers.

This year saw the retirement of Hywel Jones as a non-executive director. Hywel gave us great service over 11 years and his advice and counsel helped us negotiate the financial crisis better than most.

Hywel's successor is Alun Bowen, who retired from KPMG in June 2013, having served as a partner there for 25 years. I have no doubt that Alun will be an extremely good addition to the board.

Chairman's statement *(continued)*

The Outlook

We believe that our chosen markets offer significant growth potential, underpinned by strong demographic trends. Increasing life expectancy coupled with inadequate pension provision and spiralling care costs, means that the current generation of retirees is seeing its quality of life being squeezed, when compared with its predecessors.

Our positive outlook in respect of the market is tempered by increasing caution in relation to the regulatory environment. The next year will be critical to our development as the full ramifications of Solvency II are considered by the industry as a whole. In our case, this will involve establishing the appropriate interpretation of the pan-European rules and how they apply to our business.

Keith James
Chairman
19 December 2013

Strategic Report

Principal Activities

The principal activity of the Company is the provision of pension annuities.

Corporate Strategy

The Board has adopted a prudent strategic plan with the long term aim of achieving stable returns and modest capital growth in accordance with the requirements of its Shareholder. At the heart of the Company's philosophy is a wish to protect its capital base for the benefit of its annuitants and shareholder by conducting business in those areas where it has the greatest expertise and experience and best understands the risks which it is taking.

A rolling five-year strategy is approved by the Board annually, complemented by a detailed business plan for the forthcoming financial year. The Board sets aside specific time during the year to review its strategy and to gauge progress towards its achievement. The current strategy is based on participation in the pension annuity market and investing in a range of assets including equity release mortgages, which are considered to offer stable risk-adjusted returns over the long term.

Corporate Governance

This statement explains the extent to which the Company has applied the principles of good governance contained in The UK Corporate Governance Code for the year ended 31 October 2013.

The Board comprises two executive and four non-executive directors. The roles of Chairman and senior executive are separate to ensure that neither can exercise unfettered powers of decision-making on matters of material importance to the Company.

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 Company'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 business and can provide only reasonable and not absolute assurance against material misstatement or loss.

The 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 to the Board monthly detailing the results and other performance data.

There is a well-established internal audit function that is provided by PwC on an outsourced basis. Its role is primarily 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 of the committee to present a summary of audit reports completed during the period and to provide any explanations required by the committee.

The audit committee has reviewed the effectiveness of the system of internal financial control during the year.

Strategic Report *(continued)*

The Board

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

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

The Board has established the following standing committees:

- ***Audit committee:*** Adrian Piper (Chairman), Alun Bowen, Keith James and Jonathan Hodge.

  All members of the audit committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chairman.

  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 review the relationship with the external auditor, to review the statutory accounts and to consider compliance issues.

  The committee meets at least four times a year.

- ***Remuneration and nomination committee:*** Jonathan Hodge (Chairman), Keith James, Adrian Piper and Alun Bowen.

  The role of this committee is twofold:

  1. 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.

  2. To recommend the appointment of directors to the Board and Board committees and to ensure that Hodge Life has an appropriate succession plan for executive and senior management positions.

  The committee meets as required.

Strategic Report *(continued)*

Executive Committees

Executive management has primary responsibility for the operation of the company's internal financial control framework. It monitors longevity risk, credit risk, market risk, liquidity risk and operational risk by means of relevant committees as described below.

- ***Management board***

  The management board is responsible for the formulation and execution of the strategy, and day-to-day management, subject to specific limitations and constraints imposed by the Board. The management board meets monthly. The management board is also responsible for formulating the IT strategy and policy and monitors and authorises IT activities.

- ***Risk committee***

  The committee meets quarterly and monitors the company's risk management framework and it co-ordinates and monitors the activities of compliance, risk and internal audit.

- ***Assets and liabilities committee***

  The committee implements the policies of the Board with respect to liquidity and interest rate risk management and provides recommendations to the Board on strategies for managing these risks. It also monitors and controls new business pricing and treasury counterparty risk. The committee meets weekly.

Risk Management

The Company regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior people in developing risk policy and in monitoring its application. The Board has agreed a risk management policy and developed a risk management framework.

In the normal course of its business, the Company is exposed to longevity risk, liquidity risk, house price risk, interest rate risk and operational risk.

Longevity risk is the risk that policyholders live for a longer period of time than the Company expects through the pricing of its policies or the calculation of its technical provisions. The Company manages its longevity risk through regular monitoring of mortality experience.

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet commitments when they fall due. The Company manages its liquidity risk through its assets and liabilities committee, and monitors its liquidity position on a regular basis and has adopted a policy to ensure that expected future cash flows from assets and liabilities will not lead to future liquidity constraints..

House price risk is the risk that arises when there is an underperformance of actual house prices compared to the assumptions implicit in the valuation of the Company's equity release products, such that the ultimate realisation of the property would not yield the expected return to the Company and could, in certain circumstances, result in a capital loss.

Interest rate risk is the risk that arises when movements in interest rates cause an adverse movement in assets relative to the movement in liabilities. The Company manages its interest rate risk through its assets and liabilities committee. The Company's policy is to match the interest rate sensitivity of assets and liabilities within limits set by the Board.

Strategic Report *(continued)*

Risk Management *(continued)*

Operational risk is the risk of economic loss from control failures or external events, which result in unexpected or indirect loss to the Company.

The evaluation of the various risks and the setting of policy is carried out through the Company's risk committee which acts as the conduit through which adherence to the Company's risk management policy and framework is monitored.

The assets and liabilities committee covers and liquidity risk, market risk and credit risk for treasury counterparties. Strategic risk is monitored through the Board.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

R Yates
Secretary

31 Windsor Place
Cardiff
CF10 3UR

19 December 2013

Directors’ Report

The directors present their report together with the financial statements for the year ended 31 October 2013.

Directors and their interests

The directors who held office during the year are listed below:

Mr. D. K. M. James*	- Chairman
Mr. J. J. Hodge *	- Deputy Chairman
Mr. D. L. Jones	- Managing Director
Mr. D. M. Austin	
Mr. A. N. Piper * †	
Mr. D. A. Bowen * †	- appointed on 29 August 2013
Mr H. G. Jones *	- resigned on 29 August 2013

* Non Executive
† Independent

During the year there were no contracts entered into by the Company in which the directors had a material interest.

Political Contributions

The Company made no political contributions during the year.

Disclosure of information to auditor

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 Company’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 Company’s auditor is aware of that information.

Directors' Report *(continued)*

Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

Our auditor, KPMG Audit Plc has instigated an orderly wind down of its business. The Board has decided to put KPMG LLP forward to be appointed as auditor. A resolution for the appointment of KPMG LLP as auditor of the company and authorising audit committee to determine its remuneration is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

R Yates
Secretary

31 Windsor Place
Cardiff
CF10 3UR

19 December 2013

Independent Auditor’s report to the members of Hodge Life Assurance Company Limited

We have audited the financial statements of Hodge Life Assurance Company Limited for the year ended 31 October 2013 set out on pages 14 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council’s web-site at www.frc.org.uk/auditscopeukprivate**.**

Opinion on financial statements
In our opinion the financial statements:
• give a true and fair view of the state of the Company's affairs as at 31 October 2013 and of its profit for the year then ended;
• have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
• the financial statements are not in agreement with the accounting records and returns; or
• certain disclosures of directors' remuneration specified by law are not made; or
• we have not received all the information and explanations we require for our audit.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

19 December 2013

Profit and loss account: Technical account – long term business
for the year ended 31 October 2013

	Note	2013 £'000	2012 £'000
Earned premiums	**3**	**51,566**	54,331
Investment income	**4**	**9,280**	11,733
Unrealised gains on investments		**9,970**	9,646
Claims incurred		**(15,008)**	(13,577)
Changes in other technical provisions:			
Long term business provision	**15**	**(37,676)**	(53,149)
Net operating expenses	**5**	**(3,705)**	(2,757)
Tax attributable to the long term business	**8**	**(1,462)**	2,191
Balance on the technical account - long term business		**12,965**	**8,418**

The notes on pages 18 to 31 form part of these financial statements.

Profit and loss account: Non technical account
for the year ended 31 October 2013

	Note	2013 £'000	2012 £'000
Balance on the technical account - long term business		**12,965**	8,418
Tax attributable to the balance on the long term business technical account		**1,462**	1,205
Shareholders pre-tax profit arising on long term business		**14,427**	9,623
Investment income on shareholder's funds		**73**	-
Profit before tax	**6**	**14,500**	9,623
Tax on profit on ordinary activities	**8**	**(1,462)**	(1,205)
Profit on ordinary activities after tax being profit for the financial year	**14**	**13,038**	8,418

All operations relate to continuing activities.

In accordance with the amendment to FRS 3, no note of historical cost profits and losses has been prepared as the Company is an insurance company as defined in companies' legislation.

The Company has no other recognised gains and losses during the current and previous year and therefore a separate statement of total recognised gains and losses has not been presented.

The notes on pages 18 to 31 form part of these financial statements.

Reconciliation of movement in shareholder’s funds
for the year ended 31 October 2013

	Note	2013 £'000	2012 £'000
Opening shareholder's funds		**67,647**	59,229
Profit for the financial year	**14**	**13,038**	8,418
Closing shareholder's funds		**80,685**	**67,647**

The notes on pages 18 to 31 form part of these financial statements.

Balance Sheet
at 31 October 2013

	Note	2013	2012
ASSETS		**£'000**	£'000
Investments			
Investment properties	**9**	**79,393**	82,324
Other financial investments	**10**	**226,784**	173,574
		306,177	255,898
Fixed assets	**11**	**45**	-
Other debtors	**12**	**146**	582
Other assets			
Cash at bank and in hand		**645**	365
Prepayments and accrued income		**614**	917
Total assets		**307,627**	257,762
LIABILITIES			
Capital and reserves			
Called up share capital	**13**	**6,800**	6,800
Profit and loss account	**14**	**73,885**	60,847
Shareholder's funds attributable to equity interests		**80,685**	67,647
Technical provisions			
Long term business provision	**15**	**223,817**	186,141
Provision for other risks and charges	**16**	**119**	242
Other creditors including taxation and social security	**17**	**3,006**	3,732
Total liabilities		**307,627**	257,762

These financial statements were approved by the Board of directors on 19 December 2013 and were signed on its behalf by:

D. M. Austin
Director

D. L. Jones
Director

Notes

(forming part of the financial statements)

1 Basis of preparation

The financial statements of the Company have been prepared in accordance with the provisions of section 396 of the Companies Act 2006 including applying the requirements set out in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules as modified to include the revaluation of investments and comply with the revised Statement of Recommended Practice (SORP) issued by the Association of British Insurers in December 2006.

Under Financial Reporting Standard (FRS) 1 (Cash Flow Statements) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements (see note 20).

The Company has taken advantage of the exemption from the requirement to disclose transactions with related parties where 100% of the voting rights of those parties are controlled by the same group and consolidated financial statements are prepared for the group (see note 20).

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

Basis of accounting for long term insurance business

The Company has adopted the modified statutory solvency basis for accounting for long term insurance business.

Premiums

Premiums are accounted for on a receivable basis excluding any taxes or duties levied with premiums.

Claims

Annuity payments are recognised as they fall due for payment.

Notes *(continued)*

2 Accounting policies *(continued)*

Deferred acquisition costs

As the Company's products are single premium contracts, acquisition expenses are expensed as incurred.

Long term business provision

The long term business provision has been determined by the board of directors, on advice from the actuarial function holder, having due regard to the principles laid down in the Council Directive 92/96/EEC. The provision has been determined separately for each contract by a prospective gross premium valuation method. The estimation process used in determining the long-term business provision involves projecting future annuity payments and the costs of maintaining the contracts.

Investment income

Interest income is accounted for on a receivable basis, including where appropriate, the imputed tax credit. Interest is accrued up to the balance sheet date.

Interest income, realised gains and losses, expenses and charges are included in the long term business technical account to the extent that they relate to the long term fund. Other investment income, realised gains and losses, expenses and charges are included in the non-technical account.

Realised gains and losses represent the difference between net sales proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or valuation at the previous balance sheet date, and are included within the long term business technical account.

Investments

Mortgage assets

The value of the mortgage assets on which interest is serviced is taken to be the face value of the loan.

The value of the lifetime mortgages where the interest is rolled-up and added to the capital 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 Black Scholes option pricing method. These cash flows are then discounted at the swap yield plus a margin to reflect the illiquidity of mortgage assets. An allowance for possible early redemption of the mortgages has been determined by reference to historic rates of lapse within the portfolio.

Reversion property

The value of reversion property is determined as the present value of the expected sale proceeds (based on current market value) arising on the sale of the property following termination of the lifetime lease as a result of the death of the occupier or occupiers, or the early vacation of the property.

The current market value is taken as the last formal valuation of the property on a vacant possession basis, modified by the change in the monthly national Nationwide House Price Index since the last formal valuation.

Notes *(continued)*

2 Accounting policies *(continued)*

In applying the index:
- Only half of any increase in the index is taken into account.
- All of any decrease in the index is taken into account.

The reversion assets are valued by discounting 93% of the reversionary interest in the property on eventual sale at a discount rate of 5% per annum. A further deduction is made from the value to reflect the on-going costs of management of the reversionary interest in the property.

Freehold land and buildings held for sale

Land and buildings held for sale are treated as investment properties in accordance with Statement of Standard Accounting Practice 19 (SSAP 19) and valued at open market value. In accordance with the special provisions of SSAP 19 for insurance companies, any changes in the market values of investment properties are accounted for as value adjustments in the profit and loss account.

The requirement of the Companies Act 2006 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider it necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation is only one of the many factors reflected in the year end valuations and the amounts which might otherwise have been shown cannot be separately identified or quantified.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The transfer from the long term business technical account to the non-technical account is grossed up at the effective rate of corporation tax applicable to the period.

Notes *(continued)*

3 Gross premiums written

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

All premiums are derived from contracts concluded in the United Kingdom. Commissions payable in respect of direct insurance amounted to £841,000 (2012: £818,000).

New business premiums can be analysed as follows: -

	Year ended 2013 Gross £'000	**Year ended 2013 Net £'000**	Year ended 2012 Gross £'000	Year ended 2012 Net £'000
Individual premiums from non-participating contracts - annuity business	**51,566**	**51,566**	54,331	54,331

4 Investment income

	Year ended 2013 Technical account £'000	Year ended 2012 Technical account £'000
Income from investments		
Rents receivable	**5**	5
Other investments - Mortgage interest	**334**	456
- Deposit interest	**392**	382
Gains on the realisation of investments	**8,589**	10,931
Investment impairment	**(40)**	(41)
	9,280	11,733

Notes *(continued)*

5 Net operating expenses

	Year ended 2013 £'000	Year ended 2012 £'000
Management and administration expenses	**2,864**	1,938
Acquisition costs	**841**	819
	3,705	2,757

6 Profit on ordinary activities before tax

	Year Ended 2013 £'000	Year Ended 2012 £'000
The profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration		
- audit of these financial statements	**21**	30
- services relating to taxation	**29**	24
- other services	**18**	-
	68	54

7 Directors and employees

All staff are employed by Julian Hodge Bank Limited, the immediate parent undertaking, and a proportion of these costs has been recharged to Hodge Life Assurance Company Limited, to reflect the work done for this Company, and is included in net operating expenses.

The average number of employees (including directors) providing services to the Company during the year was 27 (2012: 19).

Retirement benefits are accruing to the following number of directors under a defined benefits scheme operated by the parent company.

2013 Number	2012 Number
2	2

Notes *(continued)*

8 Taxation

a) Technical account - analysis of charge:

	Year ended 2013 £'000	Year ended 2012 £'000
Group relief payable:		
UK corporation tax on profits of the period	**1,575**	1,678
Adjustments in respect of prior periods	**10**	2
Total current tax charge	**1,585**	1,680
Deferred tax (Note 16):		
Origination/reversal of timing differences	**119**	(3,764)
Adjustments in respect of prior periods	**(242)**	100
Effect of increased tax rate on opening liabilities	**-**	(207)
Total deferred tax	**(123)**	(3,871)
Tax on profit on ordinary activities	**1,462**	(2,191)

b) Non-Technical account – analysis of charge:

	Year ended 2013 £'000	Year ended 2012 £'000
Group relief payable:		
Tax on long-term business technical account	**1,585**	1,680
Total current tax charge	**1,585**	1,680
Deferred tax:		
Tax on long-term business technical account	**(123)**	(475)
Total deferred tax	**(123)**	(475)
Tax on profit on ordinary activities	**1,462**	1,205

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the current year:

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 October 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

The standard rate of corporation tax used in these accounts is 23.42% (2012: 24.83%) as a result of the financial year straddling periods at 24% and 23%.

	Year ended 2013	Year ended 2012
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before tax	**14,500**	9,623
Current tax at 23.42% (2012: 24.83%)	**3,396**	2,389
Effects of:		
Disallowable expenses	**1**	2
Transitional adjustment under new life insurance corporate tax regime	**229**	-
Use of brought forward losses	**(2,041)**	-
Difference between actual and annual tax rate	**(8)**	-
Capital allowances in excess of depreciation	**(2)**	-
UK tax bases of insurance profits	**-**	(713)
Adjustment in respect of prior years	**10**	2
Total current tax charge (see above)	**1,585**	1,680

Notes *(continued)*

9 Investment properties

	Freehold land & buildings held for sale £'000	Reversion properties £'000	Total £'000
Valuation			
At beginning of year	7,545	74,779	82,324
Additions	7,976	167	8,143
Disposals	(9,465)	(7,436)	(16,901)
Properties no longer available for sale	(541)	-	(541)
Revaluations	2,892	3,476	6,368
At end of year	8,407	70,986	79,393

10 Other financial investments

	Market Value 2013 £'000	Market Value 2012 £'000	**Cost 2013 £'000**	Cost 2012 £'000
Loans secured by mortgage	**198,040**	131,513	**139,006**	72,909
Deposits with credit institutions	**28,744**	42,061	**28,744**	42,061
	226,784	173,574	**167,750**	114,970

Notes *(continued)*

11 Fixed assets

	Computer software	Total
Cost		
At beginning of year	-	-
Additions	51	51
Disposals	-	-
At end of year	51	**51**
Depreciation		
At beginning of year	-	-
Provided in the year	(6)	(6)
Disposals	-	-
At end of year	(6)	**(6)**
Net book value		
At beginning of year	-	-
At end of year	45	**45**

12 Other debtors

	2013 **£'000**	2012 £'000
Other debtors	146	582

13 Called up share capital

	2013 **£'000**	2012 £'000
Allotted, called up and fully paid		
27,200,000 ordinary shares of £0.25 each	**6,800**	6,800

14 Profit and loss account

	2013 **£'000**	2012 £'000
At beginning of year	**60,847**	52,429
Profit for the financial year	**13,038**	8,418
At end of year	**73,885**	60,847

Included in the capital and reserves is an amount of £10,868,000 which is required not to be treated as realised profits under Section 843 of the Companies Act 2006. This arises due to differences disclosed in note 21.

Notes *(continued)*

15 Technical provisions

Long term business provision	**2013**	2012
	£'000	£'000
Gross amount		
At beginning of year	**186,141**	132,992
Movement to the long term business technical account	**37,676**	53,149
At end of year	**223,817**	186,141

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

a. Rates of interest

The interest rates used to discount liabilities reflect the yield on the assets backing the liabilities less an appropriate deduction.
These were as follows:

	2013	2012
Reversionary scheme and renewable reversionary scheme	4.34%	4.25%
Purchased life annuities	4.34%	4.25%
Mortgage scheme	4.50%	4.50%
Pension business annuities	3.66%	3.20%

b. Mortality tables

The mortality table used to calculate the technical provisions for annuity liabilities is the PCMA/PCFA 00 table. This table is adjusted from 2000 by calendar year for mortality improvements based on the CMI 2011 mortality projection model using a long-term rate of mortality improvement of 1.75% per annum. The mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor as follows:

- Immediate pension annuities: 67%, PCMA/PCFA 00 (2012: 67%).
- Immediate purchased life annuities: 67%, PCMA/PCFA 00 (2012: 67%).
- Annuities written under the Reversionary and Renewable Reversionary Scheme: 100%, PCMA/PCFA 00 (2012: 100%)
- Annuities written under the Mortgage Scheme: 100%, PCMA/PCFA 00 (2012: 100%).

c. Provision for expenses

An explicit provision for expenses based on an amount per policy per annum (2012: 5% of annuity payments) has been determined from recent experience analysis that increases with an annual inflation rate of 4.36%.

Notes *(continued)*

16 Provision for other risks and charges

	2013	2012
	£'000	£'000
Deferred tax		
At beginning of year	**242**	4,113
Released during the year	**(123)**	(3,871)
At end of year	**119**	242

Deferred taxation provided in the financial statements is the total potential liability at the applicable rate and is set out below:

	2013	2012
	£'000	£'000
Other timing differences	**-**	2,170
Unrealised gains on reversions and freehold land and buildings held for sale	**-**	252
Acquisition expenses on which tax relief is deferred	**-**	(55)
Excess tax losses carried forward	**-**	(197)
Gross Roll-up Business losses	**-**	(1,928)
Transitional adjustment under new life insurance corporate tax regime	**1,783**	-
Non basic life and general annuity business losses	**(1,664)**	-
	119	242

Notes *(continued)*

17 Creditors

	2013 **£'000**	2012 £'000
Corporation tax	**498**	1,645
Other	**2,508**	2,087
Total	**3,006**	3,732

18 Long term fund

The total amount of assets representing the long term fund as defined in the Prudential Regulation Authority and Financial Conduct Authority's Handbook of Rules and Guidance issued under the Financial Services and Markets Act 2000 were as follows.

	2013 **£'000**	2012 £'000
Long term fund	**302,554**	252,762

19 Pension scheme

The Company does not have any employees. Management and administration is provided by the employees of the immediate parent undertaking, Julian Hodge Bank Limited which recharges the share of those costs, including pension contributions, that relate to the Company.

Details of the Group pension arrangements are included in the consolidated financial statements of The Carlyle Trust Limited.

20 Ultimate holding company

The ultimate parent undertaking and controller of the Company is The Carlyle Trust (Jersey) Limited (incorporated and registered in Jersey).

The Company's immediate parent undertaking is Julian Hodge Bank Limited. Within the meaning of the Companies Act 2006, The Carlyle Trust Limited (registered in England and Wales) is the parent undertaking for which Group accounts have been drawn up and of which the Company is a member. The accounts of The Carlyle Trust Limited can be obtained from:

The Registrar of Companies
Companies House
Crown Way
Cardiff
CF14 3UZ

Notes *(continued)*

21 Capital statement

	At 31 October 2013		
	UK Non-participating	**Shareholder's funds**	**Total life business**
	£'000	**£'000**	**£'000**
Available capital resources			
Shareholder's funds held outside long-term insurance business fund	-	5,073	5,073
Shareholder's funds held in long-term insurance business fund	75,612	-	75,612
Total shareholder's funds	**75,612**	**5,073**	**80,685**
Adjustment onto a regulatory basis			
- differences in valuation of assets	(59)	-	(59)
- differences in determination of technical provisions	(10,928)	-	(10,928)
- differences in provision for tax	119	-	119
Total available capital resources	**64,744**	**5,073**	**69,817**
Analysis of policyholder liabilities			
(a) With-profits business	-	-	-
(b) Unit-linked business	-	-	-
(c) Other life assurance business	223,817	-	223,817
(d) Insurance business accounted for as financial instruments under FRS 26	-	-	-
Total policyholder liabilities	**223,817**	**-**	**223,817**
Analysis of movements in capital			
Opening available capital resources	52,607	5,000	57,607
Movement in period	12,137	73	12,210
Transfer to shareholders fund	-	-	-
Closing available capital resources at 31 October 2013	**64,744**	**5,073**	**69,817**

Notes *(continued)*

21 Capital statement *(continued)*

All business written by the Company is non-linked business. The shareholders of the Company are entitled to all of the profits of the business and the policyholders do not participate in the surplus arising. The ability of the Company to distribute retained profits to the shareholders is limited by the requirements of both the Companies Act 2006 and the regulatory provisions of the Prudential Regulatory Authority and Financial Conduct Authority's Handbook of Rules and Guidance.

The capital resources requirement is determined in accordance with the rules set out in the Prudential Sourcebook for insurers of the Handbook of Rules and Guidance ("INSPRU"). A modification is made to the rules under s148 FSMA 2000 to discount annuity liabilities at an interest rate that reflects the prudent redemption yield on reversionary interests in property.

For the purposes of the current type of business written by the Company, this is calculated as a long-term insurance capital requirement ("LTICR") that is primarily determined as 4% of the mathematical reserves, plus a resilience capital requirement ("RCR").

The RCR is calculated according to the most onerous of a prescribed set of stress tests in INSPRU. For the Company, the most onerous part of the stress tests is a fall in property prices. Changes in long-term interest rates also have an effect and usually it is a fall in long-term interest rates that is more onerous.

The available capital resources are sensitive to a variety of factors. The three main factors relating to the in-force business are:

Longevity:

- Increases in longevity will increase the value of annuity liabilities
- Increases in longevity will decrease the value of reversionary interests in property
- Increases in longevity will increase the value of roll-up mortgages

House prices

- Decreases in house prices will decrease the value of reversions and roll-up mortgages
- Decreases in the rate of future house price inflation will decrease the value of roll-up mortgages

Voluntary redemptions:

- Increases in the rate of voluntary redemption will decrease the value of roll-up mortgages

The Company has become more active in writing new pension annuity business. Writing such business usually reduces the available capital resources and increases capital resource requirements of the Company at the time new business is written.