Hodge Life Assurance Company Limited

Directors’ report and financial statements

31 October 2012

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	
	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

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Chairman's statement

This has been my first year as Chairman. I would like to thank my predecessor John Mitchell for his stewardship, meaning that Hodge Life has a solid capital platform on which to grow.

I am pleased to present the results for the year ended 31st October 2012. The Company made a pre-tax profit of £9.6 million *(2011: £5.2 million)* which, in the current environment, I believe to be another creditable performance.

Highlights

- Premium income has increased by 103%.
- Assets under management increased by 29% to £257.8 million.
- Pillar I capital resources in excess of the capital resources requirement increased by 4% to £31.7 million.

Economic Environment

The economy remains in the doldrums, with precious little evidence that this is going to change soon. The effects of quantitative easing and other economic stimuli have pushed interest rates down to historically low levels. It has therefore become an extremely difficult time for those entering retirement, with both annuity and savings rates falling significantly. For many, pension savings have not yet recovered from stock market falls. Against this backdrop, we have seen renewed interest in equity release being used to top-up shortfalls in retirement income.

Residential property remains the principal asset class to which the Company is exposed, and as prices remained subdued during the year, this had a negative impact on profits.

Economic indicators abound, but offer no clear direction; positive news in one area is frequently offset by less welcome news elsewhere. There is little sign that interest rates will rise in the near future and this is stark evidence of the low level of expectation within financial markets as to the likelihood and pace of recovery.

Regulatory Matters

The potential impact of Solvency II has been a constant topic of discussion in the insurance sector throughout the year, and we continue to work towards an expected transition to the new regime in January 2014. However, increasing speculation of further delays means that the timing is uncertain.

A key focus in the second half of the year was the introduction of the Retail Distribution Review. This required changes to our annuity sales processes and systems in order to facilitate adviser charging. On 3rd December 2012, we successfully introduced these changes. On the same day, we also introduced a gender-neutral pricing basis, in order to comply with the EU Directive which came into force on 21st December 2012.

Financial Performance

Hodge Life has had its most successful year to date, writing £54.3 million of pension annuity premiums, a 103% increase on the previous year *(£26.7 million)*. Annuity rates fell significantly over the year, as low gilt yields, Solvency II and preparations for gender-neutral pricing all took effect.

Chairman's statement *(continued)*

The Company increased its holdings of lifetime mortgages by £42 million year on year, to a total of £131.5 million. Holdings of reversionary interests in property reduced by £4.3 million to £74.8 million at 31 October 2012. As the asset mix moves 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. At the year end, the Company held a high level of liquidity, largely as a result of timing differences between the rate of origination of annuities and mortgages. We plan for liquidity levels to return to more normal levels during 2013.

The Company's solvency position remains strong. During the year, the capital resources in excess of the capital resources requirement increased by £1.4 million to £31.7 million, an excellent result given the increase in new business.

Five Year Summary

	2012	**2011**	**2010***	**2009**	**2008**
	£m	**£m**	**£m**	**£m**	**£m**
Premium income	54.3	26.7	24.6	5.7	4.0
Profit before tax	9.6	5.2	3.3	1.5	(2.4)
Total assets	257.8	199.4	172.2	151.6	150.1
Shareholders' funds	67.6	59.2	53.3	49.3	48.8

*14 month accounting period

Pension annuities

The Company's strategy revolves around offering a simple, straightforward annuity product at competitive rates. As we become more and more established in this market, our distribution footprint has grown, with a resultant increase in new business volume. The greater use of the Open Market Option within the pension annuity market has also 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.

We start the new financial year cautiously, as we see how the annuity market reacts to gender-neutral pricing.

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.

We designed and launched two new equity release mortgages during the year; one provides the option of future cash withdrawals, whilst both offer the flexibility to repay an element of the loan should the customer's circumstances change. These products highlight Hodge Lifetime's commitment to innovation and serving the needs of the customer.

Chairman's statement *(continued)*

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.

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.

Nevertheless, it remains a challenging environment for insurers, particularly given the ongoing uncertainty over the nature and timing of the implementation of Solvency II.
Notwithstanding this uncertainty, I believe that the Company has a credible and robust strategy which will enable it to grow even in the difficult times, and to prosper when the economic environment improves.

Keith James
Chairman
30 January 2013

Directors' Report

The directors present their report together with the financial statements for the year ended 31st October 2012.

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.

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. H. G. Jones *	
Mr. J. D. Mitchell*	- *Chairman until resignation on 31st December 2011*

* 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.

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 2012.

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:

Directors' Report *(continued)*

- 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.

Governance framework

Although Hodge Life is a privately-owned entity, it aims to implement the highest standards of corporate governance practicable. The following is a summary of the company's framework.

The Board

The Board has ultimate responsibility for the proper stewardship of Hodge Life 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), Hywel Jones, 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 auditors, to review the statutory accounts and to consider compliance issues.

  The committee meets at least four times a year.

Directors' Report *(continued)*

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

  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, 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.

Directors' Report *(continued)*

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.

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

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 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 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

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

BY ORDER OF THE BOARD

R. Yates
Secretary

30th January 2013
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 2012 set out on pages 12 to 28. 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 10, 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 2012 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.

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

30th January 2013

Profit and loss account: Technical account – long term business
for the year ended 31 October 2012

	Note	2012 £'000	2011 £'000
Earned premiums	**3**	**54,331**	26,697
Investment income	**4**	**11,733**	7,996
Unrealised gains on investments		**9,646**	6,981
Claims incurred		**(13,577)**	(11,745)
Changes in other technical provisions:			
Long term business provision	**14**	**(53,149)**	(22,937)
Net operating expenses	**5**	**(2,757)**	(1,802)
Tax attributable to the long term business	**8**	**2,191**	711
Balance on the technical account - long term business		**8,418**	5,901

The notes on pages 16 to 28 form part of these financial statements.

Profit and loss account: Non technical account
for the year ended 31 October 2012

	Note	2012	2011
		£'000	£'000
Balance on the technical account - long term business		**8,418**	5,901
Tax attributable to the balance on the long term business technical account		**1,205**	334
Shareholders pre-tax profit arising on long term business		**9,623**	6,235
Investment income on shareholder's funds		**-**	-
Profit before tax	**6**	**9,623**	6,235
Tax (charge)/credit on profit on ordinary activities	**8**	**(1,205)**	(334)
Profit on ordinary activities after tax being retained profit for the financial year transferred to reserves		**8,418**	5,901

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 16 to 28 form part of these financial statements.

Reconciliation of movement in shareholder's funds
for the year ended 31 October 2012

	Note	2012 £'000	2011 £'000
Opening shareholder's funds		**59,229**	53,328
Retained profit for the financial year	**13**	**8,418**	5,901
Closing shareholder's funds		**67,647**	59,229

The notes on pages 16 to 28 form part of these financial statements.

Balance Sheet
at 31 October 2012

	Note	2012	2011
ASSETS		**£'000**	£'000
Investments			
Investment properties	**9**	**82,324**	90,144
Other financial investments	**10**	**173,574**	107,171
		255,898	197,315
Debtors			
Other debtors	**11**	**582**	393
Other assets			
Cash at bank and in hand		**365**	713
Prepayments and accrued income		**917**	948
Total assets		**257,762**	199,369
LIABILITIES			
Capital and reserves			
Called up share capital	**12**	**6,800**	6,800
Profit and loss account	**13**	**60,847**	52,429
Shareholder's funds attributable to equity interests		**67,647**	59,229
Technical provisions			
Long term business provision	**14**	**186,141**	132,992
Provision for other risks and charges	**15**	**242**	4,113
Other creditors including taxation and social security	**16**	**3,732**	3,035
Total liabilities		**257,762**	199,369

These financial statements were approved by the Board of directors on 30th January 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 19).

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 19).

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.

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.

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 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 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 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.

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. 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 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.

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 £817,901 (2011: £337,508).

New business premiums can be analysed as follows: -

	Year ended 2012 Gross £'000	**Year ended 2012 Net £'000**	Year ended 2011 Gross £'000	Year ended 2011 Net £'000
Individual premiums from non-participating contracts - annuity business	**54,331**	**54,331**	26,697	26,697

4 Investment income

	Year ended 2012 Technical account £'000	Year ended 2011 Technical account £'000
Income from investments		
Rents receivable	**5**	6
Other investments - Mortgage interest	**456**	566
- Deposit interest	**382**	217
Gains on the realisation of investments	**10,931**	7,207
Investment impairment	**(41)**	-
	11,733	7,996

Notes *(continued)*

5 Net operating expenses

	Year ended 2012 £'000	Year ended 2011 £'000
Management and administration expenses	**1,938**	1,464
Acquisition costs	**819**	338
	2,757	1,802

6 Profit on ordinary activities before tax

	Year Ended 2012 £'000	Year Ended 2011 £'000
The profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration		
- audit of these financial statements	**30**	30
- other services relating to taxation	**24**	24
	54	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 19 (2011: 19).

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

	2012 Number	2011 Number
	2	3

Notes *(continued)*

8 Taxation

a) Technical account - analysis of charge:

	Year ended 2012 £'000	Year ended 2011 £'000
Group relief payable:		
UK corporation tax on profits of the period	**1,678**	466
Adjustments in respect of prior periods	**2**	-
Total current tax charge	**1,680**	466
Deferred tax (Note 15):		
Origination/reversal of timing differences	**(3,764)**	(992)
Adjustments in respect of prior periods	**100**	-
Effect of increased tax rate on opening liabilities	**(207)**	(185)
Total deferred tax	**(3,871)**	(1,177)
Tax on profit on ordinary activities	**(2,191)**	(711)

b) Non-Technical account – analysis of charge:

	Year ended 2012 £'000	Year ended 2011 £'000
Group relief payable:		
Tax on long-term business technical account	**1,680**	466
Total current tax charge	**1,680**	466
Deferred tax:		
Tax on long-term business technical account	**(475)**	(132)
Total deferred tax	**(475)**	(132)
Tax on profit on ordinary activities	**1,205**	334

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the current year:

The standard rate of corporation tax used in these accounts is 24.83% (2011: 26.83%) as a result of the financial year straddling periods at 26% and 24%. The current corporation tax charge for the year is lower (2011: lower) than the expected tax charge. The differences are explained in the following table.

	Year ended 2012 £'000	Year ended 2011 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	**9,623**	5,190
Current tax at 24.83% (2011: 26.83%)	**2,389**	1,392
Effects of:		
Disallowable expenses	**2**	3
UK tax bases of insurance profits	**(713)**	(929)
Adjustment in respect of prior years	**2**	-
Total current tax charge (see above)	**1,680**	466

9 Investment properties

	Freehold land & buildings held for sale £'000	**Reversion properties £'000**	**Total £'000**
Valuation			
At beginning of year	11,040	79,104	90,144
Additions	6,010	113	6,123
Disposals	(11,814)	(6,010)	(17,824)
Revaluations	2,309	1,572	3,881
At end of year	**7,545**	**74,779**	**82,324**

Notes *(continued)*

10 Other financial investments

	Market Value 2012 £'000	Market Value 2011 £'000	**Cost 2012 £'000**	Cost 2011 £'000
Loans secured by mortgage	**131,513**	89,552	**122,724**	73,184
Deposits with credit institutions	**42,061**	17,619	**42,061**	17,619
	173,574	107,171	**164,785**	90,803

11 Other debtors

	2012 £'000	2011 £'000
Other debtors	**582**	393

12 Called up share capital

	2012 £'000	2011 £'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

13 Profit and loss account

	2012 £'000	2011 £'000
At beginning of year	**52,429**	46,528
Retained profit for the financial year	**8,418**	5,901
At end of year	**60,847**	52,429

Included in the capital and reserves is an amount of £10,040,000 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 20.

Notes *(continued)*

14 Technical provisions

Long term business provision	**2012 £'000**	2011 £'000
Gross amount		
At beginning of year	**132,992**	110,055
Movement to the long term business technical account	**53,149**	22,937
At end of year	**186,141**	132,992

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:

	2012	2011
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	3.20%	3.70%

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 (2011: CMI_2011 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 (2011: 100%).
- Annuities written under the Reversionary and Renewable Reversionary Scheme: 100%, PCMA/PCFA 00 (2011: 100%)
- Immediate purchased life annuities: 67%, PCMA/PCFA 00 (2011: 65%).
- Immediate pension annuities: 67%, PCMA/PCFA 00 (2011: 65%).

c. Explicit provision for expenses

An explicit provision for expenses has been made of 5% (2011: 5%) of the annuity liabilities.

Notes *(continued)*

15 Provision for other risks and charges

	2012	2011
	£'000	£'000
Deferred tax		
At beginning of year	**4,113**	5,290
Released during the year	**(3,871)**	(1,177)
At end of year	**242**	4,113

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

	2012	2011
	£'000	£'000
Other timing differences	**2,170**	2,414
Unrealised gains on reversions and freehold land and buildings held for sale	**252**	3,933
Acquisition expenses on which tax relief is deferred	**(55)**	(76)
Excess tax losses carried forward	**(197)**	(461)
Gross Roll-up Business losses	**(1,928)**	(1,697)
	242	4,113

A deferred tax asset of £1,974,000 (at 23%) has not been recognised in respect of gross roll-up business losses as the Directors consider that it is unlikely that taxable income will exceed expenses in the short term in normal trading.

The 2012 Autumn statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 October 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

Notes *(continued)*

16 Creditors

	2012	2011
	£'000	£'000
Corporation tax, social security and other	**3,732**	3,035

17 Long term fund

At 31st October 2012, 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 £252,762,000 (2011: £199,369,000).

18 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.

19 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)*

20 Capital statement

	UK Non-participating as at 31.10.2012 (£'000)	**Shareholder's funds as at 31.10.2012 (£'000)**	**Total life business as at 31.10.2012 (£'000)**
Available capital resources			
Shareholder's funds held outside long-term insurance business fund	-	5,000	5,000
Shareholder's funds held in long-term insurance business fund	62,647	-	62,647
Total shareholder's funds	**62,647**	**5,000**	**67,647**
Adjustment onto a regulatory basis:			
Differences in valuation of assets	48	-	48
Differences in determination of technical provisions	(9,830)	-	(9,830)
Differences in provision for tax	(258)	-	(258)
Total available capital resources	**52,607**	**5,000**	**57,607**
Analysis of policyholder liabilities			
(a) With-profits business	-	-	-
(b) Unit-linked business	-	-	-
(c) Other life assurance business	186,141	-	186,141
(d) Insurance business accounted for as financial instruments under FRS 26	-	-	-
Total policyholder liabilities	**186,141**	**-**	**186,141**
Analysis of movements in capital			
Opening available capital resources at 31 October 2011	49,497	-	49,497
Movement in period	8,110	-	8,110
Transfer to shareholders fund	(5,000)	5,000	-
Closing available capital resources at 31 October 2012	**52,607**	**5,000**	**57,607**

Notes *(continued)*

20 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 FSA Handbook of Rules and Guidance.

On 31 October 2012, the Company transferred £5 million from the long-term insurance business fund into the shareholder's fund.

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").

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 September 2012 and will, subject to conditions, now run until April 2015. This affects the discounting of annuity liabilities for the purposes of regulatory capital calculations rather than for the purposes of the financial statements.

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.