Julian Hodge Bank Limited

Directors' report and financial statements

31 October 2011

Registered number 743437

Officers and professional advisers

Directors	John Mitchell	O.B.E., M.V.O., F.C.I.B.	Chairman
	Jonathan Hodge		Deputy Chairman
	David Austin	LL.B., A.C.A.	Managing Director
	David Landen	A.C.C.A.	Finance Director
	Keith James	O.B.E., M.A.	
	Hywel Jones	C.B.E., F.C.A., BSc.	
	Adrian Piper	B.A., M.Sc., M.C.I.P.D., M.C.I.M	
Company Secretary	Rhian Yates	A.C.C.A.	

Registered Office
31 Windsor Place
Cardiff
CF10 3UR

Auditors
KPMG Audit Plc
Cardiff

Principal bankers
Lloyds TSB Bank Plc
London

Barclays Bank Plc
Cardiff

Economic adviser
Professor Patrick Minford
Cardiff Business School

Contents

Chairman's statement

I am pleased to present the Julian Hodge Bank results for the year ended 31st October 2011.

The Bank made a pre-tax profit of £2.6 million *(2010: £2.1 million)* which, in the current environment, I believe to be a creditable performance.

Highlights

- Pre-tax profit increased by 20%.
- Tier 1 asset ratio of 23.29%.
- 81% reduction in charge for bad and doubtful debts.
- 14% reduction in administrative expenses.

Economic Environment

The early part of the year was characterised by a degree of optimism; economic growth was in evidence and, whilst inflation remained high, confidence was returning to the economy. However, the deepening sovereign debt crisis enveloping the euro-zone has seen optimism dashed and confidence washed away, such that the economic outlook is at best uncertain and, on the most pessimistic of predictions, is actually a precursor to recession.

The Chancellor's recent autumn statement set out the gloomiest economic scenario for decades. There is clearly a need for strong political will to be exercised to turn the economy around and to create some growth. Thankfully, the U.K. is still seen as a safe haven by international markets, although how long this view will persist must be open to doubt. Any sign of weakness on behalf of the Government in its determination to reduce the deficit will likely be seized upon by the markets, so it is imperative that it maintains its resolve, otherwise the outcome could be catastrophic.

Financial Performance

Maintaining profitability has been a struggle throughout the year. Fee income has been depressed due to the absence of new business whilst the cost of retail deposits remained high, relative to LIBOR, making it difficult to achieve adequate lending margins, further hampered by the need to maintain substantial liquidity to meet FSA requirements. Low interest rates generally also mean that our earnings on capital are severely depressed.

On the other hand the actions taken during 2010 to reduce the Bank's cost base have borne fruit with administrative expenses falling by 14%. Furthermore the Bank has benefited from a substantial reduction in provisions against its commercial lending portfolio.

Five Year Summary

	2011	2010	2009	2008	2007
	£m	£m	£m	£m	£m
Profit before tax	**2.6**	**2.1**	**1.2**	**(0.9)**	**7.1**
Total assets	**710.9**	**825.3**	**738.0**	**629.2**	**465.9**
Loans and advances to customers	**362.8**	**398.4**	**470.2**	**419.3**	**366.1**
Customer deposits	**579.6**	**696.2**	**610.5**	**503.4**	**317.5**
Shareholder's funds	**124.7**	**124.1**	**122.1**	**124.2**	**126.5**

Chairman's statement (*continued*)

Commercial Lending

Our Commercial Lending division has endured yet another difficult and testing year as the commercial property market remains in the doldrums. Limited demand has meant that there has been very little opportunity to write new business and, consequently, this has depressed fee income and resulted in a reduction in our asset base.

The bulk of our effort has been dedicated to resolving non-performing accounts and, in this respect, we have made substantial progress; whilst non-performing accounts have only reduced by 5% over the year, the actions we have taken should result in a further fall in 2012.

We increased our provisions against non-performing accounts last year and the validity of that decision has been borne out by the fact that the charge for bad and doubtful debts has fallen by 81%.

Hodge Lifetime

Under the Hodge Lifetime brand, equity release products are provided by the Bank, whilst the Bank's subsidiary, Hodge Life Assurance Company Limited (Hodge Life) specialises in pension annuities. In recent years, the focus of our business has shifted in favour of Hodge Life, whose strategy is centred on generating stable, long term margins by matching fixed rate liabilities, in the form of pension annuities, with a range of long term fixed rate investments including equity release mortgages. The success of this strategy to date is evidenced by the fact that Hodge Life wrote £26.7 million of pension annuity business in the year, an increase of 22% over the prior year. This enabled Hodge Life to acquire two mortgage portfolios from the Bank totalling £25 million. Hodge Life is regulated separately from the Bank but also by the FSA.

As at 31st October 2011 the Bank had £459 million of equity release mortgage assets under management including £247 million for other financial institutions. The principal strategic objective for Hodge Lifetime over the forthcoming year is to design and launch a new range of equity release mortgages, to be originated solely for the purpose of matching annuity liabilities in Hodge Life.

Treasury and Funding

The Bank is still awaiting final determination from the FSA on the amount of liquid assets we are required to hold. Pending this, the Bank has maintained the conservative approach adopted last year resulting in us currently carrying substantial excess liquidity. This has, of course, an impact on profitability because the liquid assets held yield significantly less than the retail deposits raised to fund their acquisition. In fact, our need for retail deposits reduced over the year, primarily due to the fall in our loan book coupled with a managed reduction in our excess liquidity position to prudent, but more realistic levels.

It is clear that, with wholesale funding opportunities restricted, the retail deposit market will become ever more competitive. The Bank is, however, well placed as we offer straightforward, transparent products, without the need to entice customers with introductory offers. We believe that this approach works well with customers who appreciate competitive consistency and equality of treatment.

Chairman's statement (*continued*)

Our People

During the year, our Finance Director David James left the Bank to take up a position with a company we previously owned. I would like to thank David for his hard work over a period of 9 years; he left a good legacy and his deputy David Landen succeeded him. It is always gratifying to see one of our own people rise to a senior position, having started his working career with the Bank at a junior level.

I would also like to pay tribute to Deian Jones; Deian was appointed Managing Director of Hodge Life during the year and he has been largely responsible for the successful development of our pension annuity business. I am certain that under his leadership, this business will go from strength to strength.

The quality of our people is critical to providing a consistently high standard of care for our customers and we have an extremely able and dedicated group of colleagues who devote themselves at all times to the betterment of the Bank. I thank them one and all.

And finally……..

I finish my report on a personal note as this will be my final Chairman's Statement.

On 31st December I will step down from the Board of Julian Hodge Bank Limited after 9½ years service to the Company and the Hodge family.

During the early years of my Chairmanship our Commercial Lending and Equity Release businesses prospered and grew significantly. Since 2007, however, the economic environment has been extremely challenging and the crisis enveloping the financial markets throughout Europe has been unnerving to say the least. It is with some degree of satisfaction, therefore, that I can say the Bank not only weathered the storms but also managed to steadily improve its profit performance over the past 4 years.

I hand over the Chairmanship to Keith James and bequeath to him a highly significant asset – an experienced and effective team of non-executive and executive directors. Keith James and Hywel Jones joined the Board as non-executive directors at the same time as myself in 2002 – their contribution to the development and governance of the Bank has been enormous. I am deeply grateful to them both.

Throughout my Chairmanship I have been extremely fortunate to have been ably assisted and advised by David Austin our Managing Director. His mastery of the many complex regulatory changes and his ability to explain the impact in easily understandable reports is legendary. The smooth running and operation of the Bank and the Board is down to David's unstinting efforts.

I was fortunate enough to meet Sir Julian Hodge on a number of occasions before his untimely death just before his 100^{th} Birthday. Fortunately Sir Julian's legacy has been well protected by Jonathan his son. It has been a pleasure to work alongside Jonathan – he really has a very good grasp of all the issues which affect the smooth operation of a small commercial bank like ours and I know his father, if he were still alive, would be very proud of both Jonathan and the Bank's achievements. I wish Lady Hodge and Jonathan good health and fortune in the years ahead.

Finally, it has been both a pleasure and a privilege to have been Chairman of the Board and, whilst it has been challenging, it has also been very rewarding. I wish Julian Hodge Bank and all those involved continuing success in the future.

John Mitchell
Chairman
22 December 2011

Directors' report

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

Principal activities

The Bank is principally engaged in the business of banking and equity release. Details of the principal subsidiary and its activities are set out in note 12 to the accounts.

The Bank is an Authorised Institution under the Financial Services and Markets Act 2000.

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 Bank's philosophy is a wish to protect its capital base for the benefit of its depositors and Shareholder by conducting business in those areas where it has the greatest expertise and experience and best understands the risks which it is taking.

A rolling five-year strategy is approved by the Board annually, complemented by a detailed business plan for the forthcoming financial year. The Board sets aside specific time during the year to review its strategy and to gauge progress towards its achievement. The current strategy is based on a continuing involvement in (a) commercial property, primarily through the Bank's commercial lending business and (b) residential property through its equity release activities, both of which it believes will enable it to achieve its strategic objectives.

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 £1,979,000 *(2010: £1,341,000).* No dividend was paid during the year *(2010: £nil)* leaving a surplus for the year of £1,979,000 (*2010: £1,341,000)* to be taken to reserves.

Suppliers' terms of payment

The Bank recognises the importance of maintaining good relationships with its suppliers and is committed to paying all invoices within 30 days of invoice date, or, otherwise in accordance with agreed terms. At the year end, the Bank had an average of 20 days purchases outstanding in trade creditors *(2010: 13)*.

Employees

The Bank has an equal opportunities employment policy, and it is the Board's policy to employ disabled persons whenever suitable vacancies arise and to provide for such employees the appropriate level of training and career progression within the Bank.

The directors recognise the importance of communication with employees and they make it their policy to be accessible to them.

Directors' report *(continued)*

Directors and their interests

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

John Mitchell*	- Chairman	
Jonathan Hodge*	- Deputy Chairman	
David Austin	- Managing Director	
David Landen	- Finance Director	Appointed 22nd July 2011
David James		Resigned 22nd July 2011
Keith James*†		
Hywel Jones*†		
Adrian Piper*†		

* Non-executive
† Independent

No contract was entered into by the Bank in which a director had a material interest.

Jonathan Hodge's interests in the shares of Group undertakings are shown in the Directors' Report of the ultimate UK parent undertaking, The Carlyle Trust Limited.

None of the other directors held any interest in the shares of Group undertakings.

Political contributions

The Bank made no political contributions during the year.

Corporate governance

This statement explains the extent to which the Bank has applied the principles of good governance contained in The UK Corporate Governance Code for the year ended 31 October 2011.

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

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

The Bank's 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 within the Bank 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 Bank's system of internal financial control during the year.

Directors' report *(continued)*

Governance framework

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

The Board

The Board has ultimate responsibility for the proper stewardship of the Bank in all its undertakings. It meets regularly throughout the year to discharge its responsibilities for all important aspects of the Bank'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 Bank. 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

The Board has established the following standing committees:

- Audit committee: Hywel Jones (Chairman), John Mitchell, Keith James, Jonathan Hodge and Adrian Piper.

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

  The function of the audit committee is to review the work of the internal audit function, to consider the adequacy of internal control systems, to review the relationship with the external auditors, to review the statutory accounts and to consider compliance issues.

  The committee meets at least four times a year.

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

  The role of this committee is twofold:

  1. To consider remuneration policy and specifically to determine the remuneration and other terms of service of executive directors and senior managers. The executive directors decide fees payable to non-executive directors.
  2. To recommend the appointment of directors to the Board and Board committees and to ensure that 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 Bank's internal financial control framework. It monitors credit risk, market risk, liquidity risk and operational risk by means of relevant committees as described below. The Bank's policy on risk management is set out on the following page.

- Divisional management boards

  Chaired by the executive directors, the management boards are responsible for the formulation and execution of the Bank strategy, and the day-to-day management of the Bank, subject to specific limitations and constraints imposed by the Board. The management boards meet monthly.

Directors' report *(continued)*

Executive Committees *(continued)*

The Bank management board is also responsible for formulating the IT strategy and policy and monitors and authorises IT activities throughout the Bank.

- Group risk committee

  Chaired by the Managing Director, the committee meets quarterly and monitors the Bank's risk management framework and it co-ordinates and monitors the activities of compliance, risk and internal audit throughout the Bank.

- Assets and liabilities committee

  Chaired by the Managing Director, 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 treasury counterparty risk arising from deposits with other banks and institutions which are usually unsecured together with debt securities acquired as investments. The committee meets weekly.

- Credit committee

  Chaired by the Managing Director, the committee's principal responsibility is to monitor and control counterparty risk throughout the Bank. The primary credit risk arises mainly from exposures to customers, whether individuals or corporate entities, to whom money has been lent or on whose behalf guarantees have been issued and which would generally be secured.

  The committee meets when required, to approve and monitor individual risks, including the level and type of security required, and to set and monitor acceptable concentrations of risk. All individual risks are reviewed at least annually and more frequently if closer monitoring is required.

Risk Management

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

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

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

Liquidity risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet commitments when they fall due. The Bank manages its liquidity risk through its assets and liabilities committee, and monitors its liquidity position on a daily basis and has adopted a policy to ensure that it has adequate resources to enable it to conduct its normal business activities without interruption. The maturity analysis of assets and liabilities is disclosed in the respective notes to the Bank's balance sheet.

The customer deposit base represents a stable source of funding due to the number and diversity of depositors. Liquidity is further managed through dealings in the money markets. As at 31 October 2011 the Bank had no deposits or money market liabilities due to mature in more than five years.

House price risk is the risk that arises when there is an adverse mismatch between actual house prices and those implicit in the costing of the Bank's equity release products, such that the ultimate realisation of the property would not yield the expected return to the Bank and could, in certain circumstances, result in a capital loss.

Directors' report *(continued)*

Risk Management *(continued)*

Interest rate risk is the risk that arises when there is an imbalance between the maturity dates of rate sensitive assets, liabilities and off-balance sheet items. The Bank manages its interest rate risk through its assets and liabilities committee. The Bank's policy is to maintain interest rate risk at a controlled level within limits set by the Board.

The table in note 23 shows an estimate of the interest rate sensitivity gap as at 31 October 2011. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

The Bank enters into derivative transactions, normally interest rate swaps. The purpose of such transactions is to manage the interest rate and other risks arising from the Bank's operations and other resultant positions. The Bank's interest rate risk management policy defines the type of derivative transactions that can be undertaken. Further information is given in note 23 to the accounts.

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

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

The management board and credit committee covers credit risk, and the assets and liabilities committee covers credit risk for treasury counterparties and liquidity and market risk. Operational risks in each business unit are the responsibility of a named director reporting to the management board or one of its sub-committees. Strategic risk is monitored through the Board.

Going concern

The Bank's forecasts and projections include scenario testing as carried out in accordance with the Internal Capital Adequacy Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA), which are processes required by our regulator to demonstrate appropriate levels of capital and liquidity respectively under stressed conditions. The directors consider that the overall level of capital, including Tier 1 capital of £109.7m (23.29% as a percentage of risk weighted assets) and liquidity, including liquid assets of £145m (24.75% of total liabilities) are adequate. Accordingly the directors confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Auditors

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

By order of the Board

Rhian Yates
Secretary

31 Windsor Place
Cardiff
CF10 3UR

22 December 2011

Statement of directors’ responsibilities in respect of the Directors’ report and the financial statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 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.

KPMG Audit Plc
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom

Independent auditor's report to the member of Julian Hodge Bank Limited

We have audited the financial statements of Julian Hodge Bank Limited for the year ended 31 October 2011 set out on pages 12 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Bank's member, 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 Bank'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 Bank and the Bank'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 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at http://www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

• give a true and fair view of the state of the Bank's affairs as at 31 October 2011 and of its profit for the year then ended;
• have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Julian Hodge Bank Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
• the financial statements are not in agreement with the accounting records and returns; or
• certain disclosures of directors' remuneration specified by law are not made; or
• we have not received all the information and explanations we require for our audit.

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

Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom

22 December 2011

Profit and loss account
for the year ended 31 October 2011

	Note	**2011**	2010
		£000	£000
Interest receivable			
Interest receivable and similar income arising from treasury bills and debt securities		**4,449**	3,826
Other interest receivable and similar income		**23,990**	29,657
		28,439	33,483
Interest payable	*5*	**(28,267)**	(31,049)
Net interest income		**172**	2,434
Dividend income from listed equity shares and subsidiary companies		**184**	84
Fees and commissions receivable		**1,335**	1,586
Fees and commissions payable		**(79)**	(366)
Other finance (cost)/income	*6*	**(100)**	100
Other operating income:			
Rents receivable		**841**	840
Profit on sale of reversionary interests		**1,666**	2,099
Profit on sale of mortgage assets		**1,441**	10,122
Profit/(loss) on sale of stock and work in progress		**865**	(757)
Profit on sale of treasury bills		**1,475**	-
Profit/(loss) on sale of debt securities		**1,227**	(67)
Net operating income		**9,027**	16,075
Administrative expenses:			
Staff costs	*4*	**(2,795)**	(3,776)
Other administrative expenses		**(2,118)**	(1,955)
Depreciation and amortisation	*15*	**(22)**	(29)
Movement on provisions for bad and doubtful debts	*11*	**(1,533)**	(8,178)
Operating profit being profit on ordinary activities before taxation	*3*	**2,559**	2,137
Tax on profit on ordinary activities	*7*	**(580)**	(796)
Profit on ordinary activities after taxation being profit for the financial year		**1,979**	1,341

The results for the year ended 31 October 2011 relate entirely to continuing operations. There is no difference between the profit for the year and the profit on a historical cost basis.

The notes on pages 15 to 35 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 31 October 2011

	Note	**2011**	2010
		£000	£000
Profit for the financial year		**1,979**	1,341
Deficit on revaluation of investment properties	*16*	**(1,044)**	-
Actuarial (loss)/gain recognised in pension scheme	*25*	**(500)**	800
Deferred tax thereon	*25*	**100**	(100)
Total recognised gains and losses since last annual report		**535**	2,041

Balance sheet
at 31 October 2011

	Note	2011	2010
		£000	£000
Assets			
Treasury bills	*8*	**35,275**	42,454
Loans and advances to banks	*9*	**78,439**	188,474
Loans and advances to customers	*10 & 11*	**362,761**	398,412
		476,475	629,340
Shares in group undertakings and participating interests	*12*	**16,070**	16,070
Equity shares	*13*	**837**	379
Debt securities	*14*	**67,421**	54,168
Tangible fixed assets	*15*	**36**	43
Investment properties	*16*	**9,275**	10,319
Reversionary interests in properties	*17*	**62,551**	63,292
Other assets	*19*	**74,768**	47,497
Corporation tax		**154**	424
Prepayments and accrued income		**3,271**	3,745
Total assets		**710,858**	825,277
Liabilities			
Deposits by banks – repayable on demand		**1,106**	536
Customer accounts	*18*	**579,607**	696,171
Other liabilities:			
Other		**395**	183
Accruals and deferred income		**4,474**	4,146
Pension deficit	*25*	**600**	100
Total liabilities		**586,182**	701,136
Share capital and reserves			
Called-up share capital	*20*	**100,000**	100,000
Profit and loss account	*21*	**25,720**	24,141
Revaluation reserve	*21*	**(1,044)**	-
Shareholder's funds	*21*	**124,676**	124,141
Total liabilities and shareholder's funds		**710,858**	825,277
Memorandum items			
Contingent liabilities	*22*	**191**	82
Commitments	*22*	**124,755**	142,335

These financial statements were approved by the Board of directors on 22 December 2011 and were signed on its behalf by:

David Austin
Director

David Landen
Director

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

Except as noted below, the financial statements have been prepared in accordance with the provisions of section 396 of the Companies Act 2006, including applying the requirements set out in Schedule 2 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to banks. The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules as modified to include the revaluation of certain assets and investments and comply with the revised Statements of Recommended Practice (SORPs) issued by the British Bankers' Association (BBA).

Under FRS1 the Bank is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Bank in its own published consolidated financial statements.

The Bank is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Bank as an individual undertaking and not about its group.

The Bank's forecasts and projections include scenario testing as carried out in accordance with the Internal Capital Adequacy Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA), which are processes required by our regulator to demonstrate appropriate levels of capital and liquidity respectively under stressed conditions. The directors consider that the overall level of capital, including Tier 1 capital of £109.7m (23.29% as a percentage of risk weighted assets) and liquidity, including liquid assets of £145m (24.75% of total liabilities) are adequate. Accordingly the directors confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Shares in group undertakings and participating interests

Investments in subsidiary undertakings and participating interests are stated at cost less provision for impairment in value.

Treasury bills

Treasury bills intended for use on a continuing basis in the Bank's activities are classified as treasury bills and are stated at cost adjusted for any amortisation of premiums and discounts arising on acquisition and less provision for any permanent diminution in value.

Where dated treasury bills have been purchased at a premium or discount, the premiums and discounts are amortised through the profit and loss account from the date of purchase to the date of maturity on a straight line basis.

Equity shares

All equity shares are considered to be financial fixed assets and are included in the balance sheet at cost less provision for any impairment. Income from equity shares is credited to the profit and loss account on the ex-dividend date.

Debt securities

Debt securities intended for use on a continuing basis in the Bank's activities are classified as debt securities and are stated at cost adjusted for any amortisation of premiums and discounts arising on acquisition and less provision for any permanent diminution in value.

Where dated debt securities have been purchased at a premium or discount, the premiums and discounts are amortised through the profit and loss account from the date of purchase to the date of maturity on a straight line basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Loans and advances

Loans and advances are held at cost less provisions. Provisions against loans and advances to customers are calculated by reference to the record of payments received and, where appropriate, the security held or the value of goods to which the agreements relate. Specific provisions have been made against amounts which are considered irrecoverable in respect of all identified impaired advances. General provisions have been made in respect of losses inherent in the portfolio at a fixed percentage of gross debtors excluding unearned interest. If the collection of interest is considered doubtful, it is suspended and excluded from interest income in the profit and loss account. Loans and advances are written off to the extent that there is no longer any realistic prospect of recovery.

Fees and commissions receivable

Fees and commissions receivable for services provided are recognised when earned. Fees and commissions which increase the yield on transactions are spread over the lives of the underlying transactions on a systematic basis.

Off balance sheet instruments

The Bank's policy is to hedge against mismatches when it is appropriate or prudent to do so by the use of interest rate swaps and caps. The related income/costs are matched in the profit and loss account against those relating to the items they are used to hedge.

Tangible fixed assets and depreciation

Depreciation in respect of tangible fixed assets is provided to write off the cost less residual value on a straight line basis over estimated useful lives as follows:

Fixtures, fittings and equipment	-	5 years
Short leasehold improvements	-	term of lease

Investment properties

Design and construction management expenses together with interest incurred in respect of investment properties in the course of development are capitalised until the building is effectively completed and available for letting. Thereafter they are charged to the profit and loss account.

In accordance with SSAP 19:

- investment properties are revalued annually and surpluses or deficits are transferred to a revaluation reserve unless a deficit on an individual property is considered permanent. In this case the deficit is charged to the profit and loss account and any subsequent reversal is credited to the profit and loss account in the period in which it arises; and
- no depreciation is provided in respect of freehold investment properties.

This treatment, as regards certain of the Bank's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

The investment properties are formally valued approximately every 3 years by professional valuers, and desktop valuations are used in the intervening years.

Notes *(continued)*

1 Accounting policies *(continued)*

Reversionary interests in properties

Reversionary interests in properties are included in the financial statements at cost, being the amount of the cash advanced to the customer together with related acquisition costs. The cash advance reflects the then current market value of the property, as reduced by the impairment to market value arising from the existence of a lease for life for the customer.

The provision for impairment and the current market value of the properties are reviewed on an annual basis. Any deficit below the initial advance is provided for in the profit and loss account. The profit on sale of reversionary interests is calculated as the difference between the net sale proceeds and cost, less any impairment.

Stock

The Bank's stocks comprise land and work in progress. These are included within other assets and are stated at the lower of cost and net realisable value.

Net realisable value means estimated selling price less all further costs to completion and all costs to be incurred in marketing, selling and distribution.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Related party disclosures

As the Bank is a wholly owned subsidiary of The Carlyle Trust Ltd it has taken advantage of the exemption under FRS 8 from the requirement to disclose transactions and balances with related parties which are part of the same group or investees in that group.

Pension scheme

The Bank and its subsidiary undertakings are members of The Carlyle (1972) Pension and Life Assurance Scheme, a defined benefits scheme operated by The Carlyle Trust Limited. The assets of the scheme are held separately from those of the Bank.

In respect of the above scheme, the pension costs charged against profits are based on an actuarial method and actuarial assumptions designed to provide the anticipated pension costs over the service lives of the employees and directors in the scheme, in a way that seeks to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll in the light of current actuarial assumptions. Variations from regular costs are spread over the remaining service lives of current employees in the scheme.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Notes *(continued)*

1 Accounting policies *(continued)*

Pension scheme (continued)

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/(deficit) is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The Bank also operates a money purchase scheme provided through an insurance company. The Bank makes a contribution of 10% of pensionable salary to this scheme and this is charged to profits on the same basis as the relevant salary cost.

2 Segmental information

All material activities are in respect of banking and are carried on within the United Kingdom.

3 Profit on ordinary activities before taxation

	2011	2010
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Remuneration of the auditor and its associates		
Audit of these financial statements	**35**	33
Audit of financial statements of subsidiaries pursuant to legislation	**31**	25
Other services relating to taxation	**27**	24
Pension scheme audit	**7**	8
Depreciation	**22**	29
Bad debt provision	**1,533**	8,178
Hire of vehicles under operating leases	**32**	46

Notes *(continued)*

4 Directors and employees

	2011	2010
	£000	£000
Staff costs		
Wages and salaries	**2,323**	3,205
Social security	**211**	281
Pension costs (note 25)	**261**	290
	2,795	3,776

The average number of employees of the Bank during the year was as follows:

	2011	2010
	No	No
Provision of finance and banking	**47**	51
Property, investment and other	**17**	26
	64	77

Staff costs include remuneration in respect of directors as follows:

	2011	2010
	£000	£000
Fees	**190**	141
Aggregate emoluments as executives	**272**	281
	462	422

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

Aggregate emoluments	**172**	164

The highest paid director is a member of a defined benefit scheme under which his accrued pension at the year end was £43,000 *(2010: £39,000).*

Retirement benefits are accruing to 3 *(2010: 3)* directors in a defined benefit scheme.

5 Interest payable

	2011	2010
	£000	£000
On deposits by banks	**10,013**	7,848
On customer accounts	**18,247**	23,198
On amounts owed to parent and fellow subsidiary undertakings	**7**	3
	28,267	31,049

Notes *(continued)*

6 Other finance income

	2011	2010
	£000	£000
Expected return on pension scheme assets (note 25)	**1,000**	1,200
Interest on pension scheme liabilities (note 25)	**(1,100)**	(1,100)
Net finance (cost)/income	**(100)**	100

7 Tax on profit on ordinary activities

Analysis of charge in year

	2011		2010	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year		**246**		(224)
Adjustments in respect of prior years		**(33)**		15
Total current tax		**213**		(209)
Deferred tax (see note 19)				
Origination/reversal of timing differences	**360**		950	
Adjustment in respect of prior years	**7**		55	
		367		1,005
Tax on profit on ordinary activities		**580**		796

The current tax charge for the year is lower (*2010: lower)* than the standard rate of corporation tax in the UK. The differences are explained below.

	2011	2010
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,559**	2,137
Current tax at 26.83% *(2010: 28%)*	**687**	598
Effects of:		
Expenses not deductible for tax purposes	**96**	39
Capital allowances for the year (in excess of)/less than depreciation	**(62)**	55
Release of provisions not deductible until paid	**(199)**	(864)
Franked investment income/intra-group dividends	**(49)**	(24)
Adjustments in respect of prior years	**(33)**	15
FRS17 pension scheme adjustment	**27**	(28)
Accounting profit on sale of index-linked gilts in excess of taxable profit	**(254)**	-
Total current tax charge/(credit) (see above)	**213**	(209)

Notes *(continued)*

7 Tax on profit on ordinary activities (continued)

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 and a further reduction to 25 per cent with effect from 1 April 2012. These changes became substantively enacted on 29 March 2011 and 19 July 2011 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax asset which has been included in the figures above.

8 Treasury bills

	2011	2010
	£000	£000
Listed on a UK recognised investment exchange	**35,275**	42,454

Maturity analysis	**2011**	2010
	£000	£000
More than one year but less than five years	**16,168**	11,234
Five years and over	**19,107**	31,220
	35,275	42,454

	Nominal value	**Net premium/(discount)**	**Net book value**
	£000	**£000**	**£000**
Movement			
At beginning of year	41,476	978	42,454
Additions	1,000	5	1,005
Disposals	(7,976)	46	(7,930)
Amortisation of premium	-	(254)	(254)
At end of year	**34,500**	**775**	**35,275**

Market value	**2011**	2010
	£000	£000
Listed on a UK recognised investment exchange	**39,670**	45,442

Notes *(continued)*

9 Loans and advances to banks

	2011	2010
	£000	£000
Repayable		
On demand	**27,614**	130,026
Within three months	**50,825**	58,448
	78,439	188,474

10 Loans and advances to customers

	2011	2010
	£000	£000
Loans and advances	**362,371**	397,937
Amounts owed by immediate parent and fellow subsidiary undertakings	**388**	336
Amounts owed by subsidiary undertakings	**2**	139
	362,761	398,412

Amounts owed by immediate parent, fellow subsidiary and subsidiary undertakings have no fixed term for repayment.

Loans and advances to customers other than immediate parent, fellow subsidiary and subsidiary undertakings are repayable as follows:

	2011	2010
	£000	£000
Within three months	**30,057**	68,260
Between three months and one year	**60,457**	57,689
Between one and five years	**95,303**	22,134
Over five years	**199,554**	274,797
General and specific bad debt provisions (note 11)	**(23,000)**	(24,943)
	362,371	397,937
Of which repayable on demand or at short notice	**347**	31,177

Notes *(continued)*

11 Provisions for bad and doubtful debts

2011

	Total £000	**Specific £000**	**General £000**
At 1 November 2010	**24,943**	**17,400**	**7,543**
Charge against profits	**1,533**	**2,051**	**(518)**
Amounts written off	**(3,477)**	**(3,477)**	**-**
Recoveries	**1**	**1**	**-**
At 31 October 2011	**23,000**	**15,975**	**7,025**

2010

	Total £000	Specific £000	General £000
At 1 November 2009	17,601	6,420	11,181
Charge against profits	8,178	11,816	(3,638)
Amounts written off	(839)	(839)	-
Recoveries	3	3	-
At 31 October 2010	24,943	17,400	7,543

	2011 £000	2010 £000
Loans and advances for which interest is being placed in suspense:		
Loans and advances before specific provisions	**40,760**	42,735
Loans and advances after specific provisions	**23,271**	24,196

Notes *(continued)*

12 Shares in group undertakings and participating interests

	Investments in subsidiary undertakings £000
Cost and net book value	
At beginning of year	16,070
Additions	-
At end of year	**16,070**

The Bank's principal subsidiary undertaking is as follows:

	Country of Incorporation	Principal Activity	Class and Percentage of shares held
Subsidiary undertaking			
Hodge Life Assurance Company Limited	United Kingdom	Life Assurance	100%

13 Equity shares

	£000
Cost and net book value	
At beginning of year	379
Additions	458
At end of year	**837**

At 31 October 2011 all listed investments are considered by the directors to be financial fixed assets as they are not held for the purposes of dealing.

The aggregate market value of the Bank's listed investments, which are listed on recognised UK investment exchanges, at 31 October 2011 was £4,692,000 (*2010: £5,162,000).* If these were realised at their market value on 31 October 2011 an additional tax charge of £1,220,000 *(2010: £1,339,000)* would have arisen.

Notes *(continued)*

14 Debt securities

Debt securities	**2011** **£000**	2010 £000
Debt securities – listed on a UK recognised investment exchange	67,421	54,168

Debt securities – maturity analysis	**2011** **£000**	2010 £000
More than one year but less than five years	**39,998**	24,165
Five years and over	**27,423**	30,003
	67,421	54,168

	Nominal value	**Net premium/(discount)**	**Net book value**
	£000	**£000**	**£000**
Debt securities – movement			
At beginning of year	54,984	(816)	54,168
Additions	33,911	749	34,660
Disposals	(8,000)	119	(7,881)
Redemptions	(13,150)	(183)	(13,333)
Amortisation of premium	-	(193)	(193)
At end of year	**67,745**	**(324)**	**67,421**

Debt securities – market value	**2011** **£000**	2010 £000
Debt securities – listed on a UK recognised investment exchange	**69,509**	57,990

Notes *(continued)*

15 Tangible fixed assets

	Total £000	Short leasehold improvements £000	Fixtures, fittings and equipment £000
Cost			
At 1 November 2010	874	65	809
Additions	15	-	15
Disposals	(8)	-	(8)
At 31 October 2011	**881**	**65**	**816**
Depreciation			
At 1 November 2010	831	53	778
Provided in the year	22	9	13
Disposals	(8)	-	(8)
At 31 October 2011	**845**	**62**	**783**
Net book value			
At 31 October 2011	**36**	**3**	**33**
At 31 October 2010	43	12	31

16 Investment properties

Freehold	**£000**
At 1 November 2010	10,319
Revaluation deficit	(1,044)
At 31 October 2011	**9,275**
The historical cost of investment properties was:	
At 31 October 2011	**10,319**
At 1 November 2010	10,319

A desktop market valuation was undertaken by DTZ as at 31 October 2011.

17 Reversionary interests in properties

The estimated market value of the Bank's reversionary interests in properties is £77,534,213 (*2010: £76,584,461).* If these were realised at their market value on 31 October 2011 an additional tax charge of £3,895,580 *(2010: £3,721,889)* would have arisen.

Notes *(continued)*

18 Customer accounts

	2011	2010
	£000	£000
Repayable on demand	**14,310**	22,219
With agreed maturity dates or periods of notice and repayable:		
- within three months	**192,416**	274,503
- between three months and one year	**250,524**	253,016
- between one and five years	**120,668**	144,037
Amounts owed to parent and fellow subsidiary undertakings	**1,367**	2,394
Amounts owed to subsidiary undertakings	**322**	2
	579,607	696,171

Amounts owed to parent and fellow subsidiary undertakings and amounts owed to subsidiary undertakings have no fixed terms for repayment.

19 Other assets

	2011	2010
	£000	£000
Stock of land and work in progress	**11,198**	12,025
Other debtors	**61,463**	32,998
Deferred tax assets (see below)	**2,107**	2,474
	74,768	47,497

The deferred taxation asset is calculated at 25% *(2010: 27%)* as follows:

	2011	2010
	£000	£000
Accelerated capital allowances	**149**	160
Other timing differences	**1,958**	2,314
	2,107	2,474

The unprovided deferred tax asset is £nil (*2010 £nil*).

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 and a further reduction to 25 per cent with effect from 1 April 2012. These changes became substantively enacted on 29 March 2011 and 19 July 2011 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax asset which has been included in the figures above.

The Chancellor proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 25 per cent to 23 per cent, if these applied to the deferred tax balance at 31 October 2011, would be to further reduce the deferred tax asset by approximately £169k.

Notes *(continued)*

20 Called up share capital

	2011 £000	2010 £000
Allotted, called-up and fully paid:		
100,000,000 *(2010: 100,000,000)* ordinary shares of £1 each	**100,000**	100,000

21 Capital and reserves – reconciliation of movements in shareholders' funds

	Called up share capital £000	**Profit and loss account £000**	**Revaluation reserve £000**	**Total £000**
Year ended 31 October 2011				
At beginning of year	**100,000**	**24,141**	**-**	**124,141**
Profit for the financial year	**-**	**1,979**	**-**	**1,979**
Deficit on revaluation	**-**	**-**	**(1,044)**	**(1,044)**
Actuarial loss recognised	**-**	**(400)**	**-**	**(400)**
At end of year	**100,000**	**25,720**	**(1,044)**	**124,676**

	Called up share capital £000	Profit and loss account £000	Revaluation reserve £000	Total £000
Year ended 31 October 2010				
At beginning of year	100,000	22,100	-	122,100
Profit for the financial year	-	1,341	-	1,341
Actuarial gain recognised	-	700	-	700
At end of year	100,000	24,141	-	124,141

22 Memorandum items and interest rate contracts

	2011 £000	2010 £000
Contingent liabilities		
Other contingent liabilities	**191**	82
Commitments		
Undrawn credit lines, stand-by facilities, other lending commitments and capital commitments expiring in less than one year	**124,755**	142,335
Interest rate contracts (principal amount)		
Hedging	**345,864**	428,896

Notes *(continued)*

23 Financial instruments

Objectives and policies

The Bank's objectives and policies on the use of financial instruments, including derivatives, are set out in the Directors' report.

Interest rate risk

2011	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	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Treasury bills	2,003	-	2,042	12,123	19,107	-	35,275
Loans and advances to banks	78,439	-	-	-	-	-	78,439
Loans and advances to customers	58,589	106,565	1,949	39,359	180,958	(24,659)	362,761
Shares in group undertakings	-	-	-	-	-	16,070	16,070
Equity shares	-	-	-	-	-	837	837
Debt securities	23,537	-	-	18,334	25,550	-	67,421
Investment properties	-	-	-	-	-	9,275	9,275
Reversionary interests in properties	-	-	-	1,141	61,410	-	62,551
Other assets	61,222	-	-	-	-	13,546	74,768
Non-financial assets	-	-	-	-	-	3,461	3,461
Total assets	**223,790**	**106,565**	**3,991**	**70,957**	**287,025**	**18,530**	**710,858**
Liabilities							
Deposits by banks	1,106	-	-	-	-	-	1,106
Customer accounts	53,126	151,967	250,009	120,405	-	4,100	579,607
Other liabilities	-	-	-	-	-	395	395
Non-financial liabilities	-	-	-	-	-	5,074	5,074
Shareholder's funds	-	-	-	-	-	124,676	124,676
Total liabilities	**54,232**	**151,967**	**250,009**	**120,405**	**-**	**134,245**	**710,858**
Off balance sheet items	**173,992**	**158,873**	**2,500**	**(60,889)**	**(274,476)**	**-**	**-**
Interest rate sensitivity gap	**343,550**	**113,471**	**(243,518)**	**(110,337)**	**12,549**		
Cumulative gap	**343,550**	**457,021**	**213,503**	**103,166**	**115,715**		

Notes *(continued)*

23 Financial instruments *(continued)*

2010	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	Non-interest bearing	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Assets							
Treasury bills	-	-	-	11,748	30,706	-	42,454
Loans and advances to banks	188,474	-	-	-	-	-	188,474
Loans and advances to customers	188,317	5,670	1,222	23,604	204,067	(24,468)	398,412
Shares in group undertakings	-	-	-	-	-	16,070	16,070
Equity shares	-	-	-	-	-	379	379
Debt securities	8,911	3,067	-	12,672	29,518	-	54,168
Investment properties	-	-	-	-	-	10,319	10,319
Reversionary interests in properties	-	28	113	1,308	61,843	-	63,292
Other assets	32,197	-	-	-	-	15,300	47,497
Non-financial assets	-	-	-	-	-	4,212	4,212
Total assets	**417,899**	**8,765**	**1,335**	**49,332**	**326,134**	**21,812**	**825,277**
Liabilities							
Deposits by banks	536	-	-	-	-	-	536
Customer accounts	293,419	146,005	109,957	140,392	-	6,398	696,171
Other liabilities	-	-	-	-	-	183	183
Non-financial liabilities	-	-	-	-	-	4,246	4,246
Shareholder's funds	-	-	-	-	-	124,141	124,141
Total liabilities	**293,955**	**146,005**	**109,957**	**140,392**	**-**	**134,968**	**825,277**
Off balance sheet items	**132,504**	**143,892**	**26,000**	**(20,557)**	**(281,839)**	**-**	**-**
Interest rate sensitivity gap	**256,448**	**6,652**	**(82,622)**	**(111,617)**	**44,295**		
Cumulative gap	**256,448**	**263,100**	**180,478**	**68,861**	**113,156**		

The tables above summarise the re-pricing mismatches on the Bank's balance sheet as at 31 October 2011 and 31 October 2010. Items are allocated to time-bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

A negative interest rate sensitivity gap exists when more liabilities than assets re-price during a given period. Although a negative gap position tends to benefit net interest income in a declining interest rate environment, the actual effect will depend on a number of factors including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within re-pricing periods.

Fair values

The following table provides a comparison by category of the carrying amount and the fair values of the Bank's financial assets. The fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale.

Notes *(continued)*

23 Financial instruments *(continued)*

Fair values *(continued)*

	Book value 2011 £000	2010 £000	Fair value 2011 £000	2010 £000
Financial assets				
Treasury bills	**35,275**	42,454	39,670	45,442
Listed investments	**837**	379	4,692	5,162
Debt securities	**67,421**	54,168	69,509	57,990
Interest rate swaps	**(2,525)**	(2,223)	(68,516)	(36,353)

The Bank holds no other financial asset or liability for which a liquid and active market exists, either for the instrument itself or for its component parts. None of the Bank's financial assets or liabilities are part of a trading book.

The methods and assumptions used for determining the fair value of each category of financial instrument are:

(i) Under the Bank's accounting policy, equity shares are included in the balance sheet at their original cost adjusted for any amortisation of premiums and discounts arising on acquisition and less provision for any permanent diminution in value. Consequently the fair value equates to the market value of these shares at the balance sheet date.

(ii) Under the Bank's accounting policy, treasury bills and debt securities are included in the balance sheet at their original cost adjusted for any amortisation of premiums and discounts arising on acquisition and less provision for any permanent diminution in value. Consequently the fair value equates to the market value of these securities at the balance sheet date.

(iii) The fair value of derivative instruments is calculated by discounting all future cashflows based upon the Bank's cost of money rate.

Hedges

As stated in its accounting policy the Bank's policy is to hedge against mismatches when it is appropriate or prudent to do so. The table below shows the amount of gains and losses that have been included in the profit and loss account for the current year.

	2011 £000	2010 £000
Gains	**316**	2,117
Losses	**(10,329)**	(9,985)
Net losses to 31 October	**(10,013)**	(7,868)

As at 31 October 2011, the Bank had a number of outstanding interest rate swap contracts that were entered into for hedging purposes. The notional losses that would have arisen had these contracts matured on 31 October 2011 amounted to £68,576,000 *(2010: £37,828,000)*. These amounts have not been recognised in the financial statements as at 31 October 2011, nor do they reflect the actual losses (if any) that will be recognised in the financial statements as these contracts mature in the future.

Foreign currencies

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

24 Capital commitments

The Bank had contracted commitments amounting to £388,000 at 31 October 2011 *(2010: £1,316,000).*

Notes *(continued)*

25 Pension schemes

The Carlyle Trust Group operates a defined benefits pension scheme for certain directors and employees, The Carlyle (1972) Pension and Life Assurance Scheme.

The assets of the scheme are administered by Trustees and are held in a fund that is separate and independent of other Bank funds. The scheme was established with effect from 1972, is fully approved under Chapter I Part XIV of the Income and Corporation Taxes Act 1988, and is contracted-out of the State Earnings Related Pension Scheme.

Pension costs are assessed in accordance with the advice of a qualified, independent actuary using the projected unit method. The assumptions which have the most significant effect on the calculation are the long term average investment return expected in future and the rate of future increases to benefits, both before and after retirement.

The benefit basis changed to a career average revalued earnings ("CARE") basis, from a final salary basis, with effect from 1 April 2005.

The most recent actuarial report of the scheme, as at 1 April 2010, showed that the value of the assets was £19,340,000. This represented 96% of the CARE benefits that had accrued to members after allowing for expected future increases to benefits. Future investment returns of 6.15% per annum up to retirement and 5.15% in retirement and future benefit increases of 3.80% per annum were assumed.

The Bank's total expense for the year, including its share of prior service savings, amounted to £261,000 *(2010: £290,000)*. The effects of the 2010 valuation assumptions and the benefit review has resulted in an increase to the employer's contribution rate to 14.5% *(2010: 13.0%)*.

The Bank also offers a money purchase scheme, though it currently has no active members, provided through an insurance company. The Bank's commitment is limited to the obligation to make a contribution of 10% of pensionable salary to the scheme, with an additional 5% being paid by the employee. As at the year end £nil *(2010: £nil)* was payable to the fund in respect of contributions to the scheme.

The FRS 17 valuation as at 31 October 2011 has been produced by a qualified independent actuary, and is based on the results of the valuation as at 1 April 2010.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2011	2010
	£m	£m
Fair value of plan assets	**20.0**	19.9
Present value of funded defined benefit obligations	**(20.8)**	(20.1)
Deficit	**(0.8)**	(0.2)
Related deferred tax asset	**0.2**	0.1
Net deficit	**(0.6)**	(0.1)

Notes *(continued)*

25 Pension schemes *(continued)*

Movements in present value of defined benefit obligation

	2011 £m	2010 £m
Present value of scheme liabilities at start of the period	**20.1**	18.5
Interest cost	**1.1**	1.1
Current service cost	**0.3**	0.3
Member contributions	**0.1**	0.1
Actuarial (gain)/loss	**(0.4)**	0.7
Benefits paid	**(0.4)**	(0.6)
Present value of scheme liabilities at end of the period	**20.8**	20.1

Movements in fair value of plan assets

	2011 £m	2010 £m
Market value of assets at the beginning of the year	**19.9**	17.4
Expected return on scheme assets	**1.0**	1.2
Actuarial (loss)/gain	**(0.9)**	1.5
Member contributions	**0.1**	0.1
Employer contributions	**0.3**	0.3
Benefits paid	**(0.4)**	(0.6)
Market value of assets at the end of the year	**20.0**	19.9

Expense recognised in the profit and loss account

	2011 £m	2010 £m
Current service cost	**(0.3)**	(0.3)
Interest cost	**(1.1)**	(1.1)
Expected return on scheme assets	**1.0**	1.2
Total	**(0.4)**	(0.2)

The expense is recognised in the following line items in the profit and loss account:

	2011 £m	2010 £m
Other finance(cost)/income	**(0.1)**	0.1
Staff costs	**(0.3)**	(0.3)
Total	**(0.4)**	(0.2)

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a loss of £0.5m *(2010: gain of £0.8m)* before tax.

Notes *(continued)*

25 Pension schemes *(continued)*

Cumulative actuarial gains/ (losses) reported in the statement of total recognised gains and losses for accounting periods ended on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are losses of £3.5m *(2010: losses of £3.0m)* before tax.

The fair value of the plan assets and the return on those assets was as follows:

	Fair value 2011 £m	**Long term rate of return 2011**	Fair value 2010 £m	Long term rate of return 2010
Global absolute returns fund	-	7.2%	5.3	7.5%
Equities	11.1	7.2%	10.7	7.5%
Bonds	4.9	4.0%	2.6	4.0%
Property	0.1	6.2%	0.1	6.5%
Other – cash	3.9	3.5%	1.2	3.5%
Total market value of assets	20.0		19.9	

The major assumptions used in this valuation were:

	2011	2010
Rate of increase in salaries	**4.00%**	4.30%
Rate of increase in LPI pensions in payment and deferred pensions	**2.90%**	3.20%
Rate of CARE revaluation	**2.90%**	3.20%
Discount rate applied to scheme liabilities	**5.00%**	5.30%
Inflation assumption	**3.00%**	3.30%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity as follows:

Post retirement mortality (life expectancy)	**2011**	2010
Current pensioners age 65 - male	**87.6**	89.1
Current pensioners age 65 - female	**90.9**	92.4
Future pensioners age 65 (current age 45) - males	**89.6**	91.1
Future pensioners age 65 (current age 45) - females	**93.0**	94.5

History of plan balance sheets

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of plan assets	**20.0**	19.9	17.4	14.0	19.8
Present value of funded defined benefit obligations	**(20.8)**	(20.1)	(18.5)	(11.6)	(15.8)
(Deficit)/surplus	**(0.8)**	(0.2)	(1.1)	2.4	4.0
Related deferred tax asset/(liability)	**0.2**	0.1	0.2	(0.7)	(1.2)
Net (deficit)/surplus	**(0.6)**	(0.1)	(0.9)	1.7	2.8

Notes *(continued)*

25 Pension schemes *(continued)*

History of experience gains and losses

	2011	2010	2009	2008	2007
Difference between the expected and actual return on scheme assets:					
Amount	**£(0.9)m**	£1.5m	£2.2m	£(7.3)m	£1.7m
Percentage of year end scheme assets	**4.5%**	7.5%	12.6%	52.0%	9.0%
Experience gains and losses on scheme liabilities:					
Amount	**£0.0m**	£0.6m	£0.0m	£0.0m	£1.7m
Percentage of year end present value of scheme liabilities	**0.0%**	3.0%	0.0%	0.0%	11.0%
Total amount recognised in statement of total recognised gains and losses:					
Gains/(losses) before tax	**£(0.5)m**	£0.8m	£(3.7)m	£(2.1)m	£2.9m
Percentage of year end present value of scheme liabilities	**2.4%**	4.0%	20.0%	18.0%	18.0%

The Bank expects to contribute approximately £0.3m to its defined benefit plan in the next financial year

26 Ultimate parent undertaking

The immediate parent undertaking of the Bank is The Carlyle Trust Limited, registered in England and Wales, which controls and co-ordinates the management of a group of companies. 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 Bank 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.

27 FSCS Levy

The Bank is a member of the Financial Services Compensation Scheme (FSCS), and it has been advised by the Financial Services Authority (FSA) that it will be asked to contribute additional levies for the foreseeable future following the failure of a number of banks during the recent credit crunch. The final details of the additional levies are yet to be confirmed, but the Bank has accrued £162,000 in interest costs in the financial statements for the year ended 31 October 2011 *(2010: £200,000)*, and it is currently anticipated that the cost will be around £162,000 for the next financial year.

28 Subsequent events

There are no subsequent events requiring recognition or disclosure in the financial statements.