Hodge Life Assurance Company Limited

Directors' report and financial statements

31 October 2011

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	
	Keith James	O.B.E., M.A	
	Hywel Jones	C.B.E., F.C.A., B.Sc	

Company Secretary Rhian Yates A.C.C.A

Registered Office
31 Windsor Place
Cardiff
CF10 3UR

Auditors
KPMG Audit Plc
Cardiff

Principal bankers
Lloyds TSB Bank Plc
London

Actuaries
Towers Watson
Reigate, Surrey

Economic adviser
Professor Patrick Minford
Cardiff Business School

Contents

Directors' Report

The directors present their report together with the financial statements for the year ended 31st October 2011.

Principal Activities

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

The Company further expanded its presence within the retirement income market during the year, generating pension annuity premiums of £26.7 million. In the previous 14 month period ended 31 October 2010, the Company wrote £21.9 million of pension annuity premiums, and a further £2.7 million of purchased life annuities. The Company ceased to offer purchased life annuities in 2010.

The Company achieved a profit before tax of £5,190,000 compared with £3,259,000 for the 14 months ended 31 October 2010. The increase was attributable to favourable mortality experience in the year, coupled with the improved terms on which assets and liabilities were acquired.

The development of the pension annuity business to date has been extremely pleasing and the Company is continually expanding its distribution capacity. Its overall B rating for financial strength has been reaffirmed by AKG, the primary rating agency used by brokers within the life assurance market.

The Company continues to focus on product simplicity combined with competitive annuity rates, a recipe which is clearly attractive to consumers. During the year the Company launched a protected rights option to enhance its product range further. The success of its pension annuities strategy to date has enabled the Company to acquire two portfolios of equity release mortgages from its parent and it anticipates making further acquisitions during the forthcoming year.

A significant level of regulatory change will take place over the next few years. The decision of the European Courts of Justice to require contracts of insurance (including annuities) to be priced on a unisex basis will come into effect on 21st December 2012. The Company continues to monitor the development of the detailed requirements of the Solvency II Directive, and at this time there remains considerable doubt over the outcome of some aspects of the regime that are important to the future performance of the business. Given the magnitude of these imminent changes, the Company's projected rate of growth has been managed to ensure that any legacy effects resulting from the transition to the new regulatory environment will be minimised.

Mortality experience for the period was favourable, particularly so for purchased life annuities, which represents the second-largest category of in-force business measured by liabilities.

The key risks to which the Company is exposed are falling house prices and reduced mortality rates leading to increases in longevity beyond that already anticipated within the valuation basis used. However, the Company maintains an internal capital adequacy threshold which would enable it to withstand a significant fall in house prices while still meeting regulatory requirements for capital resources and continues to use a strong (by industry standards) mortality basis in the valuation of its purchased life annuity liabilities.

At the year end, the Company's capital resources on a solvency basis exceed its capital resources requirement by £30.3 million (31 October 2010: £29.8 million), which gives it the capacity to fund the anticipated growth in its pension annuity business.

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.

Directors' Report *(continued)*

Directors and their interests

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

Mr. J. D. Mitchell*	- Chairman	*Resigned on 31st December 2011*
Mr. J. J. Hodge *	- Deputy Chairman	
Mr. D. L. Jones	- Managing Director	
Mr. D. M. Austin		
Mr. A. N. Piper *†		
Mr. D. K. M. James *†		*Chairman with effect from 1st January 2012*
Mr. H. G. Jones *†		

* Non Executive
† Independent

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

Going Concern

The Company has considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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.

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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

Directors' Report *(continued)*

- 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.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

BY ORDER OF THE BOARD

R. Yates
Secretary

26th January 2012
31 Windsor Place
Cardiff
CF10 3UR

Independent Auditors’ 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 2011 set out on pages 9 to 19. 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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 (APB'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 APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 2011 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 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.

Paul Furneaux (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

26th January 2012

Profit and loss account: Technical account – long term business
for the year ended 31 October 2011

	Note	Year to 31 October 2011 £'000	14 month period to 31 October 2010 £'000
Earned premiums	**3**	**26,697**	24,558
Investment income	**4**	**7,996**	9,776
Unrealised gains on investments		**6,981**	1,653
Claims incurred		**(11,745)**	(13,300)
Changes in other technical provisions:			
Long term business provision	**15**	**(22,937)**	(16,732)
Net operating expenses	**5**	**(1,802)**	(2,696)
Tax attributable to the long term business	**8**	**711**	730
Balance on the technical account - long term business		**5,901**	3,989

The notes on pages 9 to 19 form part of these financial statements.

Profit and loss account: Non technical account
for the year ended 31 October 2011

	Note	Year to 31 October 2011 £'000	14 month period to 31 October 2010 £'000
Balance on the technical account - long term business		**5,901**	3,989
Tax credit attributable to the long term business		**(711)**	(730)
Profit on ordinary activities before tax	**6**	**5,190**	3,259
Tax credit on profit on ordinary activities	**8**	**711**	730
Profit on ordinary activities after tax being retained			
Profit for the financial year transferred to reserves		**5,901**	3,989

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 9 to 19 form part of these financial statements.

Reconciliation of movement in shareholder's funds
for the year ended 31 October 2011

	Note	**Year to 31 October 2011 £'000**	14 month period to 31 October 2010 £'000
Opening shareholder's funds		**53,328**	49,339
Retained profit for the financial year	**14**	**5,901**	3,989
Closing shareholder's funds		**59,229**	53,328

The notes on pages 9 to 19 form part of these financial statements.

Balance Sheet
at 31 October 2011

	Note	2011	2010
ASSETS		**£'000**	£'000
Investments			
Investment properties	**9**	**90,144**	92,468
Other financial investments	**10**	**107,171**	77,469
		197,315	169,937
Debtors			
Other debtors	**11**	**393**	34
Other assets			
Cash at bank and in hand		**713**	1,080
Prepayments and accrued income		**948**	1,127
Total assets		**199,369**	172,178
LIABILITIES			
Capital and reserves			
Called up share capital	**13**	**6,800**	6,800
Profit and loss account	**14**	**52,429**	46,528
Shareholder's funds attributable to equity interests		**59,229**	53,328
Technical provisions			
Long term business provision	**15**	**132,992**	110,055
Provision for other risks and charges	**16**	**4,113**	5,290
Other creditors including taxation and social security	**17**	**3,035**	3,505
Total liabilities		**199,369**	172,178

These financial statements were approved by the Board of directors on 26th January 2012 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).

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
Death claims and surrenders represent those notified to the Company up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment.

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 computed by 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 calculation.

Investment income
Interest income is accounted for on a receivable basis, including where appropriate, the imputed tax credit. Dividends are recognised on the date on which the related investment goes "ex dividend". 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 last balance sheet date, and are included within the long term business technical account.

Notes *(continued)*

2 Accounting policies *(continued)*

Investments
Mortgage assets

The value of the mortgage assets on which interest is serviced is established by discounting the expected future receipts of interest and capital at an interest rate of 8.5% per annum.

The value of the lifetime mortgages where the interest is rolled-up and added to the capital is calculated by projecting the cashflows expected to be generated by the portfolio on redemption, allowing for credit losses caused by the no-negative equity guarantee. These cashflows are then discounted at the swap yield plus 135 basis points to reflect the illiquidity of mortgage assets, the expenses of administration and other risks. An allowance for possible early redemption of the mortgages at times of low interest rates is determined by reference to swaption prices and deducted from the value of the mortgages.

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. Independent valuations of the properties on a vacant possession basis are carried out at a frequency that depends upon the characteristics of the property and/or the occupiers. 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. The allowances are made to reflect the encumbered nature of these investments (they are not immediately realisable on a vacant possession basis), the costs of sale and to provide for a delay between the death of the occupiers and the sale of the property. A further deduction is made from the value to reflect the ongoing 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. Independent valuations of the properties on a vacant possession basis are carried out depending upon the characteristics of the property. 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

Notes *(continued)*

2 Accounting policies *(continued)*

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.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

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 £337,508 (2010: £370,106).

New business premiums can be analysed as follows: -

	Year ended 2011	**Year ended 2011**	14 months ended 2010	14 months ended 2010
	Gross	**Net**	Gross	Net
	£'000	**£'000**	£'000	£'000
Individual premiums from non-participating contracts - annuity business	**26,697**	**26,697**	24,558	24,558

4 Investment income

	Year ended 2011	14 months ended 2010
	Technical account	Technical account
	£'000	£'000
Income from investments		
Freehold land and buildings held for sale	**6**	9
Other investments - Mortgage interest	**566**	800
- Deposit interest	**217**	244
Gains on the realisation of investments	**7,207**	8,723
	7,996	9,776

Notes *(continued)*

5 Net operating expenses

	Year ended 2011	14 months ended 2010
	£'000	£'000
Management and administration expenses	**1,464**	2,326
Acquisition costs	**338**	370
	1,802	2,696

6 Profit on ordinary activities before tax

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

	£'000	£'000
Auditors' remuneration - audit of these financial statements	**30**	26
- other services relating to taxation	**24**	14
	54	40

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 19 (2010: 26).

Retirement benefits are accruing to the following number of directors under a defined benefits scheme.

	2011	2010
	Number	Number
	3	3

Notes *(continued)*

8 Taxation

Analysis of tax credit in year

	Year ended 2011 £'000	14 months ended 2010 £'000
UK corporation tax		
UK corporation tax on profits of the period	**466**	1,140
Total current tax	**466**	1,140
Deferred tax (Note 16)		
Origination/reversal of timing differences	**(992)**	(1,870)
Effect of increased tax rate on opening liabilities	**(185)**	-
Total deferred tax	**(1,177)**	**(1,870)**
Tax on profit on ordinary activities	**(711)**	(730)

Factors affecting the tax charge for the current year:

The standard rate of corporation tax used in these accounts is 26.83% (2010: 28%) as a result of the financial year straddling periods at 28% and 26%. The current corporation tax charge for the year is lower (2010: higher) than the expected tax charge. The differences are explained in the following table.

	Year ended 2011 £'000	14 months ended 2010 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	**5,190**	3,259
Current tax at 26.83% (2010: 28%)	**1,392**	913
Effects of:		
Disallowable expenses	**3**	3
UK tax bases of insurance profits	**(929)**	224
Total current tax charge (see above)	**466**	1,140

Notes *(continued)*

9 Investment properties

	Freehold land & buildings held for sale £'000	Reversion properties £'000	Total £'000
Valuation			
At beginning of year	7,084	85,384	92,468
Additions	8,367	187	8,554
Disposals	(7,999)	(8,367)	(16,366)
Revaluations	3,588	1,900	5,488
At end of year	**11,040**	**79,104**	**90,144**

10 Other financial instruments

	Market Value 2011 £'000	Market Value 2010 £'000	**Cost 2011 £'000**	Cost 2010 £'000
Loans secured by mortgage	**89,552**	59,403	**73,184**	50,592
Deposits with credit institutions	**17,619**	18,066	**17,619**	18,066
	107,171	77,469	**90,803**	68,658

11 Other debtors

	2011 £'000	2010 £'000
Other debtors	**393**	34

12 Tangible fixed assets

Fixtures, fittings and equipment with a cost of £58,000 were fully depreciated at 31 October 2011 and 31 October 2010.

13 Called up share capital

	2011 £'000	2010 £'000
Authorised		
40,000,000 ordinary shares of £0.25 each	**10,000**	10,000
Allotted, called up and fully paid		
27,200,000 ordinary shares of £0.25 each	**6,800**	6,800

Notes *(continued)*

14 Profit and loss account

	2011	2010
	£'000	£'000
At beginning of year	**46,528**	42,539
Retained profit for the financial year	**5,901**	3,989
At end of year	**52,429**	46,528

Included in reserves is an amount of £9,732,000 which is non-distributable by reason of Section 843 of the Companies Act 2006.

15 Technical provisions

Long term business provision	**2011**	2010
	£'000	£'000
Gross amount		
At beginning of year	**110,055**	93,323
Movement to the long term business technical account	**22,937**	16,732
At end of year	**132,992**	110,055

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:

	2011	2010
Reversionary scheme and renewable reversionary scheme	4.25%	4.25%
Purchased life annuities	4.25%	4.25%
Mortgage scheme	4.50%	4.50%
Pension business annuities	3.70%	4.25%

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 to allow for future reductions in mortality rates and hence increases in longevity on the basis set down in the CMI_2011 mortality projection model using a long-term rate of mortality improvement of 1.75% per annum (2010: CMI_2009 using a long-term rate of mortality improvement of 1.75% per annum). The mortality tables are further adjusted to reflect recent mortality experience and an additional allowance for future increments in longevity by multiplying the mortality rates by a percentage factor as follows:

- Annuities written under the Mortgage Scheme: 100%, PCMA/PCFA 00 (2010: 100%).
- Annuities written under the Reversionary and Renewable Reversionary Scheme: 100%, PCMA/PCFA 00 (2010: 95%)
- Immediate purchased life annuities: 65%, PCMA/PCFA 00 (2010: 65%).
- Immediate pension annuities: 65%, PCMA/PCFA 00 (2010: 65%).

c. Explicit provision for expenses

An explicit provision for expenses has been made of 5% (2010: 5%) of the annuity liabilities.

Notes (*continued)*

16 Provision for other risks and charges

	2011	2010
	£'000	£'000
Deferred tax		
At beginning of year	**5,290**	7,160
Released during the year	**(1,177)**	(1,870)
At end of year	**4,113**	5,290

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

	2011	2010
	£'000	£'000
Other timing differences	**717**	850
Unrealised gains on reversions and freehold land and buildings held for sale	**3,933**	5,895
Acquisition expenses on which tax relief is deferred	**(76)**	(111)
Excess tax losses carried forward	**(461)**	(1,344)
	4,113	5,290

A deferred tax asset of £1,347,000 (at 20%) has not been recognised in respect of losses as the Directors consider that it is unlikely that taxable income will exceed expenses in the short term in normal trading.

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 and a further reduction to 25 per cent with effect from 1 April 2012. These changes became substantively enacted on 29 March 2011 and 5 July 2011 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax liability which has been included in the figures above.

The Chancellor proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. It has not yet been possible to quantify the overall effect of the further reductions from 25 per cent to 23 per cent, although if these applied to the deferred tax balance at 31 October 2011, the impact would be to further reduce the deferred tax assets/liabilities accordingly.

17 Creditors

	2011	2010
	£'000	£'000
Corporation tax, social security and other	**3,035**	3,505

Notes (*continued)*

18 Long term fund

At 31st October 2011, the total amount of assets representing the long term fund as defined in the Financial Services Authority Handbook of Rules and Guidance issued under the Financial Services and Markets Act 2000 was £199,369,000 (2010: £172,178,000).

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

	UK Non-participating as at 31.10.2011 (£'000)	**Shareholder's funds as at 31.10.2011 (£'000)**	**Total life business as at 31.10.2011 (£'000)**
Available capital resources			
Shareholder's funds held outside long-term insurance business fund	-	-	-
Shareholder's funds held in long-term insurance business fund	59,229	-	59,229
Total shareholder's funds	**59,229**	**-**	**59,229**
Adjustment onto a regulatory basis:			
Differences in valuation of assets	(359)	-	(359)
Differences in determination of technical provisions	(9,986)	-	(9,986)
Differences in provision for tax	613	-	613
Total available capital resources	**49,497**	**-**	**49,497**
Analysis of policyholder liabilities			
(a) With-profits business	-	-	-
(b) Unit-linked business	-	-	-
(c) Other life assurance business	132,992	-	132,992
(d) Insurance business accounted for as financial instruments under FRS 26	-	-	-
Total policyholder liabilities	**132,992**	**-**	**132,992**
Analysis of movements in capital			
Opening available capital resources at 31 October 2010	47,124	-	47,124
Movement in period	2,373	-	2,373
Closing available capital resources at 31 October 2011	**49,497**	**-**	**49,497**

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 FSA Handbook of Rules and Guidance.

As at 31 October 2011, the Company had not transferred any surplus assets from the long-term insurance business fund into the shareholder's fund and as a result no distribution to the shareholders of the Company is possible.

The capital resources requirement is determined in accordance with the rules set out in the Prudential Sourcebook for insurers of the FSA Handbook of Rules and Guidance ("INSPRU"). 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").

Notes *(continued)*

21 Capital statement *(continued)*

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:

- *House prices*: Increases in house prices tend to increase the available capital resources.
- *Longevity*: If individuals live longer, the annuity liabilities increase and the value of reversionary interests in property decrease, reducing the available capital resources.
- *Maintenance of a modification of the FSA rules under s148 FSMA 2000*: The Company has for many years been able to discount annuity liabilities at an interest rate that reflects the prudent redemption yield on reversionary interests in property (assuming prudent longevity, no future increases in house prices and allowing for expenses of administration). If this modification of the FSA rules ceases, then the annuity liabilities would be discounted at a lower interest rate, reducing the available capital resources. This modification was renewed in June 2009 and will, subject to conditions, now run until November 2012. This affects the discounting of annuity liabilities for the purposes of regulatory capital calculations rather than for the purposes of the financial statements.

Apart from a small number of policies, there are no liabilities for in-force policies with options or guarantees. These policies have guarantees where an option of a minimum annuity rate has been promised for life in return for the future payment by the policyholder of tranches of reversionary interest in property. For the purposes of determining the capital resources, these guarantees have been valued on a worst case basis, assuming that the annuity is paid for life, but that the future tranches of reversionary interest in property have nil value.
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 of sale. It also introduces some short term options and guarantees around the time such annuities are written. This is because there is a period after the time at which the Company offers an annuity when the potential policyholder has a choice as to whether to accept the annuity rate offered or to allow the offer to expire.