

**Hodge Life Assurance Company  
Limited**

**Directors' report and financial  
statements**

**31 October 2015**

**Registered number 837457**

## **Officers and professional advisers**

<b>Directors</b>	Keith James	O.B.E., M.A.	Chairman
	Jonathan Hodge		Deputy Chairman
	Deian Jones	B.Sc, 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.	

Helen Molyneux LLD (Hons)

**Company Secretary** Rhian Yates B. Sc., F.C.C.A

**Registered Office** 31 Windsor Place  
Cardiff  
CF10 3UR

**Auditor** KPMG LLP  
3 Assembly Square  
Cardiff  
CF10 4AX

**Principal bankers** Lloyds Bank Plc  
London

**Actuaries** Milliman  
London

**Economic adviser** Professor Patrick Minford  
Cardiff Business School

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## Chairman's statement

I am pleased to present the results for the year ended 31 October 2015. Despite significant upheaval in our core pension annuity market, the Company has enjoyed another good year, making a pre-tax profit of £15.9 million (2014: £6.9 million).

### Highlights

- Profit before tax increased by 130% to £15.9 million (2014: £6.9 million)
- Pillar I capital resources in excess of the regulatory requirement increased by 11% to £52.1 million (2014: £46.8 million).

### Economic Environment

To a large extent, 2015 has mirrored 2014, with cautious optimism in the early part of the year that the recovery was well-founded and could be sustained. This was backed up by solid GDP growth in the UK and talk of interest rate rises both here and in the US.

As the year progressed, growth projections were revised down as the continuing turmoil in emerging markets, especially China, started to adversely affect confidence in the strength of the global recovery, which was seen to be unbalanced. Amongst developed countries, the US and UK stood apart, with reasonably robust growth, whilst the Eurozone struggled to make much progress as more quantitative easing was continually promised in an attempt to generate some momentum to a stagnating economy.

Emerging markets, in particular were particularly affected as commodity prices continued their downward spiral, ameliorating inflation expectations, such that the Bank of England seems to be stepping away from any interest rate rise in the near term. Whether this will change when the US makes its move remains to be seen.

There is a concern, that unlike the US, the UK is less able to maintain its growth trajectory without help from its neighbours, especially the Eurozone, which remains mired in problems. The situation will be further exacerbated by the continued slowdown in emerging markets and the commodities rout which shows no sign of abating.

In the UK itself, falling unemployment and the re-appearance of real wage growth have combined to create a positive economic outlook, which unfortunately could be derailed by global factors.

### Financial Performance

Despite the fall in new business year on year due to the effects of pension freedoms, profits have increased substantially. House prices remained strong across the year, which combined with an enhanced rate of maturity of reversion plans led to increased profits on sale of properties. Mortality experience against actuarial assumptions also remained favourable for legacy portfolios. Further, the margins emerging from the in-force portfolio are considerably higher, reflecting the growth achieved over the past 5 years.

## Chairman's statement *(continued)*

### Five Year Summary

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Premium income</b>	37.5	70.9	51.6	54.3	26.7
<b>Profit before tax</b>	15.9	6.9	14.5	9.6	5.2
<b>Total assets</b>	416.4	361.0	307.6	257.8	199.4
<b>Shareholders' funds</b>	98.8	86.1	80.7	67.6	59.2

### Pension annuities

Pension freedoms were first announced in March 2014, and came into effect in April 2015. Throughout the financial year there has therefore been great uncertainty amongst the UK population as to how pension savings should be accessed most efficiently. This has resulted in a significant reduction in premium amount which have fallen by 47% compared with the prior year.

Whilst it remains to be seen whether new products designed to enable retirees to benefit from these freedoms will gain traction, securing a guaranteed income for life from the use of some of their pension savings is likely to remain a key priority for many retirees. We are therefore optimistic that annuities will continue to play an important part in the retirement landscape, and I'm pleased to report that we have seen an increase in activity in the market since the end of the financial year.

### 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. The need for equity release may also be exacerbated for those retirees using pension freedoms to withdraw lump sums from their pensions, thus reducing their level of pension income in later life.

We were extremely pleased to be named the Best Equity Release Provider for the third year running at the 2015 Moneyfacts Investment, Life and Pensions awards. At the 2015 Equity Release Awards, we were named the Best Provider for Adviser Support for the second year running, in recognition of our commitment to supporting the financial advice community in growing this market.

## **Chairman's statement** *(continued)*

### **Retirement Mortgage**

Mortgage lending in retirement became a hot topic during 2015, with regular press coverage of creditworthy retirees being denied access to this type of financing. As the demography of the UK population continues to evolve, we are already seeing people entering the property market later, holding mortgage debt for longer, and working well beyond the standard retirement age. These trends are creating new demands for mortgage products.

Our Retirement Mortgage, a 'hybrid' lifetime mortgage, is aimed at a different market segment to our other equity release products, and addresses some of the emerging demands of the 'lending in retirement' market. This product is now gaining momentum, and we expect to make further developments to this product range in the next year.

### **Regulatory Matters**

The Company's solvency position remains strong. During the year, its capital resources in excess of the regulatory requirement increased to £52.1 million (2014: £46.8 million).

We are now days away from the implementation of Solvency II.

The company has received approval from the Prudential Regulation Authority ("PRA") to use the transitional measures available as we move into the Solvency II regime. We will also adopt the Standard Formula in order to determine our capital requirements. These result in the company being adequately capitalised under the new regime.

As I have noted previously, these pan-European rules do not translate well to equity release, which is a niche area of the UK financial services market, and this is expected to be an area of focus for the PRA in 2016. The option remains available to the company to seek approval from the PRA to implement an internal model to determine capital requirements, and to use the matching adjustment. Both would likely result in a more favourable overall capital position for the company as we continue to grow.

## **Chairman's statement** *(continued)*

### **The Outlook**

We remain cautiously optimistic in respect of the annuity market, expecting a reasonable level of recovery over the medium term. Our size means that we only require a small share of the total annuity market to meet our ambitions. Even if the market only recovers to 25% of its pre-pension freedoms size, our target market share would remain below 10%.

The retirement market in general continues to offer significant growth potential, underpinned by increasing life expectancy and changing lifestyles. We will use our experience to continue to offer product innovation in this area.

**Keith James**  
**Chairman**  
**17 December 2015**

## Strategic Report

### Principal Activities

The principal activity of the Company is the provision of pension annuities and other related products.

### 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.

### Business review and future developments

A review of business and future developments is included in the Chairman's statement on pages 3 to 6.

### Results and dividends

The profit for the year after taxation amounted to £12,768,000 (2014: £5,433,000). No dividend was paid during the year (2014: *£nil*) leaving a surplus for the year of £12,768,000 (2014: £5,433,000) to be taken to reserves.

### 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 2015.

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

## **Strategic Report** *(continued)*

### **Corporate Governance** *(continued)*

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.

### **Governance framework**

The following is a summary of the framework for corporate governance adopted by the Company.

#### ***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.

### **Board committees**

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

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 auditors, to review the statutory accounts and to consider compliance issues.

The committee meets at least four times a year.

## **Strategic Report** *(continued)*

### **Board committees** *(continued)*

- **Risk and conduct committee:** *Alun Bowen (Chairman), Keith James, Jonathan Hodge, Helen Molyneux and Adrian Piper.*

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

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

The committee meets at least four times a year.

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

### **Executive Committees**

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

- **Group Management board**

The committee consists of executive management and is responsible for the formulation and execution of the Company's strategy, and the day-to-day management of the Company, subject to specific limitations and constraints imposed by the Board and is also responsible for formulating the IT strategy and policy and monitors and authorises IT activities throughout the Company.

The committee meets as required, but as a minimum will meet six times per year.

- **Executive risk committee**

The committee meets quarterly and monitors the Company's risk management framework. It also monitors and co-ordinates the activities of compliance, risk assurance and internal audit throughout the Company.

## **Strategic Report** *(continued)*

### **Executive committees** *(continued)*

#### ▪ **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.

#### ▪ **Actuarial committee**

The committee is responsible for monitoring the insurance risk exposure of the company including longevity risk, liquidity risk, house price risk and interest rate risks. It also monitors and provides input to the methods and assumptions used to undertake actuarial valuations of the Company's assets and liabilities.

The Committee meets as required, but as a minimum will meet four times per annum.

### **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.

The Company operates three lines of defence model for risk management and oversight. This structure clearly defines the roles and responsibilities of risk management, risk oversight and risk assurance, separately from those of commercial and operational activities undertaken by the Company. This model comprises the following elements:

**First line of defence** has responsibility for implementation of the Company's strategy and for the management of risk across the organisation and comprises executive committees, management and staff.

**Second line of defence** relates to risk oversight and independent challenge of the first line of defence. The board has delegated oversight of risk management to the risk and conduct committee. An internal assurance team is responsible for undertaking a programme of assurance monitoring to enable the risk and conduct committee to assess whether the first line of defence is operating effectively.

The **third line of defence** provides objective assurance on the effectiveness of the Company's governance and risk management processes and controls. This assurance is obtained via the use of internal audit services provided by PWC. The Board retains ultimate responsibility for risk management in the Company.

## **Strategic Report** *(continued)*

### **Risk Management** *(continued)*

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

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

**Conduct risk** is the risk that the Company's behaviour results in poor outcomes for customers. The Company is exposed to this risk by virtue of the markets in which it chooses to operate.

The evaluation of the various risks and the setting of policy is carried out through the Company's executive risk committee and reports to the risk and conduct committee, which ensures 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

17 December 2015

## Directors' Report

The directors present their report together with the financial statements for the year ended 31 October 2015.

### 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 *	
Mrs. H. Molyneux*	- Appointed 18 <sup>th</sup> June 2015.

\* Non Executive

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 the 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 they ought to have taken as a director to make themselves 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**

A resolution for the re-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

17 December 2015

31 Windsor Place  
Cardiff  
CF10 3UR

## **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 2015 set out on pages 15 to 32. 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 13, 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](http://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 2015 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 LLP, Statutory Auditor**

Chartered Accountants  
3 Assembly Square  
Britannia Quay  
Cardiff  
CF10 4AX

**Profit and loss account: Technical account – long term business  
for the year ended 31 October 2015**

	<b>Note</b>	<b>2015</b> <b>£'000</b>	2014 <b>£'000</b>
	<hr/>	<hr/>	<hr/>
Earned premiums	<b>3</b>	<b>37,581</b>	70,865
Investment income	<b>4</b>	<b>10,495</b>	9,687
Unrealised gains/(losses) on investments		<b>33,926</b>	(3,778)
Claims incurred		<b>(20,024)</b>	(17,706)
<b>Changes in other technical provisions:</b>			
Long term business provision	<b>15</b>	<b>(42,521)</b>	(48,328)
Net operating expenses	<b>5</b>	<b>(3,616)</b>	(3,917)
Tax attributable to the long term business	<b>8</b>	<b>(3,140)</b>	(1,454)
		<hr/>	<hr/>
<b>Balance on the technical account - long term business</b>		<b>12,701</b>	<b>5,369</b>
		<hr/>	<hr/>

The notes on pages 19 to 32 form part of these financial statements.

**Profit and loss account: Non technical account  
for the year ended 31 October 2015**

	<b>Note</b>	<b>2015</b> <b>£'000</b>	2014 £'000
Balance on the technical account - long term business		<b>12,701</b>	5,369
Tax attributable to the balance on the long term business technical account		<b>3,140</b>	1,454
<b>Shareholders pre-tax profit arising on long term business</b>		<b>15,841</b>	6,823
Investment income on shareholder's funds		<b>85</b>	82
<b>Profit before tax</b>	<b>6</b>	<b>15,926</b>	6,905
Tax on profit on ordinary activities	<b>8</b>	<b>(3,158)</b>	(1,472)
<b>Profit on ordinary activities after tax being profit for the financial year</b>	<b>14</b>	<b>12,768</b>	5,433

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 19 to 32 form part of these financial statements.

**Reconciliation of movement in shareholder's funds**  
***for the year ended 31 October 2015***

	<b>Note</b>	<b>2015</b> <b>£'000</b>	2014 £'000
Opening shareholder's funds		<b>86,118</b>	80,685
Profit for the financial year	<b>14</b>	<b>12,768</b>	5,433
Closing shareholder's funds		<b>98,886</b>	86,118

The notes on pages 19 to 32 form part of these financial statements.

**Balance Sheet**  
*at 31 October 2015*

	<b>Note</b>	<b>2015</b>	2014
		<u>£'000</u>	<u>£'000</u>
<b>ASSETS</b>			
<b>Investments</b>			
Investment properties	<b>9</b>	<b>78,468</b>	80,935
Other financial investments	<b>10</b>	<b>336,081</b>	277,560
		<u><b>414,549</b></u>	<u>358,495</u>
Fixed assets	<b>11</b>	<b>40</b>	55
Other debtors	<b>12</b>	<b>1,312</b>	1,752
<b>Other assets</b>			
Cash at bank and in hand		<b>16</b>	96
Prepayments and accrued income		<b>542</b>	586
<b>Total assets</b>		<u><b>416,459</b></u>	<u>360,984</u>
 <b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	<b>13</b>	<b>6,800</b>	6,800
Profit and loss account	<b>14</b>	<b>92,086</b>	79,318
<b>Shareholder's funds attributable to equity interests</b>		<b>98,886</b>	86,118
 <b>Technical provisions</b>			
Long term business provision	<b>15</b>	<b>314,666</b>	272,145
<b>Provision for other risks and charges</b>	<b>16</b>	<b>1,296</b>	325
<b>Other creditors</b>	<b>17</b>	<b>1,611</b>	2,396
<b>Total liabilities</b>		<u><b>416,459</b></u>	<u>360,984</u>

These financial statements were approved by the Board of directors on 17 December 2015 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 an accruals 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 £580,000 (2014: £1,217,000).

New business premiums can be analysed as follows: -

	<b>Year ended 2015 Gross £'000</b>	<b>Year ended 2015 Net £'000</b>	Year ended 2014 Gross £'000	Year ended 2014 Net £'000
Individual premiums from non-participating contracts - annuity business	<b><u>37,581</u></b>	<b><u>37,581</u></b>	<u>70,865</u>	<u>70,865</u>

### 4 Investment income

	<b>Year ended 2015 Technical account £'000</b>	Year ended 2014 Technical account £'000
Income from investments		
Rents receivable	<b>4</b>	4
Other investments - Mortgage interest	<b>173</b>	258
- Deposit interest	<b>226</b>	225
Gains on the realisation of investments	<b>10,022</b>	9,236
Investment income	<b>70</b>	6
Investment impairment	<b>-</b>	(42)
	<b><u>10,495</u></b>	<u>9,687</u>

**Notes** (continued)

**5 Net operating expenses**

	<b>Year ended 2015 £'000</b>	Year ended 2014 £'000
Management and administration expenses	<b>3,037</b>	2,700
Acquisition costs	<b>579</b>	1,217
	<b><u>3,616</u></b>	<u>3,917</u>

**6 Profit on ordinary activities before tax**

	<b>Year Ended 2015 £'000</b>	Year Ended 2014 £'000
--	--	--------------------------------

The profit on ordinary activities before taxation is stated after charging:

**Auditor's remuneration**

- audit of these financial statements	<b>30</b>	25
- services relating to taxation	<b>20</b>	15
	<b><u>50</u></b>	<u>40</u>

**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 42 (2014: 41).

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

<b>2015 Number</b>	2014 Number
<b><u>2</u></b>	<u>2</u>

**Notes** (continued)

**8 Taxation**

**a) Technical account - analysis of charge:**

	<b>Year ended 2015 £'000</b>	Year ended 2014 £'000
<i>Group relief payable:</i>		
UK corporation tax on profits of the period	<b>2,168</b>	1,236
Adjustments in respect of prior periods	<b>1</b>	12
<b>Total current tax charge</b>	<b>2,169</b>	1,248
<i>Deferred tax (Note 16):</i>		
Origination/reversal of timing differences	<b>1,043</b>	206
Adjustments in respect of prior periods	<b>8</b>	-
Effect of decreased tax rate on opening liabilities	<b>(80)</b>	-
<b>Total deferred tax</b>	<b>971</b>	206
<b>Tax on profit on ordinary activities</b>	<b>3,140</b>	1,454

**b) Non-Technical account – analysis of charge:**

	<b>Year ended 2015 £'000</b>	Year ended 2014 £'000
<i>Group relief payable:</i>		
Tax on long-term business technical account	<b>2,169</b>	1,248
Tax on non-technical account	<b>18</b>	18
<b>Total current tax charge</b>	<b>2,187</b>	1,266
<i>Deferred tax:</i>		
Tax on long-term business technical account	<b>971</b>	206
<b>Total deferred tax</b>	<b>971</b>	206
<b>Tax on profit on ordinary activities</b>	<b>3,158</b>	1,472

**Notes** *(continued)*

**8 Taxation** *(continued)*

**Factors affecting the tax charge for the current year:**

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly.

The deferred tax asset at 31 October 2015 has been calculated based on these rates.

	<b>Year ended 2015 £'000</b>	Year ended 2014 £'000
<b>Current tax reconciliation</b>		
Profit on ordinary activities before tax	<b>15,926</b>	6,905
Current tax at 20.42% (2014: 21.83%)	<b>3,252</b>	1,508
Effects of:		
Transitional adjustment under new life insurance corporate tax regime	<b>199</b>	213
Use of brought forward losses	<b>(1,268)</b>	(465)
Capital allowances in excess of depreciation	<b>3</b>	(2)
Adjustment in respect of prior years	<b>1</b>	12
Total current tax charge (see above)	<b>2,187</b>	1,266

**Notes** (continued)

**9 Investment properties**

	<b>Freehold land &amp; buildings held for sale £'000</b>	<b>Reversion properties £'000</b>	<b>Total £'000</b>
<b>Valuation</b>			
At beginning of year	9,679	71,256	80,935
Additions	8,918	61	8,979
Disposals	(12,400)	(8,859)	(21,259)
Revaluations	5,508	4,305	9,813
<b>At end of year</b>	<b>11,705</b>	<b>66,763</b>	<b>78,468</b>

**10 Other financial investments**

	<b>Market Value 2015 £'000</b>	Market Value 2014 £'000	<b>Cost 2015 £'000</b>	Cost 2014 £'000
Loans secured by mortgage	<b>290,125</b>	246,103	<b>216,486</b>	201,233
Debt securities	<b>18,979</b>	2,150	<b>19,002</b>	2,151
Deposits with credit institutions	<b>26,977</b>	29,307	<b>26,977</b>	29,307
	<b>336,081</b>	277,560	<b>262,465</b>	232,691

## Notes (continued)

### 11 Fixed assets

	<b>Computer software</b>	<b>Total</b>
<u>Cost</u>		
At beginning of year	76	76
Additions	-	-
Disposals	-	-
<b>At end of year</b>	<b>76</b>	<b>76</b>
<u>Depreciation</u>		
At beginning of year	(21)	(21)
Provided in the year	(15)	(15)
Disposals	-	-
<b>At end of year</b>	<b>(36)</b>	<b>(36)</b>
<u>Net book value</u>		
At beginning of year	55	55
<b>At end of year</b>	<b>40</b>	<b>40</b>

### 12 Other debtors

	<b>2015</b>	2014
	<b>£'000</b>	£'000
Corporation tax	-	712
Other debtors	1,312	1,040
	<b>1,312</b>	<b>1,752</b>

### 13 Called up share capital

	<b>2015</b>	2014
	<b>£'000</b>	£'000
<b>Allotted, called up and fully paid</b>		
27,200,000 ordinary shares of £0.25 each	<b>6,800</b>	6,800

### 14 Profit and loss account

	<b>2015</b>	2014
	<b>£'000</b>	£'000
At beginning of year	79,318	73,885
Profit for the financial year	12,768	5,433
<b>At end of year</b>	<b>92,086</b>	<b>79,318</b>

Included in the capital and reserves is an amount of £14,853,000 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

<b>Long term business provision</b>	<b>2015</b>	2014
	<b>£'000</b>	£'000
<b>Gross amount</b>		
At beginning of year	<b>272,145</b>	223,817
Movement to the long term business technical account	<b>42,521</b>	48,328
<b>At end of year</b>	<b>314,666</b>	272,145

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:

	<u>2015</u>	<u>2014</u>
Reversionary scheme and renewable reversionary scheme	3.98%	4.40%
Purchased life annuities	3.98%	4.40%
Mortgage scheme	1.53%	4.50%
Pension business annuities	3.80%	3.92%

#### 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 (2014: 67%).
- Immediate purchased life annuities: 67%, PCMA/PCFA 00 (2014: 67%).
- Annuities written under the Reversionary and Renewable Reversionary Scheme: 90%, PCMA/PCFA 00 (2014: 90%)
- Annuities written under the Mortgage Scheme: 90%, PCMA/PCFA 00 (2014: 90%).

#### c. Provision for expenses

An explicit provision for expenses based on an amount per policy per annum has been determined from recent experience analysis; these are set out below. This provision increases with an annual inflation rate of 4.13% (2014: 4.20%).

	<u>2015</u>	<u>2014</u>
Reversionary scheme and renewable reversionary scheme	£81	£81
Purchased life annuities	£81	£81
Mortgage scheme	£81	£81
Pension business annuities	£64	£64

**Notes** *(continued)*

**16 Provision for other risks and charges**

	<b>2015</b>	2014
	<b>£'000</b>	£'000
<b>Deferred tax</b>		
At beginning of year	<b>325</b>	119
Charged/(released) during the year	<b>971</b>	206
<b>At end of year</b>	<b>1,296</b>	325

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

	<b>2015</b>	2014
	<b>£'000</b>	£'000
Transitional adjustment under new life insurance corporate tax regime	<b>1,290</b>	1,569
Non basic life and general annuity business losses	-	(1,244)
Fixed asset timing difference	<b>6</b>	-
	<b>1,296</b>	325

## Notes (continued)

### 17 Creditors

	<b>2015</b> <b>£'000</b>	2014 £'000
Trade Creditors	<b>36</b>	-
Corporation Tax	<b>71</b>	-
Other	<b>1,504</b>	2,396
Total	<b>1,611</b>	2,396

The company had contracted commitments of £1,995,000 (2014: £Nil).

### 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.

	<b>2015</b> <b>£'000</b>	2014 £'000
Long term fund	<b>411,459</b>	355,272

### 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 only 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**

	<b>At 31 October 2015</b>		
	<b>UK Non- participating £'000</b>	<b>Shareholder's funds £'000</b>	<b>Total life business £'000</b>
<b>Available capital resources</b>			
Shareholder's funds held outside long-term insurance business fund	-	5,000	5,000
Shareholder's funds held in long-term insurance business fund	93,886	-	93,886
<b>Total shareholder's funds</b>	<b>93,886</b>	<b>5,000</b>	<b>98,886</b>
Adjustment onto a regulatory basis			
- differences in valuation of assets	(59)	-	(59)
- differences in determination of technical provisions	(15,952)	-	(15,952)
- differences in provision for tax	1,158	-	1,158
<b>Total available capital resources</b>	<b>79,033</b>	<b>5,000</b>	<b>84,033</b>
<b>Analysis of policyholder liabilities</b>			
(a) With-profits business	-	-	-
(b) Unit-linked business	-	-	-
(c) Other life assurance business	314,666	-	314,666
(d) Insurance business accounted for as financial instruments under FRS 26	-	-	-
<b>Total policyholder liabilities</b>	<b>314,666</b>	<b>-</b>	<b>314,666</b>
<b>Analysis of movements in capital</b>			
Opening available capital resources	67,603	5,000	72,603
Movement in period	11,345	85	11,430
Transfer to/(from) shareholders fund	85	(85)	-
<b>Closing available capital resources at 31 October 2015</b>	<b>79,033</b>	<b>5,000</b>	<b>84,033</b>

## **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 two 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

#### **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