Hodge Life Assurance Company Limited

Annual report and financial statements
31 October 2016
Registered number 837457

Officers and professional advisers

Directors	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.	
	Helen Molyneux	LLD (Hons)	
Company Secretary	Rhian Yates	B. Sc., F.C.C.A	

Registered Office
1 Central Square
Cardiff
CF10 1FS

Auditor
Ernst & Young LLP
Bristol

Principal bankers
Lloyds Bank Plc
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 2016.

The Company has enjoyed an exceptional year, making a pre-tax profit of £27.4 million (2015: £15.7 million). The results for this year reflect the transition to FRS 101 and the prior year figures have been restated to be comparable.

Since the Company, as an insurer, already held the majority of its assets and liabilities at fair value under UK GAAP, the transition to FRS 101 has had a limited effect on the profitability of the Company. Full details of the impact of these changes are set out in note 27 to the financial statements.

Highlights

- Profit before tax increased by 75% to £27.4 million (2015: £15.7 million)
- Earned premiums increased by 63% to £61.4 million (2015: £37.6 million)
- Pillar I capital resources in excess of the regulatory requirement were £62.6 million

Economic Environment

The economic environment during 2016 can be characterised by general concerns over global growth, interspersed by two major events, namely Brexit and the outcome of the US presidential election, neither of which was foreseen by financial markets. Furthermore, markets were wrong-footed in their expectations of the consequences.

With respect to Brexit, dire predictions were made as to the likely effect on stock markets, interest rates, exchange rates and GDP growth and whilst there have been some marked fluctuations, only the devaluation of sterling has yet come to pass.

In similar vein, Donald Trump was seen as both unpredictable and an advocate for protectionist policies which could have adverse consequences for global growth. Yet US stock markets have reached record levels and the dollar has strengthened markedly against the yen and euro.

What is evident however is that both events are seen by financial markets as creating more uncertainty at a time when confidence is fragile.

Whilst the Company's activities are UK-based, it is not immune to market factors, influenced by global events. This is particularly so in the case of interest rates, which plumbed record lows in August, albeit, there has been a significant rally since.

The market consensus is that Brexit will be inflationary, driven primarily by the drop in sterling's trade-weighted index, which will increase the cost of imports. Donald Trump's election has also increased inflation expectations in the US; with his plans for significant infrastructure spending.

After many false starts the Federal Reserve raised interest rates in December, which allied to the inflationary pressures referred to above, might be the catalyst for a "normalisation" of interest rates over the next few years.

Chairman's statement *(continued)*

Financial Performance

The trading performance in the year was strong, with a significant increase in annuity new business reflecting a recovery in that market as the effects of pension freedoms were fully digested. Our margins were higher than expected, reflecting the rates earned on our lifetime mortgages.

The Company also benefited from wider economic changes that cannot be assumed to recur in future:

- Interest rates fell by over 0.75% across the year, which had an overall positive effect on the value of the Company's assets and liabilities. This effect contributed an additional £9 million to pre-tax profits, and given the low rate environment, we have taken the opportunity to mitigate the reversing effects if rates were to rise. However, a rising rate environment is likely to have an adverse effect on future profitability;

- House prices increased by 4.5% across the year, which had the effect of increasing our property-related asset values. This contributed a further £6 million to pre-tax profits.

Five Year Summary

	IFRS		UKGAAP		
	2016	**2015**	**2014**	**2013**	**2012**
	£m	**£m**	**£m**	**£m**	**£m**
Premium income	61.4	37.6	70.9	51.6	54.3
Profit before tax	27.4	15.7	6.9	14.5	9.6
Total assets	583.4	463.0	361.0	307.6	257.8
Shareholders' funds	143.5	121.4	86.1	80.7	67.6

Pension annuities

Pension freedoms were first announced in March 2014, and came into effect in April 2015. During 2016, we have seen the market starting to settle into a trend where broadly one third of retiree pots are taken as cash, a further third remains invested, and a final third used to generate income. Whilst this has reduced the overall size of the annuity market, we believe we remain well placed to write meaningful levels of new business in future years.

In November 2016, the Financial Conduct Authority announced proposals to require all pension providers to publish annuity rates available in the open market in addition to their own 'internal vesting' rates in order to increase the numbers of consumer who shop around for the best value annuities. These rules are due to come into effect in September 2017, and should have a positive effect on the Company given that it only offers its annuity products on the open market.

We were pleased to see the Government shelve plans for the secondary annuity market given that the risk of potential consumer detriment that could have arisen in a competitive marketplace.

Chairman's statement *(continued)*

Equity release

Residential property remains the principal form of saving for the majority of retirees and it is inevitable that a growing proportion will utilise their major asset to improve their retirement prospects through equity release. We have seen significant growth in this market over the past year, and it is expected to top £2 billion for the first time in 2016.

We were pleased to agree an external funding arrangement during the year, which allows us to increase the level of equity release lending we undertake over and above the Company's capacity.

Over the past two years, we have developed our broader 'later life lending' proposition through the addition of our Retirement Mortgage (a hybrid lifetime mortgage) and 55+ Mortgage (a standard residential mortgage) to our product range. These products are offered under the Hodge Lifetime brand, and details are set out in the financial statements of the Company's parent, Hodge Bank.

This strategic development means that Hodge Lifetime is the only business currently offering a full range of later life mortgage lending products, and puts us in a strong position to capitalise on this growing market.

Regulatory Matters

The Solvency II regime came into effect on 1 January 2016.

Prior to this date, the Company had received approval from the Prudential Regulation Authority ("PRA") to use the transitional measures available on adoption of the new regime. A further application was made as at 30 June 2016 to re-calculate the transitional amount to reflect a material change in risk profile resulting from the significant fall in interest rates up to that date, which was also approved.

During the year, the Company's Solvency Coverage Ratio decreased from 205% to 176%, reflecting the capital deployed in writing new business and the impact of falling interest rates on the Solvency II risk margin. Nevertheless, the Company's solvency position remains strong.

The Outlook

Our size means that we only require a small share of the total annuity market to meet our ambitions, and we are therefore confident that we can successfully execute on our strategy.

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
15 December 2016

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 its 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.

Risk appetite

On annual basis, in the context of the Board's review of its strategy, the Board establishes a risk appetite with appropriate key risk indicators and risk limits for executive management. The Board monitors adherence to the risk appetite on a regular basis.

Business review and future developments

A review of business and future developments is included in the Chairman's statement on pages 1 to 3.

Results and dividends

The profit for the year after taxation amounted to £22,104,000 *(2015: £12,996,000).* No dividend was paid during the year *(2015: £nil)* leaving a surplus for the year of £22,104,000 (*2015: £12,996,000)* 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 2016.

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 and determined it was satisfactory.

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 including the key estimates and judgements used in 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 committee:*** Helen Molyneux (Chairwoman), Keith James, Alun Bowen, Jonathan Hodge and Adrian Piper.

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

  The function of the remuneration committee is 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.

  The committee meets as required.

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

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

  The function of the committee is to recommend the appointment of directors to the Board and Board committees and to ensure that the Bank 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, credit risk, house price risk, interest rate risk, conduct 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.

Strategic Report *(continued)*

Executive Committees *(continued)*

- ***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.

- ***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 risk. 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 a 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.

In the normal course of its business, the Company is exposed to longevity risk, liquidity risk, credit risk, house price risk, interest rate risk, conduct risk and operational risk. Disclosures concerning financial risk management objectives and policies are set out in Note 24 in the financial statements. Disclosures on how these risks are managed are contained in Note 24 and are incorporated into this report by cross-reference.

Strategic Report *(continued)*

Risk Management *(continued)*

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 insurance 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.

Credit risk is the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. The Company manages its credit risk through the retail and credit committee and the assets and liabilities committee. Regular credit exposure reports are produced which include information on credit and property underwriting, large exposures, asset concentrations, industry exposure and levels of bad debt provisioning.

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.

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.

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 executive risk committee which reports to the risk and conduct committee, which ensures adherence to the Company's risk management policy and framework.

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

Going Concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposures to credit and liquidity risks are disclosed above.

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.

Deian Jones
Director
15 December 2016

One Central Square
Cardiff
CF10 1FS

Directors' Report

The directors present their report together with the financial statements for the year ended 31 October 2016. Certain disclosures are given in the Strategic Report and are incorporated here by cross-reference. Specifically, these incorporate the following disclosures:

Dividends	- page 4
Future developments	- page 4
Going concern	- page 8
Financial risk management policies	- pages 7 to 8

Directors and their interests

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

D. K. M. James*	- Chairman
J. J. Hodge *	- Deputy Chairman
D. L. Jones	- Managing Director
D. M. Austin	
A. N. Piper *	
D. A. Bowen *	
H. Molyneux*	

* 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.

Post Balance Sheet Events

There were no post balance sheet events to disclose.

Qualifying third-party indemnity provisions

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies' Act 2006. Such qualifying party indemnity provisions remain in force as at the date of approving the director's report.

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 Statement

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), including Financial Reporting Standard 101 Reduced Disclosure framework (FRS 101).

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

In anticipation of the implementation of the EU audit reforms which became effective on 17 June 2016, which require public interest entities to change audit firms who have audited a relevant entity for over twenty years, the Audit Committee on behalf of the Board carried out a full audit tender, and following the conclusion of that process, Ernst & Young LLP was appointed to replace KPMG LLP.

A resolution for the re-appointment of Ernst & Young 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

Deian Jones
Director

One Central Square
Cardiff
CF10 1FS

15 December 2016

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 2016, which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework', applicable in the UK and Republic of Ireland.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework applicable in the UK and Republic of Ireland' 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 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.

Andrew Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
16 December 2016

Notes:
1. The maintenance and integrity of the Hodge group web sites is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement
For the year ended 31 October 2016

	Notes	2016 £000	2015 £000
Earned premiums	4	61,378	37,581
Investment income	5	12,589	10,580
Unrealised gains on investments	6	74,881	40,226
Total income		**148,848**	**88,387**
Gross claims and benefits paid		(22,063)	(20,024)
Movement in long-term business provision	19	(95,158)	(49,074)
Administrative expenses	8	(4,240)	(3,616)
Profit before taxation	7	**27,387**	**15,673**
Tax on profit	10	(5,283)	(2,677)
Profit for the financial year		**22,104**	**12,996**

All gains and losses have been recognised within the income statement

Balance Sheet
As at 31 October 2016

	Notes	2016	2015
		£000	£000
Assets			
Loans and advances to credit institutions	14	29,657	26,993
Debt securities	15	51,413	18,979
Investment properties – reversionary interest in properties	12	93,506	94,655
Intangible assets	11	26	40
Investments	13	408,150	320,468
Other receivables	16	76	1,312
Prepayments and accrued income	17	564	542
Total assets		**583,392**	**462,989**

	Notes	2016	2015
		£000	£000
Liabilities			
Derivative financial instruments	21	492	-
Provisions for long term business - liabilities arising from insurance contracts	19	428,739	333,581
Trade payables & other liabilities	18	4,714	1,611
Deferred taxation	20	5,935	6,389
Total liabilities		**439,880**	**341,581**
Capital and reserves			
Called-up share capital	22	6,800	6,800
Profit & loss account		136,712	114,608
Total Equity		**143,512**	**121,408**
Total equity and liabilities		**583,392**	**462,989**

These financial statements were approved by the Board of directors on 15 December 2016 and were signed on its behalf by:

David Austin
Director

Deian Jones
Director

Statement of changes in equity
For the year ended 31 October 2016

	Called up Share Capital	Profit and loss account	Total
	£000	£000	£000
2016			
At beginning of year	6,800	114,608	121,408
Profit for the financial year	-	22,104	22,104
At end of year	**6,800**	**136,712**	**143,512**

	Called up Share Capital	Profit and loss account	Total
	£000	£000	£000
2015			
At beginning of year	6,800	101,612	108,412
Profit for the financial year	-	12,996	12,996
At end of year	**6,800**	**114,608**	**121,408**

Notes to the accounts
For the year ended 31 October 2016

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006, applicable to companies reporting under IFRS (Schedule 3 of the Regulation) and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance is provided in Note 28.

IFRS 1 grants certain exemptions from the full requirements of adopted IFRS in the transition period. The following exemptions have been taken in these financial statements;

- Fair value or revaluation as deemed cost at 1 November 2014, fair value has been used as deemed cost for investment properties previously measured at fair value.

The immediate parent undertaking of the Company is Julian Hodge Bank Limited. The ultimate parent undertaking and controller is The Carlyle Trust (Jersey) Limited (incorporated in Jersey). Within the meaning of the Companies Act 2006, The Carlyle Trust Limited is the parent undertaking of the largest and only group of undertakings for which group accounts are drawn up and of which the company is a member. The consolidated financial statements of The Carlyle Trust Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and can be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, intangible assets and investment properties;
- Disclosures in respect of transactions with members of a group;
- The effects of new IFRSs that have been issued but not yet effective;
- An additional balance sheet for the beginning of the earliest comparative period following reclassification of items in the financial statement; and
- Disclosures in respect of the compensation of Key Management Personnel and related parties.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet as at 1 November 2014 for the purposes of the transition to FRS 101.

Measurement convention
The Company prepares its accounts under the fair value convention, except for certain financial assets and liabilities held at amortised historical cost.

Summary of Significant Accounting Policies

Going Concern

The director's assessment of going concern is disclosed in the Strategic report on page [8].

Product classification

The company issues annuity contracts that transfer insurance risk.

Insurance contracts

Insurance contracts are those which transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. The Company's insurance products consist entirely of annuity products. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly over time.

Revenue recognition

Premium income

Premiums received in respect of pension annuity insurance contracts are recognised as revenue when they become payable by the policyholder when the policy commences and are shown before deduction of commission. All premium revenue is in respect of single premium insurance business.

Investment income

Investment income consists of interest receivable for the year, and realised and unrealised gains and losses on financial assets and liabilities at fair value through profit and loss.

Interest receivable and interest payable.

Interest income is recognised based on the effective interest rate method.

Realised gains and losses

Realised gains and losses on financial assets and liabilities occur on disposal or transfer and represent the difference between the proceeds received, net of transaction costs, and the original cost, and are recognised within the Income Statement.

Unrealised gains and losses on assets and liabilities at fair value through profit or loss

Unrealised gains and losses arising on financial assets and liabilities represent the difference between the carrying value at the end of the reporting period and the carrying value at the start of the reporting period or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the year.

Expense recognition

Claims

Claims are recorded as an expense in the Income Statement as incurred.

Deferred acquisition costs

As the company's products are single premium contracts, acquisition expenses are expensed to the Income Statement as incurred.

1 Accounting policies (continued)

Long term business provision - liabilities under insurance contracts

The long term business provision has been determined by the Board of Directors, on advice from the Chief Actuary, having due regard to the principles laid down in the Council Directive 92/96/EEC. The estimation process used in determining the long-term business provision involves projecting annuity payments and the costs of maintaining the contracts.

Segmental reporting

The Board of Directors is the Company's chief operating decision-maker. Management has determined the operating segments based on information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Company operates solely within the insurance services sector and within the United Kingdom. As such, no segmental analysis is required.

Financial assets

The Company classifies its financial assets at inception into the following categories:

i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

ii) Fair value through profit or loss (FVTPL)
This category consists of derivative financial assets and loans secured by mortgages and debt securities which are held at fair value. These financial assets are designated at Fair Value through Profit or Loss upon initial recognition and initially measured at fair value with transaction costs taken directly to the Income Statement. Subsequent measurement is at fair value with changes in value reflected in the Income Statement.

iii) Available-for-sale
The Company does not hold any available-for-sale financial assets.

iv) Held-to-maturity
The Company does not hold any financial assets classified as held-to-maturity.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event or events) which has an impact on the estimated future cash flows of the financial asset or group of financial assets and which can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the Balance Sheet and the amount of the loss is recognised in the Income Statement.

1 Accounting policies (continued)

Financial liabilities
Financial liabilities incorporate trade payables and derivative financial liabilities. The Company classifies its financial liabilities into the following categories:

i) Amortised cost
Financial liabilities (other than derivatives) are measured on an amortised cost basis. Financial liabilities are de-recognised when the obligation is discharged, cancelled or has expired.

The Company has no financial liabilities held at amortised cost, other than trade payables.

ii) Derivative financial instruments
The Company holds derivative financial instruments (entirely interest rate swaps) to manage the risks associated with its various fixed rate assets and its fixed rate liabilities. The Company has no foreign currency transactions. In accordance with its treasury policy, the Company holds derivative financial instruments only for risk management and not for speculative or trading purposes.

Derivatives are initially measured at fair value and are subsequently re-measured to fair value at each reporting date with movements recorded in the Income Statement. Fair values are calculated based on valuations from counterparties. Fair values are calculated using mid-prices. All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal ability and intention to settle net, the derivative is classified as a net asset or liability, as appropriate. Currently, there is no offsetting in the Balance Sheet.

Where cash collateral is given to mitigate the risk inherent in amounts due from the Company, it is included as an asset in 'Loans and advances to credit institutions'.

Embedded derivatives
Certain derivatives are embedded within other non-derivative host instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument, the Company separates the embedded derivative from the host instrument and measures it at fair value with the changes in fair value recognised in the income statement.

The "No negative equity guarantee" is an embedded derivative and further details are disclosed in Note 24(d).

Intangible assets
IAS 38 'Intangible Assets' requires the capitalisation of certain expenditure relating to software development costs. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Where software costs are capitalised, they are amortised using the straight-line method over their estimated useful lives which is three to five years. The amortisation periods used are reviewed annually. Costs associated with maintaining software are expensed to administrative expenses in the Income Statement as they are incurred. Amortisation is charged to administration expenses in the Income Statement.

1 Accounting policies (continued)

Investments
Loans Secured by Mortgages
The value of 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.

The fair value of loans secured by mortgages is calculated by discounting the future cash flows at swap rates together with an allowance for illiquidity. The difference between the fair value at transaction date and the transaction price is not recognised but deferred and recognised uniformly over the expected life of each loan.

Loan and advances to credit institutions
The Company's deposits with credit institutions are classified as Loans and receivables and are measured at amortised cost using the effective interest rate method, net of impairment provisions, with all movements being recognised in the Income Statement.

Investment properties - Reversionary interests in properties
Reversionary interests in properties are included in the financial statements initially at cost (being the amount of the cash advanced to the customer together with related acquisition costs), and subsequently at fair value, with any change therein recognised in the income statement within other income.

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, adjusted down by an annual underperformance assumption.

A further deduction is made from the value to reflect the expected sale expenses and a delay factor between death and sale of the property.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposals. Any gains/ losses on the retirement or disposal of an investment property are recognised in the Income Statement in the year of disposal.

Taxation including deferred tax
Corporation tax on profits for the year comprises current and deferred taxation.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

1 Accounting policies (continued)

Taxation including deferred tax *(continued)*

Deferred tax assets and liabilities are measured on a non-discounted basis at the tax rates that are expected to apply when the related asset is realised or liability settled based on the tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Corporation tax is charged or credited directly to Other Comprehensive Income if it relates to items that are credited or charged to Other Comprehensive Income and to the Statement of Changes in Equity if it relates to other equity instruments. Otherwise corporation tax is recognised in the Income Statement.

Employee benefits
i) Pensions

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.

ii) Short-term employment benefits

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

Provisions

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably. The expense arising from any movement in the provision is charged to the Income Statement.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2 Judgement in applying accounting policies and critical accounting estimates

The Company has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year. The most significant areas where judgement and estimates are made are as follows**:**

Measurement of insurance liabilities arising from annuity insurance contracts.
The estimation of the ultimate liability arising from insurance contracts is the Company's most critical accounting estimate.

For insurance contracts, the liabilities are calculated using a projection of cash flows after making assumptions about matters such as mortality and expenses. Discount rates used to value the liabilities are set with reference to the risk adjusted yields on the underlying assets. The most critical non-economic assumptions are mortality rates in respect of annuity business written and levels of future expenses.

Such assumptions are based on recent actual experience, supplemented by industry information where appropriate.

At each reporting date, the estimates and assumptions referred to above are reassessed for adequacy and changes will be reflected in adjustments to the liability, through the Income Statement. Further information on these assumptions is given in note 19.

Measurement of the no-negative guarantee with respect to lifetime mortgages.
Estimation uncertainty surrounds the measurement of liabilities arising from the no-negative guarantee in respect of lifetime mortgages. The key assumptions used as part of the valuation calculation include future property prices and their volatility, mortality and the rate of voluntary redemptions. Further information on these assumptions is given in note 24.

Fair value of financial instruments.
The company uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate swaps that use only observable market data and require little management judgement and estimation. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The major assumptions for annuities and lifetime mortgages are disclosed within the following notes:

Area of significant judgement or risk	Note
Annuities	19
Lifetime mortgages	24(d)

3 Segmental information

The Company operates solely within the insurance services sector and within the United Kingdom. As such, no segmental analysis is required.

4 Earned premiums

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 £862,000 (2015: £579,000)

	2016	2015
	£000	£000
Earned premiums	61,378	37,581

5 Investment income

		2016	2015
		£000	£000
Income from investments			
Other investments:	Mortgage interest	154	173
	Deposit interest	204	226
Gains on realisation of investments		11,563	10,022
Other investment income		668	159
		12,589	**10,580**

6 Unrealised gains on investments

	2016	2015
	£000	£000
Unrealised gains on investments	75,373	40,226
Derivative financial instruments - Fair Value (Note 21)	(492)	-
	74,881	**40,226**

Unrealised gains primarily relate to investment properties (Note 12) and lifetime mortgages (Note 24(d)).

7 Profit on ordinary activities before taxation

	2016	2015
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Remuneration of the auditor and its associates:		
Audit of these financial statements	51	30
Amortisation charges	16	15

The fees paid to the Auditors in 2015 were paid to KPMG LLP, the previous auditors to the Company. Fees relating to 2016 were paid to Ernst & Young LLP.

8 Administrative expenses

	2016	2015
	£000	£000
Management and administration expenses	3,378	3,037
Acquisition costs	862	579
	4,240	**3,616**

9 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 the Company, to reflect the work done for this Company, and is included in administrative expenses.

The average number of employees (including directors) providing services to the Company during the year was as follows:

	2016	2015
	No	No
Provision of finance and banking	50	42
	50	**42**

Staff costs include remuneration in respect of directors as follows:

	2016	2015
	£000	£000
Fees	79	69
Aggregate emoluments as executives	230	177
	309	**246**

9 Directors and employees *(continued)*

The emoluments of the highest paid director, excluding pension contributions, were as follows:

	2016	2015
	£000	£000
Aggregate emoluments	125	94
	125	**94**

The highest paid director is an active member of a defined benefit scheme under which his accrued pension at the year end was £19,237 *(2015: £15,214).*

Retirement benefits are accruing to 1 *(2015: 2)* director in a defined benefit scheme.

10 Tax on profit

Analysis of charge	2016		2015	
	£000	£000	£000	£000
Analysis of charge in year				
Group relief payable-UK corporation tax				
Current tax on income for the year	**5,734**		2,185	
Adjustments in respect of prior years	**3**		1	
Total current tax		**5,737**		**2,186**
Deferred tax (see note 20)				
Origination/reversal of timing differences	**(260)**		994	
Adjustment in respect of prior years	**-**		8	
Effect of decreased tax rate on opening liabilities	**(194)**		(80)	
Impact of transition to FRS101	**-**		(431)	
Total deferred tax		**(454)**		**491**
Tax on profit on ordinary activities		**5,283**		**2,677**

The total tax charge for the year is lower (*2015: lower)* than the blended rate of corporation tax in the UK. The differences are explained below.

10 Tax on profit *(continued)*

	2016	2015
	£000	£000
Total tax reconciliation		
Profit on ordinary activities before tax	27,387	15,673
Current tax at 20% (2015: 20.42%)	**5,477**	**3,202**
Expenses not deductible for tax purposes		
Impact of tax rate change	(194)	(102)
Impact of transition to FRS 101	-	(50)
Rate change on transition to FRS101	-	(381)
Adjustments in respect of prior years	-	8
Total tax charge (see above)	**5,283**	**2,677**

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

The deferred tax liability as at 31 October 2016 has been calculated based on these rates.

11 Intangible assets

	Computer software	
	2016	2015
	£000	£000
Cost:		
At 1 November	76	76
Additions	2	-
Disposals	-	-
At 31 October	**78**	**76**
Amortisation:		
At 1 November	(36)	(21)
Charge for year	(16)	(15)
Disposals	-	-
At 31 October	**(52)**	**(36)**
Net book value:		
At 31 October	**26**	**40**

12 Investment properties – reversionary interests in properties

	2016	2015
	£000	£000
At 1 November	94,655	96,396
Additions	45	48
Disposals	(9,864)	(10,486)
Fair value adjustments	8,670	8,697
At 31 October	**93,506**	**94,655**

All of the investment properties have been categorised as a Level 3 fair value based on the inputs to the valuation technique.

Reversionary interests in property - principal assumptions

All gains and losses arising from reversionary interests in property are largely dependent on property prices and longevity of the tenant.

Principal assumptions underlying the calculation of reversionary interests in property include the following:

Property prices
The value of a property is based on the value at the last inspection and increased to the current valuation date using an appropriate index of house prices. It is then adjusted down by an annual underperformance assumption and a deduction for sales costs. This allows for the risk that the properties under-perform the index.

Mortality or entry into long term care
This is based on the expected death or entry into long term care of the tenant or the last remaining tenant in relation to a joint contract. Mortality assumptions have been derived by reference to appropriate standard mortality tables and reflect mortality improvements.

Expenses
Assumptions for future policy expense levels are based on the Company's recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporate an annual inflation rate allowance of 4.3% (2015: 3.88%).

Discount rate
The discount rate applied to the lifetime mortgage cash flows comprises two parts: a risk free yield curve and an allowance for illiquidity. The risk free yield curve is the GBP curve published by EIOPA.

The average discount rate for the portfolio assumed to be the 15 year point on the yield curve based on the average duration of our business at 31 October 2016 was 2.24% (31 October 2015: 3.12%).

Notes to the accounts
For the year ended 31 October 2016

Reversionary interests in property - principal assumptions (continued)

Sensitivity analysis
Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The company has estimated the impact on profit for the period to changes to these inputs as follows.

	Mortality or entry into long term care - 10%	Expenses + 10%	Property prices - 10%
	£000	£000	£000
Net decrease in profit before tax			
At 31 October 2016	**(1,009)**	**(74)**	**(9,425)**
At 31 October 2015	(1,466)	(120)	(9,466)

13 Investments

	Market Value		Loan Value	
	2016	2015	2016	2015
	£000	£000	£000	£000
Loans secured by mortgage	408,150	320,468	290,639	258,059
Total market value of assets	**408,150**	**320,468**	**290,639**	**258,059**

14 Loans and Advances to credit institutions

	2016	2015
	£000	£000
Repayable on demand	29,169	26,993
Collateral held by swap counterparties	488	-
	29,657	**26,993**

15 Debt securities

	2016	2015
	£000	£000
Debt securities – listed on a UK recognised investment exchange	51,054	18,979
Fair value adjustment – Fair value through Profit or Loss	359	-
	51,413	**18,979**

16 Other receivables

	2016	2015
	£000	£000
Due within one year:		
Amounts due from Parent Company	-	1,232
Other debtors	76	80
	76	**1,312**

17 Prepayments and accrued income

	2016	2015
	£000	£000
Prepayments	564	542
	564	**542**

18 Trade payables and other liabilities

	2016	2015
	£000	£000
Trade payables	-	36
Corporation tax	2,900	71
Amounts due to Parent Company	768	-
Other	1,046	1,504
	4,714	**1,611**

19 Long term business provisions - liabilities arising from insurance contracts

	2016	2015
	£000	£000
At 1 November	333,581	284,507
Net Increase in long-term provision account	95,158	49,074
At 31 October	**428,739**	**333,581**

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

19 Long term business provisions - liabilities arising from insurance contracts *(continued)*

a) Rates of interest

Principal assumptions:
The interest rates used to discount liabilities comprise three parts: a risk free yield curve, an allowance for illiquidity based on the yield on the assets backing the liabilities less an appropriate deduction for risk.

The risk free yield curve is the GBP curve published by EIOPA.

The average discount rate for each product assumed to be the 15 year point on the yield curve based on the average duration of the portfolio at 31 October 2016 and 31 October 2015 is as follows:

Rates of interest	2016	2015
	%	%
Pension business annuities	2.6	3.5
Reversionary scheme and renewable reversionary scheme	2.1	3.0
Purchased life annuities	2.1	3.0
Mortgage scheme annuities	1.4	2.3

b) Mortality tables

The mortality table used to calculate the technical provisions for annuity liabilities is the PCMA/PCFA00 table. This table is adjusted from 2000 by calendar year for mortality improvements based on the CMI 2011 mortality projection model. The mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor.

c) Provision for expenses

An explicit provision for expenses based on an amount per policy per annum has been determined from recent experience analysis. This provision increases with an annual inflation rate of 4.30% (2015: 3.88%).

19 Long term business provisions - liabilities arising from insurance contracts *(continued)*

d) Sensitivity analysis

Changes to inputs used in the valuation technique could give rise to significant changes in the value of the provisions. The Company has estimated the impact on profit for the period to changes to these inputs as follows.

	Mortality - 10%	Expenses + 10%	Interest rates +100bps
	£000	£000	£000
Net increase/(decrease) in profit before tax			
At 31 October 2016	**(12,273)**	**(2,960)**	**56,907**
At 31 October 2015	**(8,669)**	**(1,908)**	**40,727**

The interest rate sensitivity of insurance contracts should be considered in conjunction with the offsetting interest rate sensitivity of financial instruments as set out in Note 24(d).

20 Deferred tax liabilities

	2016	2015
	£000	£000
At 1 November	6,389	5,898
Charged/ (Credited) to the Income Statement	(454)	491
At 31 October	**5,935**	**6,389**

Deferred tax liabilities are attributable to the following items:

	2016	2015
	£000	£000
Transitional adjustment under new life insurance corporate tax regime	1,069	1,290
Transitional adjustment to FRS 101	4,862	5,093
Other timing differences	4	6
At 31 October	**5,935**	**6,389**

21 Derivative financial instruments

Interest rate swaps are used by the Company for hedging purposes. These are commitments to exchange one set of cash flows for another. No exchange of principal takes place.

	Contract/notional amount		Fair value	
	2016	2015	2016	2015
	£000	£000	£000	£000
Derivative liabilities held for hedging purposes and designated fair value hedges:				
Interest rate swaps	20,000	-	492	-
Total recognised derivative liabilities	**20,000**	**-**	**492**	**-**

The following table describes the types of derivatives used, the related risks and the activities the derivative financial instruments are used to hedge.

Type of Hedge	Risk	Activity
Interest rate swap	Sensitivity to changes in interest rates	Lifetime mortgages.

At 31 October 2016, the fixed interest rates vary from 0.88% to 1.65% and the main floating rates are LIBOR. Gains and losses recognised on interest rate swap contracts are credited/ charged to the Income statement.

	2016	2015
	£000	£000
Gains	-	-
Losses	492	-
Net losses to 31 October	**492**	**-**

22 Called up share capital

	2016	2015
	£000	£000
Allotted, called-up and fully paid:		
27,200,000 *(2015: 27,200,000)* ordinary shares of £0.25 each	6,800	6,800
	6,800	**6,800**

23 Financial Commitments

Capital commitments

The Company had contracted capital commitments amounting to £nil at 31 October 2016 *(2015: £Nil).*

24 Financial instruments

a) Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost.

The accounting policies note describes how the classes of financial instruments are measured and how income and expenses including fair value gains and losses are recognised. The following tables analyse the financial assets and liabilities in the Balance Sheet by the class of financial instrument to which they are assigned and by the measurement basis and include both non-financial assets and liabilities in order to reconcile disclosures to Balance Sheet totals.

As at 31 October 2016	At amortised cost	Fair value through profit or loss	Total
	£000	£000	£000
Assets			
Investments	-	408,150	408,150
Debt securities	-	51,413	51,413
Loans and advances to credit institutions	29,657	-	29,657
Total financial assets	**29,657**	**459,563**	**489,220**
Total non-financial assets			94,172
Total assets			**583,392**
Liabilities			
Derivative financial instruments	-	492	492
Total financial liabilities	**-**	**492**	**492**
Total non-financial liabilities			439,388
Share capital and other reserves			143,512
Total reserves and liabilities			**583,392**

24 Financial instruments (continued)

a) Categories of financial assets and liabilities (continued)

As at 31 October 2015	At amortised cost	Fair value through profit or loss	Total
	£000	£000	£000
Assets			
Investments	-	320,468	320,468
Debt securities	-	18,979	18,979
Loans and advances to credit institutions	26,993	-	26,993
Total financial assets	**26,993**	**339,447**	**366,440**
Total non-financial assets			96,549
Total assets			**462,989**
Liabilities			
Trade payables	36	-	36
Total financial liabilities	**36**	**-**	**36**
Total non-financial liabilities			341,545
Share capital and other reserves			121,408
Total reserves and liabilities			**462,989**

b) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

The table below summarises the fair value of the Company's financial assets and liabilities. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which all significant inputs are based on observable market.
- Level 3: Valuation techniques for which significant inputs are not based on observable market.

Where applicable, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an on-going basis. For all other financial instruments the Company determines fair value using other valuation techniques.

24 Financial instruments (continued)

b) Fair value estimation *(continued)*

The fair value of financial assets and liabilities carried at amortised cost approximatea to their carrying value on the Balance Sheet.

The following table presents the Company's financial assets and liabilities that are measured at fair value on the face of the Company's Balance Sheet and the disaggregation by fair value hierarchy and product type:

As at 31 October 2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit or loss				
Investments	-	-	408,150	408,150
Debt securities	51,413	-	-	51,413
	51,413	**-**	**408,150**	**459,563**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	492	-	492
Total financial liabilities at FVTPL	**-**	**492**	**-**	**492**

As at 31 October 2015	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit or loss (FVTPL)				
Investments	-	-	320,468	320,468
Debt securities	18,979	-	-	18,979
Total financial assets at FVTPL	**18,979**	**-**	**320,468**	**339,447**

c) Level 1 & 2 assets and liabilities measured at fair value

Debt securities:
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Instruments included in Level 1 comprise primarily UK listed bonds/investment securities classified as fair value through profit or loss.

Derivative financial instruments:
The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

24 Financial instruments (continued)

c) Level 1 & 2 assets and liabilities measured at fair value *(continued)*

Interest rate swaps are classified as derivative products using a valuation technique with observable market inputs. Their fair value is based on counter-party valuations. Those valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Transfers
There were no transfers between levels 1 and 2 during the year.

d) Level 3 assets and liabilities measured at fair value

Investments (Lifetime mortgages):

Investments comprise loans secured by mortgages which include £408.2m (2015: £320.5m) of assets which have been classed as fair value through profit or loss as they relate to lifetime mortgages.

The fair value of loans secured by mortgages was calculated by discounting the future cash flows at swap rates together with an allowance for illiquidity. The difference between the fair value at transaction date and the transaction price was not recognised but deferred and recognised uniformly over the expected life of each loan.

The valuation technique that the company uses to assess the value of the loans secured by mortgages will generally give a higher value than the price of the initial transaction. Any differences will be deferred over the expected life of the contract by setting up a deferred reserve within loan balances. Any Day 1 profit on valuation is not recognised immediately in the Income Statement and is deferred over the life of the related mortgages. At 31 October 2016 the amount deferred was £61.3m. (2015: £49.9m).

The movement in the aggregate difference yet to be recognised in profit or loss between the fair value of mortgages and the amount that would have been recognised using the valuation technique is shown below.

	2016	2015
	£000	£000
At start of period	49,927	42,131
Amounts deferred in the period	14,301	8,805
Release of previously recognised gains	-	-
Amounts recognised in profit or loss in the period	(2,883)	(1,009)
At end of period	**61,345**	**49,927**

The interest rate sensitivity and financial instruments should be considered in conjunction with the offsetting interest rate sensitivity of insurance contracts as set out in Note 19(d).

24 Financial instruments (continued)

Investments (Lifetime mortgages) (continued):

Reconciliation of the opening and closing recorded amount of Level 3 loans secured by mortgages:

	2016	2015
	£000	£000
At start of period	320,468	270,873
Total unrealised gains in profit or loss	73,440	39,358
Loans advanced (including drawdowns on existing business)	35,477	27,436
Redemptions	(21,235)	(17,199)
At end of period	**408,150**	**320,468**

There were no transfers in and out of Level 3 of the fair value hierarchy in 2016 (2015: nil).

Loans Secured by Mortgages (Lifetime mortgages) - principal assumptions

Principal assumptions underlying the calculation of lifetime mortgages include the following:

Mortality or entry into long term care
This is based on the expected death or entry into long term care of the customer or the last remaining customer for a joint contract. Mortality assumptions have been derived by reference to PCMA00/PCFA00 and the CMI2011 model for longevity improvements.

Lapses
Due to limited market information, these assumptions have been derived from the company's own experience on this product.

Expenses
Assumptions for future policy expense levels are based on the Company's recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporate an annual inflation rate allowance of 4.30% (2015: 3.88%).

Discount rate
The discount rate applied to the mortgage cash flows comprises two parts: a risk free yield curve and an allowance for the illiquidity which is reviewed annually. The risk free yield curve is based on GBP curve published by EIOPA.

The average discount rate for the portfolio, assumed to be the 15 year point on the yield curve based on average duration at 31 October 2016 was 2.24% (31 October 2015: 3.12%).

No-negative equity guarantee:
The fair value of loans secured by mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black Scholes option pricing model. The key assumptions used to derive the value of the no-negative equity guarantee include property growth and volatility. The current property price is based on the last survey valuation adjusted by HPI and an annual underperformance assumption. The future property price is based on Bank of England implied future inflation adjusted for earnings growth and an annual property price underperformance.

24 Financial instruments (continued)

The property growth and volatility assumed at 31 October 2016 were 3.28% (31 October 2015: 2.17%) and 11% (31 October 2015: 11%) respectively. The value of the no negative equity guarantee as at 31 October 2016 was £15.9m (31 October 2015: £25.2m).

Sensitivity analysis
Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The Company has estimated the impact on profit for the period in changes to these inputs as follows.

	Interest rates +100 BPS	Maintenance expenses + 10%	Property inflation 100bps	Property prices -10%	Mass voluntary redemptions + 10%
	£000	£000	£000	£000	£000
Net (decrease) in profit before tax					
At 31 October 2016	**(60,380)**	**(951)**	**(11,728)**	**(5,045)**	**(12,117)**
At 31 October 2015	**(46,035)**	**(713)**	**(13,946)**	**(6,396)**	**(6,438)**

The sensitivity factors are applied via actuarial models. The analysis represents a change in each variable with other assumptions remaining constant. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts cannot be interpolated or extrapolated from these results.

The interest rate sensitivity and financial instruments should be considered in conjunction with the offsetting interest rate sensitivity of insurance contracts as set out in Note 19(d).

Notes to the accounts
For the year ended 31 October 2016

24 Financial instruments (continued)

e) Maturity profile of financial assets and liabilities

The table below analyses the carrying value of financial assets and liabilities into relevant maturity groupings based on the expected average period to the contractual maturity date. In practice, customer assets may be repaid ahead of their contractual maturity. As such, the Company uses past performance of each asset and liability class along with management judgement to forecast likely cash flow requirements.

As at 31 October 2016	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Investments	5,829	3,011	6,210	59,421	333,679	408,150
Debt securities	11,536	2,017	4,227	23,749	9,884	51,413
Loans & advances to credit institutions	29,657	-	-	-	-	29,657
Total financial assets	**47,022**	**5,028**	**10,437**	**83,170**	**343,563**	**489,220**
Liabilities						
Derivative financial instruments	-	-	-	-	492	492
Total financial liabilities	**-**	**-**	**-**	**-**	**492**	**492**

24 Financial instruments (continued)

e) Maturity profile of financial assets and liabilities *(continued)*

As at 31 October 2015	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Investments	6,409	2,469	5,153	47,806	258,631	320,468
Debt securities	-	4,795	-	14,184	-	18,979
Loans & advances to credit institutions	26,993	-	-	-	-	26,993
Total financial assets	**33,402**	**7,264**	**5,153**	**61,990**	**258,631**	**366,440**
Liabilities						
Trade & other payables	36	-	-	-	-	36
Total financial liabilities	**36**	**-**	**-**	**-**	**-**	**36**

f) Foreign currencies

The Group holds no financial assets or liabilities denominated in foreign currencies.

25 Financial risk management objectives and policies

Risk management

The risk management approach encompasses the requirements for identifying, assessing, managing, monitoring and reporting on risk.

The evaluation of the various risks and the setting of policy is carried out through the Company's executive risk committee which reports to the Risk and Conduct Committee, which ensures that adherence to the Company's risk management policy and framework.

Risk management objectives
Risk is inherent in all aspects of the Company's business. Within the Company, a risk management framework is in place to ensure that all material risks faced by the Company have been identified and measured, and that appropriate controls are in place to ensure that each risk is mitigated to an acceptable degree.

In the normal course of its business, the Company is exposed to longevity risk, credit risk, liquidity risk, house price risk, interest rate risk, conduct risk and operational risk. These are discussed in more detail in sections a) to g) below.

25 Financial risk management objectives and policies (continued)

a) Insurance risk

Life insurance risk includes the possibility of loss due to uncertainty of rates of death. The principal risk the Company faces under insurance contracts is that the actual claims and benefits payments exceed the amounts expected at the time of determining the insurance liabilities.

The Company principally writes the following type of life insurance contract:

- Annuity products where typically the policyholder is entitled to payments which cease upon death.

The nature of the Company's business involves the accepting of insurance risks which primarily relate to longevity.

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

The risk exposure is mitigated by a diversification across a large portfolio of insurance contracts and geographical areas. The company does not use re-insurance contracts to mitigate insurance risk.

b) Credit risk

This is the risk that borrowers or other counterparties will be unable or unwilling to meet commitments that they have entered into with the Company.

The maximum credit risk is the carrying value disclosed on the Balance Sheet.

The primary driver of credit risk within the Treasury assets portfolio, which comprises deposits with other banks, gilts and debt securities is the default of the counterparty, meaning it can no longer repay its obligations. Only independently rated parties with a minimum rating of BBB- are accepted.

The Company manages its credit risk through the retail credit committee and the assets and liabilities committee. Regular credit exposure reports are produced which include information on credit and property underwriting, large exposures, asset concentrations, industry exposure and levels of bad debt provisioning.

C) Treasury credit risk

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

	2016	2015
	£000	£000
Loans and advances to credit institutions	29,657	26,993
Debt securities	51,413	18,979
	81,070	**45,972**

None of these exposures is past due or impaired.

25 Financial Risk Management objectives and policies (continued)

Credit quality of financial assets that are neither past due or impaired

The following shows the exposures broken down by rating:

	2016	2015
	£000	£000
AAA to AA-	51,882	26,084
A+ to A-	19,405	4,795
BBB+ to BBB-	4,699	10,077
Unrated	5,084	5,016
	81,070	**45,972**

Concentration of credit risk

The geographical exposure is as follows:

	2016	2015
	£000	£000
UK	65,599	45,972
Other	15,471	-
	81,070	**45,972**

The treasury risk function monitors exposure concentrations against a variety of criteria including counterparty limits.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet commitments as they fall due. The Company manages its liquidity risk through its assets and liabilities committee, and monitors its liquidity position on a daily basis. It has adopted a policy to ensure that it has adequate resources to enable it to conduct its normal business activities without interruption. The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows.

The maturity analysis of financial assets and liabilities is disclosed in note 24(e) to the financial statements. For insurance contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

Insurance contract liabilities	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
As at 31 October 2016	5,744	5,687	11,362	83,355	322,591	428,739
As at 31 October 2015	5,101	5,057	10,085	72,142	241,196	333,581

25 Financial risk management objectives and policies (continued)

d) House price risk

House price risk is the risk that arises when there is an adverse movement between actual house prices and those implicit in the costing of the Company's lifetime mortgage 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.

This risk is managed by ensuring that the advances are made only up to 45% of property market values so as to insulate against market adjustments to property prices generally.

Geographical analysis of loans secured on mortgages

The company provides loans secured on property across England, Scotland, Northern Ireland and Wales. An analysis of residential property by geographical location is provided below:

Loans secured by mortgage – Loan Value	2016		2015	
	£000	%	£000	%
South East / East of England	95,299	33%	82,387	32%
London	59,020	20%	48,082	19%
North West/ North of England	41,226	15%	38,354	15%
South West/ South of England	41,572	14%	38,053	15%
Midlands	20,172	7%	18,728	7%
Scotland	15,290	5%	14,597	6%
Wales	9,348	3%	8,891	3%
Northern Ireland & Other	8,712	3%	8,967	3%
Total (Note 13)	**290,639**	**100%**	**258,059**	**100%**

The average loan to value (LTV) in respect of lifetime mortgage loans is estimated to be 21%. LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security and geographical location.

The largest exposure to one counterparty is £2.8m (2015: £2.7m) or 1.0% (2015: 1.0%) of gross balances.

e) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of financial instruments and insurance contracts will fluctuate because of changes in market interest rates.

Interest rate risk is created if the company's assets and liabilities change in value by different amounts following a change in market interest rates.

The Company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate matching of assets and liabilities in terms of cash flow and change in fair value.

The sensitivity analysis relating to interest rate risk is disclosed in Notes 24(d) and 19(d).

25 Financial risk management objectives and policies (continued)

f) Conduct risk

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 executive risk committee has overall responsibility for implementing and monitoring principles, frameworks, policies and limits. The committee is responsible for managing risk decisions and monitoring risk levels which it reports to the Board of Directors.

The Company holds no provision in respect of conduct risk as at 31 October 2016 (2015: Nil).

g) Operational risk

Operational risk is the risk of economic loss from systemic failure, human error and fraud (control failures) or external events, which result in unexpected or indirect loss to the Company. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26 Capital risk management

On 1 January 2016, a new regulatory regime (Solvency II) came into effect. Previously, the company complied with the regulatory provisions set out in the Prudential Sourcebook for insurers ("INSPRU"). The company is now required to maintain a minimum margin of solvency capital in excess of the value of its liabilities to comply with a number of regulatory requirements relating to the Company's solvency and reporting bases.

The amount of regulatory and economic capital required also depends on the level of risk facing the insurance business, and as such correlates to economic market cycles. The Company must assess its capital resources on both a Pillar 1 (regulatory capital) and a Pillar 2 (own risk and solvency assessment) basis. The Pillar 1 capital requirement is calculated by applying the standard formula for solvency capital requirements whereas the Pillar 2 capital requirement is determined following an internal capital assessment by the Company.

The Company's capital position can be adversely affected by a number of factors; in particular factors that erode the Company's capital resources and/or which impact the quantum of risk to which the Company is exposed. In addition, any event which erodes current profitability and is expected to reduce future profitability and/or make profitability more volatile could impact the Group's capital position, which in turn could have a negative effect on the Company's results of operations.

All minimum regulatory requirements were met under both the old and new regulatory regimes during the year.

26 Capital risk management (continued)

The Company's objectives when managing capital are:

- To have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders;
- To comply with the insurance capital requirements set out by the regulators of the insurance markets where the Company operates (the PRA in the UK);
- To provide an adequate return to the shareholder by pricing insurance contracts according to the level of risk associated with the business written.

The Company's capital comprises solely equity, movements of which are set out in the Statement of Changes in Equity.

Pillar 1 capital position (unaudited)

	2016
	£m
Total capital resources	144.6
Capital resources requirement (Pillar 1)	(82.0)
Excess available capital resources	62.6
Cover ratio	176%

27 Ultimate parent undertaking

The immediate parent undertaking of the Company is Julian Hodge Bank Limited. The ultimate parent undertaking and controller is The Carlyle Trust (Jersey) Limited (incorporated in Jersey). Within the meaning of the Companies Act 2006, The Carlyle Trust Limited is the parent undertaking of the largest and only group of undertakings for which group accounts are 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.

28 Explanation of transition to FRS 101

As stated in Note 1, these are the Company's first financial statements prepared in accordance with FRS 101. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 October 2016, the comparative information presented in these financial statements for the year ended 31 October 2015 and in the preparation of an opening FRS 101 balance sheet as at 1 November 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Adjustments have been made against opening reserves, unless otherwise stated.

Notes to the accounts
For the year ended 31 October 2016

28 Explanation of transition to FRS 101 (continued)
Reconciliation of equity

	Note	At 1 November 2014			At 31 October 2015		
		UK GAAP	Effect of transition to 101	FRS 101	UK GAAP	Effect of transition to 101	FRS 101
		£000	£000	£000	£000	£000	£000
Assets							
Loans & advances to credit institutions		31,553	-	31,553	26,993	-	26,993
Debt Securities		-	-	-	18,979	-	18,979
Investment properties	b	80,935	15,461	96,396	78,468	16,187	94,655
Intangible assets	a	-	55	55	-	40	40
Property, plant & equipment	a	55	(55)	-	40	(40)	-
Investments	c	246,103	24,770	270,873	290,125	30,343	320,468
Other receivables		1,752	-	1,752	1,312		1,312
Prepayments and accrued income		586		586	542	-	542
Total assets		**360,984**	**40,230**	**401,214**	**416,459**	**46,530**	**462,989**
Liabilities							
Provisions for long term business	d	272,145	12,362	284,507	314,666	18,915	333,581
Trade & other payables		2,396	1	2,397	1,611	-	1,611
Deferred Taxation	e	325	5,574	5,898	1,296	5,093	6,389
Total liabilities		**274,866**	**17,936**	**292,802**	**317,573**	**24,008**	**341,581**
Share capital and reserves							
Called-up share capital		6,800	-	6,800	6,800	-	6,800
Profit & Loss Account		79,318	22,294	101,612	92,086	22,522	114,608
Total Equity		**86,118**	**22,294**	**108,412**	**98,886**	**22,522**	**121,408**
Total equity and liabilities		**360,984**	**40,230**	**401,214**	**416,459**	**46,530**	**462,989**

Notes to the reconciliation of equity

a) Intangible assets:
Development costs relating to computer software developments of £0.06m and £0.04m as at 1 November 2014 and 31 October 2015 respectively that qualified for recognition as Intangible assets under FRS 101 had been previously capitalised within tangible fixed assets and have thus been reclassified.

b) Investment properties:
Under UK GAAP, the value of reversionary interests in properties were valued as the present value of the expected sale proceeds arising on the sale of the property calculated using a flat discount rate of 5%. Under FRS 101, these are now carried at fair value. The primary change in methodology has been to calculate the present value of sale proceeds using a risk free yield curve plus an allowance for the illiquidity of reversionary assets. This has resulted in an increase of reversionary interests of £15.5m at 1 November 2014 and £16.2m 31 October 2015.

c) Investments:
Under UKGAAP, the value of lifetime mortgage assets comprised the face value of the loan plus the expected value of expected future interest less an allowance for credit losses caused by the no-negative equity guarantee using a Black Scholes option pricing method. These cash flows were discounted at a flat risk free rate plus a margin to reflect the illiquidity of mortgage assets. Under FRS 101, these are now carried at fair value. The primary change in methodology has been to calculate the mortgage value using a yield curve for the risk free component of the discount rate. This has resulted in an increase of lifetime mortgages of £24.8m at 1 November 2014 and £30.3m 31 October 2015.

d) Provisions for long term business:
Under IFRS, to discount the annuity cash flows, the risk free component of the discount rate uses a yield curve in place of a flat risk free rate previously used under UK GAAP. This has resulted in an increase in annuity reserve of £12.4m at 1 November 2014 and £18.9m 31 October 2015.

e) Deferred taxation:
Moving from UK GAAP to IFRS has led to an increase in available capital resulting in the creation of a deferred tax liability on the IFRS balance sheet.

Reconciliation of profit for year ended 31 October 2015

	Note	UK GAAP	Effect of transition to FRS 101	FRS 101
		£000	£000	£000
Earned premiums		37,581	-	37,581
Investment income		10,580	-	10,580
Net gains on assets and liabilities at FVTPL	a	33,926	6,300	40,226
Total revenue		**82,087**	**6,300**	**88,387**
Gross claims and benefits paid		(20,024)	-	(20,024)
Long-term business provision	b	(42,521)	(6,553)	(49,074)
Administrative expenses		(3,616)	-	(3,616)
Profit before tax		**15,926**	**(253)**	**15,673**
Tax on profit	c	(3,158)	481	(2,677)
Profit for the financial year		**12,768**	**228**	**12,996**

Notes to the reconciliation of profit

a) Net gains on assets and liabilities at FVTPL:
The movement of £6.3m for the year to 31 October 2015 represents the movement in the fair value of both lifetime mortgages and investment properties for the year to 31 October 2015.

b) Long-term business provision:
The movement of £ (6.6)m for the year to 31 October 2015 represents the movement in the fair value of insurance contracts.

c) Tax:
The movement of £481k for the year to 31 October 2015 represents the impact on tax on profit due to the transition to FRS 101.

Explanation of material adjustments to the cash flow statement for year ended 31 October 2015

Under UK GAAP, the company was not required to, and did not, prepare a cash flow statement.