Hodge Life Assurance Company Limited

Annual report and financial statements
30 September 2020
Registered number 00837457

Officers and professional advisers

Directors	Graeme Hughes	Chairman A.C.I.B., M.B.A.
	Alison Halsey	Non-Executive Director B.A. (Hons) F.C.A
	Sam Gunter	Chief Actuary BSc, F.I.A.
	Deian Jones	Chief Executive Officer BSc, A.C.A.
	David Landen	Group Chief Executive Officer BSc, F.C.C.A.
	Matthew Burton	Group Retail Director and Deputy CEO BSc, F.C.A.
	Richard Jones	Interim Chief Financial Officer ACA
	Alun Bowen	Non-Executive Director F.C.A., MA.
	David Gulland	Non-Executive Director F.I.A, BA.
	John Barbour	Non-Executive Director BSc, MBA.
	Helen Molyneux	Non-Executive Director LLD (Hons), LLB (Hons).
	Rebecca Hall	Non-Executive Director F.I.A, BA.
Company Secretary	Kirsty Williams	LLB (Hons).
Registered office	One Central Square Cardiff CF10 1FS	
Auditor	Ernst & Young LLP Bristol	
Principal bankers	Lloyds Bank Plc London	

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Chairman's Statement

I was deeply honoured to be appointed to Chair of the Hodge Life Assurance Company ('Hodge Life', the 'Company') on the 1st May this year, having previously been the Senior Independent Director for a number of months, at a time of unprecedented change both globally and within the Company itself. I would like to say a huge thank you to Adrian Piper for all of his years of leadership and support to the Company, and for his personal guidance and help to me in achieving a smooth handover.

Hodge Life is part of the Hodge Limited group's (the 'Group') brand in the retirement market, focusing on later life lending and annuity products. Having been established in 1965, we were the first entrant into the equity release market and have been a constant presence ever since.

Economic outlook

The 11-month period ended 30 September 2020 was undoubtedly a challenging environment as the biggest global challenge in a generation, COVID-19, started to dramatically impact on everyone's lives. It is well documented just how much of an economic shock was created across the world, with many markets effectively closing and many businesses having to rapidly rethink their operating model.

The historically low interest rate environment has continued to impact insurers which write long term business given the sensitivity of the risk margin calculation to changes in interest rates. Whilst the economic outlook is decidedly challenging reflecting the uncertainty over the UK's recovery from the COVID-19 pandemic and UK's future relationship with the European Union, both of which could impact asset valuations and the earnings required to service liabilities, we believe that there are good opportunities for growth across our business within a prudent risk appetite and we look to the future with a quiet confidence, underpinned by the strength of our people.

For many retirees, securing a guaranteed income for life remains an important priority and annuities are a key product to enable this. We back our annuity liabilities with a range of long-term assets, including lifetime mortgages which are a good match for these liabilities given their long-term fixed rates of interest.

The retirement landscape is changing rapidly, with many people working longer and taking a more phased approach to retirement and how they grow their pensions. This change presents a number of new opportunities for Hodge Life.

The move from final salary pensions to money purchase saving schemes is increasing the amount of money that could be used to purchase annuities which will, in turn, increase the size of our target market.

With the advent of Pension Freedoms came a more holistic approach to financial planning in retirement, and the role of property wealth is being given more consideration. We anticipate these developments will encourage a greater use of lifetime mortgages alongside annuities and similar products, to provide an appropriate level of retirement income. People are living longer which is undoubtedly going to put more pressure on the need to pay for long term care and a range of new insurance needs.

Financial performance

During the year the Company changed its reporting period from 31 October to 30 September as Hodge staff had previously been operating under pressure to complete the financial statements in the lead up to the December holiday season. Hence the 2020 period below is comparing a 11-month period with 12-month periods.

Five Year Summary

	2020	2019	2018	2017	2016
	11-months	1 year	1 year	1 year	1 year
	£m	£m	£m	£m	£m
Earned premiums	**22.8**	**41.6**	**47.5**	**29.3**	**61.3**
Profit before tax	**8.8**	**14.4**	**6.1**	**14.8**	**27.3**
Total assets	**697.8**	**663.6**	**590.8**	**582.3**	**583.4**
Shareholders' funds	**162.7**	**156.0**	**144.3**	**155.4**	**143.5**

Chairman's Statement (continued)

The Company has made a post-tax profit of £6.7 million for the 11-month period ended 30 September 2020 (2019: £11.7 million). The return on equity based on the profit after taxation as a percentage of the opening Shareholders' funds amounts to 4.3% (2019: 8.1%).

We had to constrain our capacity to write annuities to a low level during the period as low interest rates resulting from COVID-19 adversely impacted Solvency Capital levels, this also impacted our ability to accommodate lifetime mortgages.

The capital strain of writing new business remains high because the Company does not benefit from the Matching Adjustment under Solvency II. Our focus therefore remains on capital management. The Solvency Capital Requirement Coverage ratio ('SCR') increased from 165% at 31 October 2019 to 183% at 30 September 2020.

The increase in the SCR is primarily as a result of the Company entering into a reinsurance agreement during the period which has transferred significant insurance risk from the Company to the reinsurer on the majority of our annuity portfolio.

The underlying level of profit remains stable for the in-force portfolio. The level of profit on new business reduced as a result of the reduction in new business levels.

At the end of the prior year we completed a project to rationalise the allocation of expenses across the wider Hodge group. This provides Hodge Life with a clearer picture between costs associated with acquisition and administration. All recharges are either based on actual costs or linked to market rates. Acquisition costs have reduced due to lower mortgage origination.

Governance and the Board

During the period we were disappointed to see our previous Group CEO resign at the turn of the calendar year but that created the opportunity for our CFO, David Landen, to step into the role initially as interim Group CEO, ably supported by Matthew Burton as interim CFO.

They assumed their roles just as the biggest global challenge in a generation, COVID-19, started to dramatically impact on everyone's lives. It is well documented just how much of an economic shock was created across the world, with many markets effectively closing and many businesses having to rapidly rethink their operating model.

David Landen was appointed to the Group CEO role on a permanent basis with the full support of the Board following a very impressive performance leading the business throughout the crisis and beyond. Alongside this the Board valued the contribution made by Matthew Burton as interim CFO and so have appointed him to the role of Group Deputy CEO and Retail Director to lead the very important growth of that business area. I would also like to welcome Richard Jones to the board as Matt's replacement as interim CFO.

One of our non-executive directors, Alun Bowen is due to retire later this year. The Board is extremely grateful to Alun for his considerable contribution to Hodge Life and he will be enormously missed.

Finally, the Board would like to put on record our thanks to all colleagues across the Company who have responded so effectively, flexibly and pragmatically to the extreme changes caused by the COVID-19 crisis. In common with most businesses across the sector we utilised the government's job retention scheme for some colleagues, particularly those in our new business sections where markets effectively shut down, and in doing so paid full salaries and packages as well as looking to rotate colleagues to ensure that they kept a close connection with the business.

Graeme Hughes
Chairman
11 December 2020

Strategic Report

Principal activities
The principal activity of the Company is the provision of pension annuities and lifetime mortgage products.

Corporate strategy
The Board has adopted a 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 lifetime mortgages, which are considered to offer stable risk-adjusted returns over the long term.

The parent company's board are also assessing a wide range of potential strategic options for the Company's future.

Business review and future developments
A review of business and future developments is included in the Chairman's Statement on pages 1 to 2.

Results and dividends
The profit for the period after taxation amounted to £6.7m (2019: £11.7m*),* a dividend of £nil (2019: £nil) was paid during the period.

S172 Statement by the Directors
The Companies Act 2006 requires the directors of the Company to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its stakeholders as a whole. In doing so, s172 requires a director to have regard, amongst other matters, to the:
• likely consequences of any decisions in the long-term;
• interests of the Company's employees;
• need to foster the Company's business relationships with suppliers, customers and others;
• impact of the Company's operations on the community and environment;
• desirability of the Company maintaining a reputation for high standards of business conduct; and
• interests of the Company's Shareholder.

In discharging its s172 duties, the Board has regard to the factors set out above. The Board also has regard to other factors which it considers relevant to the decisions it makes. The Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all of the Company's stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Board does, however, aim to make sure that its decisions are consistent.

The Board delegates authority for the day-to-day running of the business to the CEO and, through him, to the Executive Committee to set, approve and oversee the execution of the Company's strategy and related policies. The Board reviews matters relating to financial and operational performance, business strategy, key risks, stakeholder-related matters, compliance and legal and regulatory matters, over the course of the year. This is supported through the consideration of reports and presentations provided at board meetings and reviewing aspects of the Company's strategy at least twice a year. A high-level summary of the Company's strategy is set out in this Strategic Report.

Strategic Report (continued)

The Company has a number of key stakeholder groups with whom it actively engages. Listening to, understanding and engaging with these stakeholder groups is an important role for the Board in setting strategy and decision-making. The Company recognises its obligations and requirements to be a well-controlled financial services business, compliant with regulation and delivering good customer outcomes. The Regulators are consulted and kept closely informed in relation to key decisions made by the Board, as appropriate. A summary of how the Board engages with customers, employees, suppliers, the community and the Shareholder is provided below.

Our Customers

As a customer-centric business the Company uses a range of methods to involve and engage with our customers. The Board values feedback from customers to ensure the Company is providing them with what they want and need.

The Hodge group has an established customer forum and continues to work closely with our broker network to ensure the products we design are needed and add value. A variety of customer surveys are also carried out on a regular basis to gather feedback from customers as and when they have an interaction with the Company.

We continue to make significant investment in technology to improve our operational and digital capability which is vital in delivering our promises to our customers. This ongoing investment brings efficiency and scalability to our operations, whilst delivering great service to our customers.

Our Employees

In 2017, the Hodge group formed the Colleague Alliance, to provide a link between colleagues and the Board and to champion the values that drive our culture.

We continue to invest in our people, with leadership support and mentoring across the business. This commitment will enhance strategic leadership as well as strengthening capability at multiple levels throughout the organisation. We have taken steps to drive colleague engagement through reward and recognition schemes aligned with our desire to delight our customers and we have made enhancements to our internal communication so that all our colleagues are aware of the business's direction. The directors recognise the importance of communication with employees and they make it their policy to be accessible to them.

In March, the impact of the COVID-19 pandemic on new business volumes demanded swift and immediate action to protect and secure our colleagues and their families. The government's job retention scheme was used to ensure that, at a time when new business levels were seriously curtailed as a result of the pandemic, staffing levels were appropriately managed. Staffing levels were regularly reviewed to ensure that the business was able to cope with slowly increasing work levels and the use of the scheme reviewed regularly to ensure its appropriateness.

The Board took the decision to continue to pay furloughed employees their full pay, as it was considered vitally important to support our colleagues and their families during a difficult and stressful time. One of the impacts of the COVID-19 pandemic which became clear at an early stage was that, bearing in mind the Company's performance and the economic outlook, it was highly unlikely that the performance targets set by the Board would be met to enable payments to be made under the Company's Incentive Scheme. The Board informed employees of the situation as early as possible in order to manage expectations.

Our people are central to the value we deliver for our customers and the key to creating a strong experience for our customers. We remain committed to building a culture where people thrive through rewarding talent and performance.

The Company 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 Company.

Strategic Report (continued)

Last year, the Board completed the important task of shaping and agreeing a reward strategy for the Company that sets out our guiding principles and direction for the Company's reward policies, practices and offerings. The Company's strategy remains to show how much we value colleagues, to provide flexibility and opportunity for all, and to offer an upper quartile package.

During the year, we introduced our new flexible benefits package for all employees. Having conducted a survey of our colleagues, considering the type of benefits that would work for everyone, and the Board identified a range of benefits which would support our colleagues at the various stages of their lives, including the ability to buy additional holidays and health plans.

In addition to the new flexible benefits package, the business adopted a new parental leave benefits policy, which equalised the benefits for maternity and paternity leave and increased the length of paid leave to bring the business into the top quartile of local employers.

Our Suppliers
Our suppliers play an important role in the operation of the Company's business to enable the delivery of an effective and efficient business model. The Hodge group launched a new procurement system in 2020 which improves the management of the relationship with our suppliers.

During 2020 several material contracts were presented to the Board for approval, covering both new relationships and contract renewals. In approving these contracts, the Board considered the strategic value of the relationships as well as looking at the customer impacts, risk exposure, legal and compliance considerations and financial implications. The Company has a framework in place which provides a consistent and proportionate approach to the procurement and management of suppliers to ensure that it can effectively engage, manage and terminate, where appropriate, supplier relationships.

Our Community
Throughout 2020 we have continued to make a difference to the lives of others through our corporate social responsibility commitment. The Company has a focus on the wider community, supporting four charity partners during the period: Re-engage, Care & Repair Cymru, Maggies and Hourglass. Additionally, colleagues are able to take up to four days off work per year to support good causes with the Company's 'Four to do More' initiative.

Our Shareholder
The Board holds regular discussions with the Company's shareholder to ensure a clear understanding of its views and requirements. A Shareholder Engagement Policy has been agreed and adopted by the Board, detailing the Shareholders' expectations of the Company and those matters that require shareholder approval or shareholder consultation, to support appropriate governance and oversight.

Corporate Governance
A comprehensive corporate governance framework is vital in supporting executive management in its execution of strategy and in driving long-term sustainable performance. It helps ensure that the Shareholder's investment in the Company is protected, while at the same time recognising the interests of our wider stakeholders.

The Board's agenda during 2020 was focused on overseeing and supporting executive management to deliver on the Company's strategic objectives. It is during periods of significant change, which Hodge Life is currently undergoing, that leadership and good governance are more important than ever.

The Company's Board comprises five executive and seven 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.

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.

Strategic Report (continued)

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

The Company'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 at every board meeting detailing the results and other performance data.

Hodge Life changed its internal auditors, following a tender process, from PwC to Deloitte on an outsourced basis. The primary purpose of this function is 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 to present a summary of audit reports completed during the period and to provide any explanations required by the Committee.

Governance framework

Nestor Advisors were engaged to undertake a review of the Board in 2019, including governance and individual director development, specifically to:

- Identify improvements to the Board's structure, functioning, ability to work as a team, and capacity to challenge;
- Develop shared views on further enhancing board effectiveness;
- Enhance comfort among board members regarding fulfilment of their collective role;
- Bolster confidence of shareholders, regulators and stakeholders in board governance practices.

Following the review, which had the full participation of the Board, Nestor Advisors provided feedback on their findings, drawing attention to the strength and collegiality of the Board. In addition, the Nestor advisors presented recommendations, including at a high-level:

- Continue to enhance the strategic capability of the Board, without undermining collegiality;
- Strengthen the Board's oversight capability, without cancelling its proximity to the business, and;
- Streamline support functions.

As a result of the recommendations the Group's CEO and the Board have initiated several changes to further strengthen the Board and this has continued in 2020 with a number of appointments and changes.

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

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 reviewing operational performance. The Board holds regular discussions with the Shareholder to ensure a clear understanding of their views and requirements. A shareholder's covenant has been agreed detailing the Shareholder's expectations of Hodge Life.

The Chair is responsible for the leadership and operation of the Board, setting the agenda and the tone of board discussions as well as having responsibility for assessing the effectiveness of the Board and its directors.

A board control manual has been adopted and was updated during the year 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.

Strategic Report (continued)

Details of the members of the Board are set out below.

Graeme Hughes – Chair

Graeme joined the Board in 2019 and was appointed Chair in May 2020. Graeme has spent the vast majority of his career with Nationwide Building Society, most recently becoming Group Distribution Director, responsible for all sales and service activities across 720 branches and 10,000 staff. Earlier roles have seen him leading group strategy and planning, as well as human resources and external affairs.

Alison Halsey – Senior Independent Director

Alison joined the Board as the Senior Independent Director in November 2020, and is also a non-executive director of Julian Hodge Bank. With 30 years of experience at KPMG, Alison headed up KPMG's UK Financial Services practice before becoming a Global Lead Partner, a position she held for 10 years. Prior to that, she was an Audit Partner for 10 years.

A skilled non-executive director, Alison is also sits on the Boards of Credit Suisse International and Aon in a variety of non-executive roles.

Alun Bowen - Non-Executive Director

Alun joined the Board in 2013 and is also a director of Julian Hodge Bank Limited.

Alun enjoyed a long career at KPMG. He became the Managing Partner of KPMG in Kazakhstan in 2008 and before that was the firm's Senior Partner in Wales, specialising in the banking, insurance and retail financial services sectors. Between 2001 and 2005, he also headed KPMG's practice advising global companies on sustainability.

Alun is Chair of the Audit Committee of PAO Severstal and Transport for Wales and is a Fellow of the Institute of Chartered Accountants in England & Wales. Alun has also been Chair of Business in the Community in Wales, a member of the Council of the Prince's Trust Cymru and the BT Wales Advisory board.

Helen Molyneux - Non-Executive Director

Helen joined the Board in June 2015 and is Chair of the Remuneration Committee.

Until November 2016, Helen was the CEO of NewLaw Legal, a business she established from scratch, which now employs over 400 people. She is now a non-executive director of the EUI board of the Admiral Insurance Group.

In 2011 Helen was named Welsh Woman of the Year and in 2013 the Law Society's Business Woman of the Year. She was a member of the Silk Commission on Devolution in Wales and is previously chair of the Institute of Welsh Affairs. In 2016 she was awarded an honorary doctorate by the University of South Wales in recognition of her services to the legal profession.

John Barbour - Non-Executive Director

John joined the Board in March 2017 and is the Chair of the Audit Committee.

John was previously Managing Director of Treasury at ICBC Standard Bank, the London-based financial markets and commodities bank, owned by China-based ICBC and South African-based Standard Bank. He has spent his entire career in treasury and financial markets-related roles, having previously worked at Investec and Bank of New York.

David Gulland – Non-Executive Director

David joined the Board in May 2019 and from July 2019 became Chair of the Hodge Life Risk and Conduct Committee, he is also a non-executive director of Hodge Limited.

David brings insurance expertise from working with businesses across the UK financial services sector with a particular focus on the strategic implications of regulatory change. With early-career experience at Deloitte, David went on to become Chief Executive of the Marine & General Mutual Life Assurance Society and, before that, Managing Director of RGA Re's UK and Ireland business. David currently sits on the Independent Governance Committee of Royal London, on the Compliance Committee of the Funeral Planning Authority, and is Chair of the Audit & Risk Committee at PG Mutual and of Scottish Friendly's With Profit Committee.

Strategic Report (continued)

Rebecca Hall – Non-Executive Director
Rebecca joined the Board of Hodge Life in October 2020. She has been an actuarial consultant for the majority of her career, initially with Deloitte and currently working independently through her own company. This, together with a role in the executive team at Marine and General Mutual, had given her a breadth of experience across the life insurance industry. She specialises in supporting firms with annuity or with-profits business.

Deian Jones – Chief Executive Officer – Hodge Life
Deian was appointed to Hodge Life's Board in 2010 and made its Managing Director in 2011. In his time with the Company, he has held a variety of strategic, risk and project roles. He is a chartered accountant, and spent eight years in KPMG's financial services audit practice, specialising in the retail financial services and life assurance sectors.

David Landen – Group Chief Executive Officer
David was appointed Chief Executive Officer in September 2020. David joined the Company in 2002 and has held a variety of finance and treasury roles during his time with the organisation. He was appointed as CFO in 2011. An accountancy graduate from Cardiff University, he is a fellow of the Association of Chartered Certified Accountants.

Sam Gunter – Chief Actuary
Sam was appointed to the Board in September 2019. Sam joined the Company in 2012 to lead the creation of the Actuarial function and was made Chief Actuary in 2016. He has previously held actuarial roles at PwC and Bupa. He is a fellow of the Institute and Faculty of Actuaries and holds the Chief Actuary (Life) practicing certificate.

Matthew Burton – Group Retail Director and Deputy CEO
Matthew joined the Board in April 2020 on his appointment as Interim CFO. He has since been appointed as the Group Retail Director and Deputy CEO. Matthew joined Hodge in 2015 as the Group Head of Finance, before taking up the role of Managing director of Mortgages in February 2019. Matthew has a 14-year career in finance – having held roles at Future plc, Zodiac Aerospace and BDO LLP.

Richard Jones – Interim Chief Financial Officer
Richard joined Hodge in October 2020 as Interim CFO. He has a 30-year career in finance working as a senior interim finance professional in a variety of financial services businesses.

Board Committees
The Board has established the following standing committees:

Audit Committee: John Barbour (Chair), Alison Halsey, Helen Molyneux, Alun Bowen and David Gulland.

All members of the Audit Committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chair.

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 oversee 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.

Risk and Conduct Committee: David Gulland (Chair), Graeme Hughes, Alison Halsey, John Barbour, Helen Molyneux and Alun Bowen.

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 Chair.

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 eight times a year.

Strategic Report (continued)

Remuneration Committee: Helen Molyneux (Chair), Alison Halsey, Graeme Hughes, John Barbour and David Gulland.

All members of the Remuneration Committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chair.

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 at least twice per year.

Nomination & Governance Committee: Graeme Hughes (Chair), Alison Halsey, Rebecca Hall, John Barbour and Helen Molyneux.

All members of the Nomination & Governance Committee are non-executive. Executive members of the Board and other senior executives attend as required by the Chair.

The function of the Committee is to recommend the appointment of directors to the Board and board committees and to ensure that the Company has an appropriate succession plan for executive and senior management positions. It also is responsible for ensuring that the Company's diversity and inclusion policy is being delivered. The Committee meets at least twice per year.

Board and Committee Membership and Attendance

Name	Board		Audit Committee		Risk & Conduct Committee		Remuneration Committee		Nomination & Governance Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Graeme Hughes	14	14			9	9	6	6	7	5
Alison Halsey										
Adrian Piper	14	9								
John Barbour	14	14	8	8	9	9	6	3	7	6
Helen Molyneux	14	10	8	7	9	8	6	6	7	7
Alun Bowen	14	12	8	7	9	8				
David Gulland	14	14	8	8	9	9	6	5		
Rebecca Hall										
David Landen	14	13								
Steve Pateman	14	3								
Richard Jones										
Matthew Burton	14	11								
Sam Gunter	14	12								
Deian Jones	14	12								

(a) Number of meetings held **(b)** Number of meetings attended

Notes
Steve Pateman resigned on 16/03/2020
Matthew Burton joined the Board on 09/04/2020
Adrian Piper retired from the Board on 30/04/2020
Rebecca Hall joined the Board 06/10/2020
Alison Halsey joined the Board on 06/11/2020
Richard Jones joined the Board on 06/11/2020

Strategic Report (continued)

Risk appetite
On an 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.

Risk management
Further details can be found in the Hodge Limited consolidated financial statements in relation to the Company's risk management. However, in the normal course of its business, the Company is exposed to longevity and insurance risk, liquidity risk, counterparty risk, house price risk, interest rate risk, conduct risk and operational risk. As a result of recent events, the risks from the COVID-19 pandemic are likely to impact all of our principal risk categories in varying degrees of severity. Further disclosures concerning financial risk management objectives and policies are set out in note 25 in the financial statements.

Longevity and insurance 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 and pricing of annuity products. A reinsurance trade was successfully implemented during the year and has significantly reduced the exposure to longevity risk, and also to interest rate 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 has adopted a policy to manage the expected future cash flows from assets and liabilities with the aim that this will not lead to future liquidity constraints.

Counterparty risk is the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. Through entering the reinsurance trade in the year an additional counterparty risk emerged. The Company manages its counterparty risk through its Retail Credit Committee and Assets and Liabilities Committee. Regular credit exposure reports are produced which include information on credit and property underwriting, large exposures and asset concentrations.

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 lifetime mortgages and reversionary interests, 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.

In July 2017, the Financial Conduct Authority (FCA) announced a transition away from LIBOR. The Company set-up a LIBOR working group in 2020 to assess the impact and manage this change and has made progress during the year to transition away from LIBOR. This work will conclude by the end of 2021.

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. It monitors this risk through regular reporting to the Executive Risk Committee and the Board.

Strategic Report (continued)

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 Enterprise Risk Committee which reports to the Risk and Conduct Committee, which monitors adherence to the Company's risk management policy and framework.

The Assets and Liabilities Committee covers liquidity risk and credit risk for treasury counterparties.

Pandemic risk, whilst not a principal risk category we consider the risk of economic loss as a result of the COVID-19 pandemic. The Company runs a variety of stressed scenarios as part of its ORSA to assess how it would respond to severe stressed scenarios that a pandemic could cause.

Deian Jones
Director
11 December 2020

Directors' Report

The directors present their report together with the financial statements for the 11-month period ended 30 September 2020. Certain disclosures are given in the Chairman's Statement, Strategic Report and the financial statements and are incorporated here by cross-reference. Specifically, these incorporate the following disclosures:

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Directors and their interests
The directors who held office during the period are listed below:

G. Hughes *	Chairman	
A. Piper *		(Retired 30 April 2020)
D. Jones	Chief Executive	
S. Pateman		(Resigned 16 March 2020)
D. Landen	Group Chief Executive Officer	
M. Burton	Group Retail Director and Deputy CEO	(Appointed 9 April 2020)
J. Barbour *		
H. Molyneux *		
A. Bowen *		
S. Gunter	Chief Actuary	
D. Gulland *		

* All non-executive directors are deemed to be independent by the Board. None of the directors held any interests in the shares of any group companies.

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

Change in year end
During the year the Company changed its year end from 31 October to 30 September.

Political contributions
The Company made no political contributions during the period.

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 Directors' 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.

Auditor
A resolution for the re-appointment of Ernst & Young LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting of The Carlyle Trust Limited.

Directors' Report (continued)

Going Concern

The directors have considered the appropriateness of the going concern basis of preparation of the financial statements taking into account the Company's current and projected performance, including consideration of projections incorporating the impact of COVID-19 or an adverse Brexit outcome on the Company's capital and funding position.

The Company's forecasts and projections include scenario testing undertaken in accordance with the requirements of the Own Risk and Solvency Assessment (ORSA), which are required by the Prudential Regulation Authority to demonstrate appropriate levels of capital under stressed conditions. The directors consider that the overall level of Pillar 1 Own Funds to be adequate for foreseeable future.

The Company maintains a liquidity risk policy and risk appetite statement setting requirements for liquid resources to cover both a long and short-term liquidity stress events. The directors consider that the overall level of liquid assets is adequate to cover the liquidity requirements for at least 12 months from the date of signing the Annual Report and Financial Statements.

The directors confirm that they are satisfied that the Company will continue in business for a period of at least 12 months from the date of signing the Annual Report and Financial Statements. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

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.

Deian Jones
Director
11 December 2020

Independent Auditor's Report to the Member of Hodge Life Assurance Company Limited

Opinion

We have audited the financial statements of Hodge Life Assurance Company Limited for the period ended 30 September 2020 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2020 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• The risk that inappropriate actuarial assumptions are used in the valuation of lifetime mortgages, reversion assets and annuity liability technical provisions.
Materiality	• Overall materiality of £2.3m which represents 1.4% of equity.

Independent Auditor's Report to the Member of Hodge Life Assurance Company Limited (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk that inappropriate actuarial assumptions are used in the valuation of lifetime mortgages, reversion assets and annuity liability technical provisions (Investments (Lifetime mortgages): £502.9m, (2019: £475.7m), Investment properties – reversion assets: £73.5m, (2019: £72.8m), Long term business provision: £528.0m, (2019: £498.8m). The valuation of the lifetime mortgages, reversionary assets and annuity liabilities is highly judgemental as it relies upon a number of assumptions with high estimation uncertainty, including those in respect of the No Negative Equity Guarantee ('NNEG'), voluntary early redemption, discount rate, policyholder mortality/longevity and expenses. Given the increased uncertainty in the UK property market due to the pandemic, this results in additional risk within the valuation of lifetime mortgages and reversions. The COVID-19 pandemic has also led to a greater degree of uncertainty over future mortality experience in the UK.	We performed a walkthrough to understand the assumption setting process and tested the controls within the process. Utilising our actuarial specialists, we assessed and challenged the assumptions used within the valuation of lifetime mortgages and reversion assets and the annuity liability valuation to ensure that they are in line with peer companies, internal experience analysis and the requirements of financial reporting and regulatory standards. The key assumptions we focused our audit work on were as follows: <u>No Negative Equity Guarantee</u> We considered each of the assumptions used within the NNEG calculation, considering a combination of historic and projected future house price movements, the potential variability in house price growth and the allowance made for property dilapidation within the portfolio. We also considered the appropriateness of the assumptions in view of the current uncertainty in the UK property market due to the COVID-19 pandemic. <u>Voluntary early redemption</u> We compared the voluntary early redemption assumptions in the valuation with observed experience in the portfolio and with those used by peer companies in the sector.	Overall, we consider the assumptions that are used in the valuation of the lifetime mortgages, reversion assets and annuity liability technical provisions to be within a reasonable range, with the majority of assumptions towards the middle of the range except for expense assumptions which are at the optimistic end of the reasonable range.

Independent Auditor's Report to the Member of Hodge Life Assurance Company Limited (continued)

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
Inappropriate assumptions may lead to a material misstatement in the financial statements. The lifetime mortgages are disclosed as investments in note 15 of the financial statements, with the principal assumptions and sensitivity analysis of changes to key assumptions disclosed in note 24(d). The reversion assets are disclosed as investment property in note 14 of the financial statements with the principal assumptions and sensitivity analysis of changes to key assumptions. The annuity liabilities are disclosed as 'Provision for long term business - liabilities arising from insurance contracts' in note 18 of the financial statements with the principal assumptions and sensitivity analysis of changes to key assumptions.	We paid particular attention to the implications for experience in light of the increased competition in the market over the last 3-4 years and the relevance of historic data to future VER assumption setting in light of these changes. <u>Discount rate</u> We tested whether the discount rates used in the valuation of the lifetime mortgages and reversion assets were consistent with the discount rates used by other companies in the sector, relative liquidity levels and customer rates available in the market. We also tested the discount rates used in the annuity liability valuation, given the underlying assets. <u>Policyholder mortality/longevity</u> We assessed the mortality assumptions by considering management's experience analysis and comparing the assumption adopted by management for future improvements with those used by other companies in the sector, allowing for particular factors around the profile of the Company's business compared to the industry experience. We also considered the appropriateness of the assumptions in view of the COVID-19 pandemic. <u>Expenses</u> We tested current and forecast expense levels to evaluate if the unit costs and inflation assumptions used within the valuation were reasonable. We tested the allocation of expenses between Hodge Life Assurance Company Limited and Julian Hodge Bank Limited.	

Independent Auditor's Report to the Member of Hodge Life Assurance Company Limited (continued)

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.3m (2019: £2.2million), which is 1.4% (2019: 1.4%) of equity. We believe equity to be the most appropriate basis as the key stakeholders (including the principal shareholder and the PRA) are focused on the financial strength and solvency position of the business, which is represented in the financial statements by equity.

During the course of our audit, we reassessed and confirmed that the final materiality was in line with initial materiality.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £1.8m (2019: £1.7m). We have set performance materiality at this percentage because our prior year audit experience indicates a lower risk of misstatements, both corrected and uncorrected.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2019: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent Auditor's Report to the Member of Hodge Life Assurance Company Limited (continued)

Other information
The other information comprises the information included in the annual report, other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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 to be audited 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.

Responsibilities of directors
As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Member of Hodge Life Assurance Company Limited (continued)

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the Company complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's Risk Management Framework ('RMF') and internal control processes.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

Independent Auditor's Report to the Member of Hodge Life Assurance Company Limited (continued)

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company have established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the actuarial assumptions noted above and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other matters we are required to address

- We were appointed by the Company on 22 April 2016 to audit the financial statements for the year ending 31 October 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 October 2016 to 30 September 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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.

Ernst & Young LLP

Andy Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
11 December 2020

Notes:
1. The maintenance and integrity of the Company's web site 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 11-month period ended 30 September

	Notes	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Earned premiums	4	22.8	41.6
Investment income	5	7.9	12.3
Unrealised gains on investments	6	38.6	56.6
Total income		**69.3**	**110.5**
Gross claims and benefits paid	18	(25.4)	(26.9)
Movement in long-term business provision	18	(29.2)	(61.8)
Reinsurance recoveries		394.3	-
Reinsurance expense		(393.7)	-
Administrative expenses	7	(6.5)	(7.4)
Profit before taxation	8	**8.8**	**14.4**
Tax on profit	10	(2.1)	(2.7)
Profit for the financial period		**6.7**	**11.7**

All gains and losses have been recognised within the Income Statement.

The notes on pages 24 to 52 form part of these financial statements.

Balance Sheet
As at 30 September 2020

	Notes	30 September 2020	31 October 2019
		£m	£m
Assets			
Loans and advances to credit institutions	11	15.7	6.0
Debt securities	12	74.1	77.8
Government bonds	13	29.3	30.4
Investment properties	14	73.5	72.8
Investments	15	502.9	475.7
Reinsurance asset	16	0.9	-
Derivative financial instruments	17	0.1	-
Other assets		1.3	0.9
Total assets		**697.8**	**663.6**
Liabilities			
Provisions for long term business - liabilities arising from insurance contracts	18	528.0	498.8
Other liabilities	19	3.8	5.2
Deferred tax liabilities	20	3.3	3.6
Total liabilities		**535.1**	**507.6**
Capital and reserves			
Called-up share capital	21	6.8	6.8
Profit & loss account		155.9	149.2
Total equity		**162.7**	**156.0**
Total equity and liabilities		**697.8**	**663.6**

These financial statements were approved by the Board of directors on 11 December 2020 and were signed on its behalf by:

Deian Jones
Director

Statement of Changes in Equity
For the 11-month period ended 30 September 2020

	Called up share capital	Retained earnings	Total
	£m	£m	£m
2020			
At beginning of the financial period	6.8	149.2	156.0
Profit for the financial period	-	6.7	6.7
At end of the financial period	**6.8**	**155.9**	**162.7**

	Called up share capital	Retained earnings	Total
	£m	£m	£m
2019			
At beginning of year	6.8	137.5	144.3
Profit for the financial year	-	11.7	11.7
At end of year	**6.8**	**149.2**	**156.0**

Notes to the Financial Statements

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The Company is a privately-owned company incorporated and registered in England and Wales.

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 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The immediate parent undertaking of the Company is Hodge Limited. The parent undertaking of the smallest group of undertakings for which group accounts are drawn up and of which the Company is a member is Hodge 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 group of undertakings for which group accounts are drawn up and of which the Company is a member. The accounts of Hodge Limited and The Carlyle Trust Limited 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;
- Disclosures in respect of transactions with members of a group;
- 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 financial statements have been prepared on a going concern basis. The directors have considered the appropriateness of the going concern basis of preparation of the financial statements taking into account the Company's current and projected performance, including consideration of projections incorporating the impact of the COVID-19 or an adverse Brexit outcome on the Company's capital and funding position.

The Company's forecasts and projections include scenario testing undertaken in accordance with the requirements of the Own Risk and Solvency Assessment (ORSA), which are required by the Prudential Regulation Authority to demonstrate appropriate levels of capital under stressed conditions. The directors consider that the overall level of Pillar 1 Own Funds to be adequate for the foreseeable future.

The Company maintains a liquidity risk policy and risk appetite statement setting requirements for liquid resources to cover both a long and short-term liquidity stress events. The directors consider that the overall level of liquid assets is adequate to cover the liquidity requirements for at least 12 months from the date of signing the Annual Report and Financial Statements.

The directors confirm that they are satisfied that the Company will continue in business for a period of at least 12 months from the date of signing the Annual Report and Financial Statements. Consequently, the going concern basis continues to be appropriate in preparing the financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1 Accounting policies (continued)

Standards and interpretations effective for the Company in these financial statements:
The Company has considered a number of amendments to published International Financial Reporting Standards and interpretations effective for the 11-month period ended 30 September 2020. They are either not relevant to the Company or do not have a significant impact on the Company's financial statements.

Standards and interpretations effective for the Company in future periods:

IFRS 17 'Insurance Contracts'
IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for the Company for the annual period commencing 1 October 2023. The standard will be applied retrospectively, subject to the transitional options provided for in the standard and provides a comprehensive approach for accounting for insurance contracts including their valuation, Income Statement presentation and disclosure. The Company is currently assessing the financial and operational implications of the standard and work will continue throughout 2021 to ensure technical compliance and to develop the required system capability to implement the standard.

None of the other standards issued by the IASB but not yet effective, are expected to have a material impact on the Company's financial statements in future periods.

Summary of Significant Accounting Policies

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

Insurance contracts
The Company offers insurance products in the form of annuities and also has one reinsurance contract. 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 acquisition costs. All premium revenue is in respect of single premium insurance business.

Investment income
Investment income consists of interest receivable for the year on financial assets held at amortised cost based on the effective interest rate method ('EIR') and realised gains on financial assets and liabilities held at fair value through profit and loss ('FVTPL').

Realised gains and losses on financial assets and liabilities held at fair value represent the difference between the proceeds received, net of transaction costs, and the original cost.

Unrealised gains and losses on assets and liabilities at FVTPL
Unrealised gains and losses arising on financial assets and liabilities held at FVTPL 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.

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)

Financial Instruments

Recognition
Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on the date in which they are settled.

Financial assets
The Company has classified its financial assets as follows:
- Amortised cost: Loans and advances to credit institutions and Other assets. These assets are held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the loans are solely payments of principal and interest on the principal amount outstanding.
- FVTPL: Investments including Lifetime mortgages, Government bonds and Debt securities recognised at fair value to prevent an accounting mismatch. Lifetime mortgages are classified as FVTPL due to the existence of an embedded derivative in the form of a 'No negative equity guarantee' ('NNEG') which forms part of the terms and conditions applicable to these products.

To classify financial assets the Company performs two assessments to evaluate the business model in which financial assets are managed and their cash flow characteristics.

The 'business model assessment' is performed at a portfolio level and determines whether the Company's objective is to generate cash flows from collecting contractual cash flows, or by both collecting contractual cash flows and selling financial assets.

The assessment of cash flow characteristics determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI). The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition. For the purposes of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin.

A financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are SPPI.

The Company does not hold any financial instruments that are classified and measured at fair value through other comprehensive income, accordingly all financial assets not classified as measured at amortised cost are classified as FVTPL.

On initial recognition, the Company may irrevocably designate a financial asset as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities
The Company has classified its financial liabilities as follows:
- Amortised cost: Other liabilities.
- FVTPL: Derivatives

1 Accounting policies (continued)

Impairment of Financial Assets

Measurement of Expected Credit Loss
Under IFRS 9, impairment of financial assets is calculated using a forward-looking Expected Credit Loss (ECL) model. The majority of financial assets held by the Company are held at FVTPL and as a result the ECL provision is insignificant.

De-recognition of financial assets and financial liabilities

(i) Financial assets
Financial assets are de-recognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows or has assumed an obligation to pay the received cash flows in full without material delay; and either
- The Company has transferred substantially all the risks and rewards of the asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where an existing financial asset is replaced by another to the same customer on substantially different terms, or the terms of an existing facility are substantially modified, such an exchange or modification is treated as a de-recognition of the original asset and the recognition of a new asset.

(ii) Financial liabilities
Financial liabilities are de-recognised when the obligation is discharged, cancelled or has expired.

Fair value of financial instruments
The Company uses a fair value hierarchy that categorises financial instruments into three different levels as detailed in note 24. Levels are reviewed at each reporting date and this determines whether transfers between levels are required.

Investments
Investments consist of lifetime mortgages and are classified as FVTPL due to the existence of an embedded derivative in the form of the NNEG which forms part of the terms and conditions applicable to these products.

On initial recognition, the fair value of lifetime mortgages is calculated by discounting the future expected cash flows at swap rates together with an allowance for illiquidity, based on market rates. If the difference between the fair value at transaction date and the transaction price is a gain, it is not recognised but instead deferred over a period of 12 months. If the difference is a loss, this is expensed to the Income Statement immediately.

On subsequent measurement, the value of lifetime mortgages 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 variant of the Black Scholes option pricing method. These cash flows are then discounted at the swap yield plus a margin to reflect the illiquidity of lifetime mortgage assets, as described above. An allowance for possible early redemption of the lifetime mortgages has been determined by reference to historic rates of lapse within the portfolio.

Embedded derivatives
The NNEG is an embedded derivative. The Company does not separate the NNEG embedded derivative from the host instrument. The fair value of lifetime mortgages takes into account an explicit provision in respect of the NNEG which is calculated using a variant of the Black Scholes option pricing model. Further details are disclosed in note 24.

1 Accounting policies (continued)

Investment properties – Reversionary interests in properties
Reversionary interests in properties are included in the financial statements initially at cost and subsequently at fair value, with any change therein recognised in the Income Statement within Unrealised gains/(losses) on investments.

The current market value of the underlying property is taken as the last formal valuation of the property on a vacant possession basis, modified by the change in the quarterly Nationwide Regional 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 benefit is expected from its disposal. Any gains or losses on derecognition are recognised in the Income Statement in the year of disposal within investment income.

Long term business provision - liabilities under insurance contracts
The long-term business provision has been determined by the Board, on advice from the Chief Actuary. The estimation process used in determining the long-term business provision involves projecting annuity payments and the costs of maintaining the contracts.

Reinsurance asset
The Company transfers certain risks arising on its underlying insurance contracts through entering into contracts with reinsurer. Such contracts are classified as reinsurance contracts within the scope of IFRS 4 where significant insurance risk is transferred from the Company to the reinsurer. Reinsurance assets are the net contractual rights arising from cashflows due from and to reinsurers regarding ceded insurance liabilities.

The present value of the cash flows under the reinsurance contract comprises the expected cash flows receivable from the counterparty (i.e. the "floating" leg), net of the expected cash flows payable by the Company (i.e. the "fixed" leg) and reinsurance fees, all discounted at a rate consistent with that used for the gross insurance liabilities.

Gains on purchasing reinsurance are deferred and recognised as income within 'Reinsurance recoveries' in the Income Statement by amortising the initial day 1 gain over the lifetime of the reinsurance asset and through the revaluation of the cash flows from the present value element based on experience and economic assumptions.

The movement in the expected cash flows receivable (including the unwind of the discount) are disclosed within 'Reinsurance recoveries' and the movement in the expected cash flows payable (including the unwind of the discount) and the reinsurance fees paid are disclosed within 'Reinsurance expense' in the Income Statement.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a measurable impact on the amounts that the Company will receive from the reinsurer. The impairment charge is recorded within 'Reinsurance recoveries' in the Income Statement.

1 Accounting policies (continued)

Taxation including deferred tax
Corporation tax is charged in the Income Statement. Corporation tax on profits for the year comprises current and deferred taxation. Where group relief is received or surrendered from or to a group company, the corresponding liability or asset is settled in full.

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.

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.

Employee benefits
i) Pensions
Management and administration is provided by the employees of Julian Hodge Bank Limited, a fellow subsidiary of Hodge Limited which recharges the share of those costs, including pension contributions, that relate to the Company.

Details of the Group's pension arrangements are included in the consolidated financial statements of Hodge Limited.

ii) Short-term employment benefits
Staff are employed by Julian Hodge Bank Limited, and a proportion of these costs has been recharged to the Company, to reflect the work performed for the Company, and is included in administrative expenses.

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:

Judgements

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. Further information on these assumptions is given in note 24.

The availability of observable market prices and model inputs reduces the need for management judgement and also reduces the uncertainty associated with determining fair values. The 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.

Reinsurance deferred reserve

Judgement is applied in amortising the day 1 gain recognised as a result of the reinsurance trade. The Company's policy is to amortise the deferred gain to the Income Statement over the lifetime of the reinsurance contract.

Estimates and assumptions

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 18.

Measurement of the reinsurance asset

The reinsurance asset held by the Company represents the present value of the contractual cash flows less the carrying value of the deferred reserve. Further information on the methodology and assumptions used to calculate the reinsurance asset are disclosed within note 16.

***Value of lifetime mortgages* including the value of the NNEG**

There is significant judgement applied in setting the assumptions used in calculating the fair value of lifetime mortgages and the liability arising from the NNEG. Further information on the following assumptions is provided in note 24.

- Mortality or entry into long term care
- Lapses
- Expenses
- Discount rate
- Property prices.

2 Judgement in applying accounting policies and critical accounting estimates (continued)

Value of investment properties

There is significant judgement applied in setting the assumptions used in calculating the fair value of reversionary interests in property. Further information on the following assumptions is provided in note 14.

- Property prices
- Mortality or entry into long term care
- Expenses
- Discount rate.

Change in accounting estimates

There is significant judgement in the methodologies and assumptions applied in estimating the fair value of lifetime mortgages and reversions. The methodologies and assumptions contain unobservable inputs resulting in the fair value being classified as a Level 3 estimate within the IFRS 13 fair value hierarchy. Changes have been made during the period to the methodology used to discount the anticipated cash flows associated with the reversion and lifetime mortgage portfolios. The change in methodology results in a valuation approach that is more consistent with the approach used by many other financial institutions that hold these types of assets. The impact of these changes is disclosed within note 24 are recognised prospectively as a change in accounting estimate.

3 Segmental information

The Board of Directors is the Company's chief operating decision-maker. The information reviewed by the Board is for the entire company and as such, no segmental analysis is produced.

4 Earned premiums

Earned premiums relate to direct insurance contracts, which are individual, single premiums from annuity business. All premiums are derived from contracts undertaken in the UK. Commissions payable in respect of direct insurance amounted to £0.4m (2019: £0.7m).

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Earned premiums	22.8	41.6
	22.8	**41.6**

5 Investment income

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Other investments: Fee income on investments	1.3	1.2
Deposit interest	-	0.1
Gains on realisation of investment properties	5.2	9.7
Interest income on government bonds & debt securities	1.4	1.3
	7.9	**12.3**

6 Unrealised gains on investments

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Unrealised gains on investments (note 15)	34.4	58.7
Reversal of unrealised losses on disposal of investment properties	(5.3)	(9.0)
Movement in fair value of investment properties (note 14)	7.2	5.3
Movement in fair value of debt securities and government bonds (notes 12 & 13)	2.2	2.0
Movement in fair value of derivative financial instruments (note 17)	0.1	(0.4)
	38.6	**56.6**

7 Administrative expenses

	11-months ended 30 September 2020 £m	Year ended 31 October 2019 £m
Management and administration expenses	6.1	6.6
Acquisition costs	0.4	0.8
	6.5	**7.4**

8 Profit before taxation

	11-months ended 30 September 2020 £'000	Year ended 31 October 2019 £'000
Profit on ordinary activities before taxation is stated after charging:		
Remuneration of the auditor and its associates:		
Audit of these financial statements	118	81
Other assurance fees	29	-
Non audit fees	-	85

9 Directors and employees

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

	2020	2019
Provision of life assurance services	11	41
	11	**41**

The wages and salaries, social security and pension costs are expensed within the Income Statement of a fellow group subsidiary before being recharged to the Company. Details as to the expense incurred on a group basis is disclosed within the financial statements of the parent, Hodge Limited. The reduction in headcount is due to the change in the allocation methodology for overheads across the wider Hodge group.

Staff costs include remuneration in respect of directors as follows:

	11-months ended 30 September	Year ended 31 October
	2020	2019
	£m	£m
Fees	0.2	0.1
Aggregate emoluments as executives	0.8	0.2
	1.0	**0.3**

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

	11-months ended 30 September	Year ended 31 October
	2020	2019
	£'000	£'000
Aggregate emoluments	220	119
	220	**119**

The highest paid director is an active member of a defined benefit scheme under which his accrued pension at the year-end was £41,284 (2019: £4,000). Retirement benefits are accruing to 5 (2019: 3) directors in a defined benefit scheme.

10 Tax on profit

Analysis of charge	11-months ended 30 September		Year ended 31 October	
	2020		2019	
	£m	£m	£m	£m
Analysis of charge in the financial period				
Current tax on income for the financial period	2.4		3.4	
Total current tax		**2.4**		**3.4**
Deferred tax (note 20)				
Origination/reversal of timing differences:				
Current period	(0.7)		(0.7)	
Effect of tax rate change on opening balance	0.4		-	
Total deferred tax		**(0.3)**		**(0.7)**
Tax on profit on ordinary activities		**2.1**		**2.7**

The total tax charge for the period is higher than (*2019: the same as)* the blended rate of corporation tax in the UK. The differences are explained below:

	11-months ended 30 September	Year ended 31 October
	2020	2019
	£m	£m
Total tax reconciliation		
Profit on ordinary activities before tax	8.8	14.4
Current tax at 19.00% (2019: 19.00%)	**1.7**	**2.7**
Rate differences	0.4	-
Total tax charge (see above)	**2.1**	**2.7**

In the current period the substantively enacted tax rate applicable from 1 April 2020 was increased from 17% to 19%. The closing deferred tax assets and liabilities have been calculated at 19% and accordingly a rate change adjustment has arisen as the opening deferred tax had been calculated taking into account the previously enacted rate of 17%.

11 Loans and advances to credit institutions

	2020	2019
	£m	£m
Repayable on demand	11.7	1.1
Amounts owed by group undertakings (note 27)	3.8	4.8
Collateral held by swap counterparties	0.2	0.1
	15.7	**6.0**

The amounts owed by group undertakings are repayable on demand and accrue no interest.

12 Debt securities

	2020	2019
	£m	£m
Debt securities – FVTPL	74.1	77.8
	74.1	**77.8**

The movement in debt securities is summarised as follows:

	2020	2019
	£m	£m
At start of period	77.8	60.9
Additions	23.6	23.5
Redemptions	(28.6)	(8.6)
Gains from changes in fair value – Income Statement	1.3	2.0
At end of financial period	**74.1**	**77.8**

13 Government bonds

	2020	2019
	£m	£m
Government bonds – FVTPL	29.3	30.4
	29.3	**30.4**

The movement in government bonds is summarised as follows:

	2020	2019
	£m	£m
At start of period	30.4	18.5
Additions	50.3	87.0
Redemptions	(52.3)	(75.1)
Gain from changes in fair value – Income Statement	0.9	-
At end of financial period	**29.3**	**30.4**

14 Investment properties

	Reversionary Interest
	£m
At 1 November 2019	72.8
Disposals	(6.5)
Fair value adjustments	7.2
At 30 September 2020	**73.5**

All of the investment properties have been categorised as a Level 3 fair value based on the inputs to the valuation technique. The historical cost of the reversionary interest in properties is £24.2m at 30 September 2020 (2019: £31.8m).

Reversionary interests in property - principal assumptions
The 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 adjusted to the current valuation date using the Regional Nationwide House Price Index. It is then adjusted down by an annual underperformance assumption and a deduction for sales costs.

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 the PCMA/PCFA00 mortality tables and include an allowance for future 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 4.09% (2019: 4.01%).

Discount rate
The discount rate applied to the reversion 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 10-year point on the yield curve based on the average duration of our business) at 30 September 2020 was 2.27% (31 October 2019: 1.71%).

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 net decrease in profit before tax for the period to changes to these inputs as follows.

	Delay in Mortality or entry into long term care by 10%	Discount rate + 1%	Expenses + 10%	Property prices - 10%
	£m	£m	£m	£m
At 30 September 2020	(0.7)	(6.0)	(0.1)	(6.2)
At 31 October 2019	(0.5)	(6.8)	(0.1)	(6.5)

15 Investments

	Market Value		Loan Value	
	2020	2019	2020	2019
	£m	£m	£m	£m
Loans and advances (lifetime mortgages) – classified as FVTPL	502.9	475.7	359.0	351.8
	502.9	**475.7**	**359.0**	**351.8**

Reconciliation of the opening and closing balance of lifetime mortgages:

	2020	2019
	£m	£m
At start of period	475.7	415.3
Total gains in the Income Statement arising on fair value movements	34.4	58.7
Loans advanced	17.8	25.5
Loans purchased	-	10.3
Loan disposal	-	(4.6)
Redemptions	(25.0)	(29.5)
At end of financial period	**502.9**	**475.7**

The £34.4m increase (2019: £58.7m increase) in fair value is predominantly driven by the fall in benchmark interest rates over the year. The 15-year point on the EIOPA yield curve used for discounting the future mortgage cash flows has fallen by 39bps from 0.78% to 0.39% (2019: fallen 84bps from 1.62% to 0.78%). This is partially offset by smaller relative reductions in past and future assumed HPI.

16 Reinsurance asset

In March 2020 the Company entered into a reinsurance agreement in relation to the annuity portfolio disclosed within 'Liabilities arising from insurance contracts' in note 18. This was part of the strategy to de-risk the Solvency II Balance Sheet position by reducing the longevity risk exposure and capital requirement. Management has assessed that significant insurance risk had been transferred to the reinsurer.

The reinsurance asset held as a result of this longevity swap represents the present value of the future contractual cash flows less the carrying value of the deferred reserve.

The present value of the cash flows under the reinsurance trade comprises the expected cash flows receivable from the counterparty (i.e. the "floating" leg), net of the expected cash flows payable by the Company (i.e. the "fixed" leg) and reinsurance fees, all discounted at a rate consistent with that used for the gross insurance liabilities.

The floating cash flows are projected using future mortality assumptions consistent with those used for the gross insurance liabilities. The fixed cash flows form part of the contractual agreement with the counterparty to the reinsurance trade.

The deferred gain is calculated at inception of the reinsurance trade, it is subsequently amortised to the Income Statement over the lifetime of the reinsurance asset and through the revaluation of the cash flows from the present value element based on experience and economic assumptions.

The deferred gain calculated at inception remains fixed and is not recalculated in future reporting periods.

The reinsurance asset is adjusted to reflect the possibility of default by the counterparty over the lifetime of the treaty.

A breakdown of the reinsurance asset is provided below:

	2020	2019
	£m	£m
Reinsurance receivable	417.0	-
Deferred reserve	(22.8)	-
Reinsurance payable	(393.3)	-
	0.9	**-**

Following the completion of the reinsurance agreement, the present value of the reinsurance cashflows at 31 March 2020 amounted to £23.5m. The related deferred reserve is amortised over the life of the reinsurance asset and the carrying value of this deferred reserve at 30 September amounted to £22.8 million.

A collateral agreement is in place to mitigate any exposure to the counterparty in the event that the value of the reinsurance contract changes depending on observed experience and changes to assumed future longevity. The collateral requirements will be recalculated quarterly, with the first calculation taking place at 31 March 2022.

17 Derivative financial instruments

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

	Contract/notional amount		Fair value	
	2020	2019	2020	2019
	£m	£m	£m	£m
Derivative assets				
Interest rate swaps	2.5	2.5	0.1	-
Total recognised derivative assets	**2.5**	**2.5**	**0.1**	**-**

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	Capital management

At 30 September 2020, there was only one instrument with a fixed interest rate at 0.4% (2019:0.4%) and the main floating rates are SONIA. Fair value gains and losses recognised on interest rate swap contracts are credited to the Income Statement.

	2020	2019
	£m	£m
Movement in fair value of interest rate swaps	0.1	(0.1)
Breakage costs	-	(0.3)
Net gains/(losses) to end of period	**0.1**	**(0.4)**

18 Provision for long term business - liabilities arising from insurance contracts

	2020	2019
	£m	£m
At 1 November	498.8	437.0
Gross claims and benefits paid	(25.4)	(26.9)
Impact of new insurance contracts	23.4	42.4
Fair value movement on existing liabilities		
Expense cash flows and discount unwind	7.4	9.4
Mortality experience	(1.1)	(1.2)
Interest rate gain	25.5	47.0
Movement in illiquidity premium	2.0	6.4
Change in expense inflation	0.6	(1.3)
Impact of methodology and assumption changes		
Expense policy assumption change	(0.6)	(7.6)
LTM accounting basis assumption change	(2.6)	-
CMI mortality assumption change	-	(6.4)
At end of financial period	**528.0**	**498.8**

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.

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 30 September 2020 and October 2019 is as follows:

Rates of interest	2020	2019
	%	%
Pension business annuities	1.8	2.2
Reversionary scheme	1.9	1.6
Purchased life annuities	1.9	1.6
Mortgage scheme annuities	0.8	1.0

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 2018 mortality projection model. The mortality tables are further adjusted to reflect recent mortality experience by multiplying the mortality rates by a percentage factor which varies by the duration in force of the contract.

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 4.09% (2019: 4.01%). At 30 September 2020, a £0.4m provision for expense overruns was held in addition to the basic provision for per-policy expenses.

18 Provision for long term business - liabilities arising from insurance contracts (continued)

d) Sensitivity analysis

Changes to inputs used in the valuation could give rise to significant changes in the value of the provisions. The Company has estimated net increase/(decrease) in profit before tax for the period to changes to these inputs as follows.

	Delay in Mortality 10%	Expenses + 10%	Interest rates +100bps
	£m	£m	£m
At 30 September 2020	(16.4)	(3.2)	58.1
At 31 October 2019	(14.4)	(2.9)	54.3

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).

19 Other liabilities

	2020	2019
	£m	£m
Corporation tax	-	2.1
Group relief	2.9	1.9
Other taxation and social security	0.2	0.2
Other creditors	0.2	0.5
Amount owed in relation to insurance contracts	0.5	0.5
	3.8	**5.2**

20 Deferred tax liabilities

	2020	2019
	£m	£m
At 1 November 2019	3.6	4.3
Credited to the Income Statement	(0.3)	(0.7)
At end of financial period	**3.3**	**3.6**

Deferred tax liabilities are attributable to the following items:

	2020	2019
	£m	£m
Transitional adjustment under new life insurance corporate tax regime	0.4	0.5
Transitional adjustment to FRS 101	2.9	3.1
	3.3	**3.6**

21 Called up share capital

	2020	2019
	£m	£m
Authorised, allotted, called-up and fully paid:		
27,200,000 *(2019: 27,200,000)* ordinary shares of £0.25 each	6.8	6.8
	6.8	**6.8**

22 Dividends

	2020	2019
	£m	£m
Aggregate amount of dividends declared and paid in the financial period	-	-

23 Financial Commitments

The Company had contracted capital commitments amounting to £nil at 30 September 2020 (2019: £nil). The Company had loan commitments amounting to £0.6m at 30 September 2020 (2019: £2.2m).

24 Financial instruments

a) Categories of financial assets and liabilities

Financial assets and liabilities are measured either at FVTPL or at amortised cost.

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 30 September 2020	At amortised cost	FVTPL	Total
	£m	£m	£m
Assets			
Loans and advances to credit institutions	15.7	-	15.7
Debt securities	-	74.1	74.1
Government bonds	-	29.3	29.3
Investments	-	502.9	502.9
Derivatives	-	0.1	0.1
Other assets	1.3	-	1.3
Total financial assets	**17.0**	**606.4**	**623.4**
Total non-financial assets			74.4
Total assets			**697.8**
Liabilities			
Other liabilities	3.8	-	3.8
Total financial liabilities	**3.8**	**-**	**3.8**
Total non-financial liabilities			531.3
Share capital and other reserves			162.7
Total equity and liabilities			**697.8**

24 Financial instruments (continued)

As at 31 October 2019	At amortised cost	FVTPL	Total
	£m	£m	£m
Assets			
Loans and advances to credit institutions	6.0	-	6.0
Debt securities	-	77.8	77.8
Government bonds	-	30.4	30.4
Investments	-	475.7	475.7
Other assets	0.9	-	0.9
Total financial assets	**6.9**	**583.9**	**590.8**
Total non-financial assets			72.8
Total assets			**663.6**
Liabilities			
Other liabilities	5.2	-	5.2
Total financial liabilities	**5.2**	**-**	**5.2**
Total non-financial liabilities			502.4
Share capital and other reserves			156.0
Total equity and liabilities			**663.6**

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 hierarchy 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.

The fair value of financial assets and liabilities carried at amortised cost approximates 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 30 September 2020	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at FVTPL				
Debt securities	74.1	-	-	74.1
Government Bonds	29.3	-	-	29.3
Investments	-	-	502.9	502.9
Derivatives	-	0.1	-	0.1
Total financial assets at FVTPL	**103.4**	**0.1**	**502.9**	**606.4**

24 Financial instruments (continued)

As at 31 October 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Debt securities	77.8	-	-	77.8
Government bonds	30.4	-	-	30.4
Investments	-	-	475.7	475.7
Derivative financial instruments	-	-	-	-
Total financial assets at FVTPL	**108.2**	**-**	**475.7**	**583.9**

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

Government bonds and 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 Government investment securities (government bonds) and debt securities classified as FVTPL.

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.

Interest rate swaps are classified as derivative products using a valuation technique with observable market inputs. Their fair value is based on counterparty 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 period.

d) Level 3 assets and liabilities measured at fair value

Investments (lifetime mortgages):
Investments comprise lifetime mortgages assets of £502.9m (2019: £475.7m) which have been classed as FVTPL.

At 30 September 2020 the amount of fair value deferred was £1.3m (2019: £60.2m). The reduction in the deferred amount is due to a change in methodology to value lifetime mortgages.

The movement in the aggregate difference yet to be recognised in the Income Statement between the fair value of mortgages is shown below. The recognition of deferred amount is largely due to a change in methodology to value lifetime mortgages using a higher, market consistent discount rate leaving less excess profit to defer.

	2020 £m	2019 £m
At start of period	60.2	61.3
Amounts deferred in the period	5.3	8.7
Amounts recognised in the Income Statement	(64.2)	(9.8)
At end of financial period	**1.3**	**60.2**

24 Financial instruments (continued)

d) Level 3 assets and liabilities measured at fair value (continued)

The interest rate sensitivity of financial instruments should be considered in conjunction with the offsetting interest rate sensitivity of insurance contracts as set out in note 18(d).

There were no transfers in and out of Level 3 of the fair value hierarchy in either period

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. This table is adjusted from 2000 by calendar year for mortality improvements based on the CMI 2018 mortality projection model.

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 experience analyses. Expenses are modelled as an amount per policy per annum that incorporate an annual inflation rate allowance of 4.09% (2019: 4.01%). In addition to per policy expenses, a fee paid on mortgage advances for administration is modelled which is not subject to inflation. This is due to the servicing agreement between the Company and a fellow group subsidiary of Hodge Limited, Julian Hodge Bank Limited.

Discount rate
The discount rate applied to the mortgage cash flows comprises two parts: a risk-free yield curve and an allowance for illiquidity. The risk-free yield curve is based on the GBP curve published by EIOPA. The average discount rate for each mortgage (assumed to be the 15-year point on the yield curve) depends on the loan to value of the mortgage. For low LTV business the average discount rate was 2.24% due to a 185bps allowance for illiquidity. For high LTV business the average discount rate was 3.39% due to a 300bps allowance for illiquidity (31 October 2019: 1.78% across all business).

No-negative equity guarantee:
The fair value of lifetime 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 the Nationwide Regional House Price Index and an annual underperformance assumption. The future property price is based on the Bank of England's implied future inflation adjusted for earnings growth and an annual property price underperformance assumption.

The property growth and volatility assumed at 30 September 2020 was 3.09% (31 October 2019: 3.08%) and 13% (31 October 2019: 13%) respectively. The value of the NNEG as at 30 September 2020 was £13.4m (31 October 2019: £14.0m).

24 Financial instruments (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 net decrease on profit before tax for the period in changes to these inputs as follows.

	Interest rates +100 BPS	Maintenance expenses + 10%	Property inflation -100bps	Property prices -10%	Mass Lapses + 10%	Increase in Mortality 10%
	£m	£m	£m	£m	£m	£m
30 September 2020	(52.4)	(0.6)	(6.5)	(7.7)	(13.3)	(4.3)
31 October 2019	(60.0)	(0.4)	(7.9)	(4.2)	(11.6)	(5.0)

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. These sensitivities are chosen as they are all key components of the fair value calculation.

The interest rate sensitivity of financial instruments should be considered in conjunction with the offsetting interest rate sensitivity of insurance contracts as set out in note 18(d).

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 30 September 2020	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
	£m	£m	£m	£m	£m	£m
Assets						
Loans & advances to credit institutions	15.7	-	-	-	-	15.7
Debt securities	0.5	1.3	1.5	20.5	50.3	74.1
Government bonds	2.3	-	-	-	27.0	29.3
Investments	16.7	6.1	12.8	100.5	366.8	502.9
Derivatives	-	-	-	0.1	-	0.1
Other assets	1.3	-	-	-	-	1.3
Total financial assets	**36.5**	**7.4**	**14.3**	**121.1**	**444.1**	**623.4**
Liabilities						
Other liabilities	3.8	-	-	-	-	3.8
Total financial liabilities	**3.8**	**-**	**-**	**-**	**-**	**3.8**

24 Financial instruments (continued)

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

As at 31 October 2019	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
	£m	£m	£m	£m	£m	£m
Assets						
Loans & advances to credit institutions	6.0	-	-	-	-	6.0
Debt securities	2.5	2.5	6.0	30.1	36.7	77.8
Government bonds	12.0	-	-	10.5	7.9	30.4
Investments	11.4	4.6	9.4	80.3	370.0	475.7
Other assets	0.9	-	-	-	-	0.9
Total financial assets	**32.8**	**7.1**	**15.4**	**120.9**	**414.6**	**590.8**
Liabilities						
Other liabilities	5.2	-	-	-	-	5.2
Total financial liabilities	**5.2**	**-**	**-**	**-**	**-**	**5.2**

f) Foreign currencies

The Company 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 Enterprise Risk Committee which reports to the Risk and Conduct Committee, which ensures 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 insurance 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 h) below.

25 Financial risk management objectives and policies (continued)

a) Insurance risk
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 annuity contracts where typically the policyholder is entitled to payments which cease upon death. For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase the length of time of annuity payments.

The risk exposure is mitigated by a diversification across a large portfolio of insurance contracts and geographical areas. Much of the Company's longevity risk is mitigated by the use of reinsurance in the form of a longevity swap arrangement.

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 Group's Retail Credit Committee and 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.

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

	2020	2019
	£m	£m
Loans and advances to credit institutions	15.7	6.0
Debt securities	74.1	77.8
Government bonds	29.3	30.4
	119.1	**114.2**

None of these exposures are past due or impaired.

Credit quality of financial assets that are neither past due or impaired
The following shows the exposures broken down by rating:

	2020	2019
	£m	£m
AAA to AA-	86.4	77.4
A+ to A-	15.3	19.3
BBB+ to BBB-	13.6	12.7
Unrated	3.8	4.8
	119.1	**114.2**

25 Financial risk management objectives and policies (continued)

Concentration of credit risk

The geographical exposure is as follows:

	2020	2019
	£m	£m
UK	79.8	80.9
Other	39.3	33.3
	119.1	**114.2**

The Treasury 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 its commitments as they fall due. The Company has a significant exposure to liquidity risk, via holding a material portfolio of investment properties (reversions) and lifetime mortgages.

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 and the reinsurance asset, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities and the reinsurance asset.

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
	£m	£m	£m	£m	£m	£m
As at 30 September 2020	7.3	7.2	14.3	106.7	392.5	528.0
As at 31 October 2019	7.0	7.0	13.8	102.7	368.3	498.8

Reinsurance asset	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
	£m	£m	£m	£m	£m	£m
As at 30 September 2020	-	-	-	0.2	0.7	0.9
As at 31 October 2019	-	-	-	-	-	-

25 Financial risk management objectives and policies (continued)

d) 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.

e) 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 or the payment for the reversionary interest, 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.

The defining issues over the economy for the next year will be the ongoing COVID-19 pandemic and the Brexit outcome. Against this backdrop we are taking a cautious approach to new business until we have greater clarity over the outcome.

House price risk is managed by ensuring that advances reflect the age of the customer and do not exceed 45% of property market values so as to insulate against market adjustments in property prices generally.

Geographical analysis of lifetime 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	2020		2019	
	£m	%	£m	%
Wales	11.3	3.1	11.2	3.2
East Anglia	13.6	3.8	13.5	3.8
East Midlands	15.6	4.4	15.5	4.4
Greater London	73.7	20.6	71.7	20.5
Yorkshire & Humberside	13.2	3.7	13.1	3.7
North West	19.9	5.5	20.4	5.8
Northern Ireland	8.9	2.5	8.9	2.5
Scotland	15.9	4.4	16.7	4.7
Outer Metropolitan	66.9	18.6	64.4	18.4
Outer South East	51.3	14.3	49.4	14.1
South West	43.0	12.0	41.8	11.8
West Midlands	19.1	5.3	18.8	5.3
North	6.6	1.8	6.4	1.8
Total	**359.0**	**100.0**	**351.8**	**100.0**

The average loan to value (LTV) in respect of lifetime mortgage loans is estimated to be 27.0% (2019:23.6%). 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 £3.3m (2019: £3.1m) or 0.9% (2019: 0.9%) of gross balances.

25 Financial risk management objectives and policies (continued)

f) 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 18(d) and 24(d).

g) 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 Operational & Conduct 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 Risk and Conduct Committee.

The Company holds no provision in respect of conduct risk as at 30 September 2020 (2019: £nil).

h) Pandemic Risk
Pandemic risk is the risk of economic loss from a result of a pandemic. The Executive Risk Committee has overall responsibility for implementing and monitoring risks that a pandemic could cause. The Committee is responsible for managing risk decisions and monitoring risk levels which it reports to the Risk and Conduct Committee.

26 Capital risk management

The Company is required to maintain a minimum margin of Solvency Capital in excess of the value of its liabilities to comply with regulatory requirements.

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 Solvency II standard formula for Solvency Capital requirements whereas the Pillar 2 capital requirement is determined following an internal capital assessment by the Company.

All minimum regulatory requirements were met during the financial period.

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 in which 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.

26 Capital risk management (continued)

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

Pillar 1 capital position

	2020 Audited	2019 Unaudited
	£m	£m
Total capital resources	149.2	148.5
Solvency Capital Requirement ('SCR')	(81.7)	(90.1)
Excess available capital resources	67.5	58.4
Solvency Coverage Percentage	183%	165%

A reconciliation of the total equity to distributable reserves is summarised below:

	2020 Audited	2019 Unaudited
	£m	£m
Total equity	162.7	156.0
Less: share capital	(6.8)	(6.8)
Less: other non-distributable reserves	(88.4)	(90.8)
Distributable reserves	**67.5**	**58.4**

27 Related parties

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of transactions with members of The Carlyle Trust Limited group. The following balances were owed to or from related parties at 30 September 2020 and 31 October 2019:

	2020	2019
	£m	£m
Amounts owed from parent and fellow subsidiaries		
Bank deposit held by Julian Hodge Bank Limited – fellow subsidiary	1.0	1.3
Intra-group balance with Julian Hodge Bank Limited	2.8	3.5
Total (note 11)	**3.8**	**4.8**
Amounts owed to parent and fellow subsidiaries		
Group relief owed to Julian Hodge Bank Limited	(2.9)	(1.9)
Total (note 19)	**(2.9)**	**(1.9)**