Julian Hodge Bank Limited

Directors' report and financial statements

31 October 2013

Registered number 743437

Officers and professional advisers

Directors	Keith James	O.B.E., M.A.	Chairman
	Jonathan Hodge		Deputy Chairman
	David Austin	LL.B., A.C.A.	Managing Director
	David Landen	F.C.C.A.	Finance Director
	Alun Bowen	M.A, F.C.A, F.R.S.A	
	Adrian Piper	B.A., M.Sc., M.C.I.P.D., M.C.I.M	
Company Secretary	Rhian Yates	F.C.C.A.	
Registered Office	31 Windsor Place Cardiff CF10 3UR		
Auditors	KPMG Audit Plc Cardiff		
Principal bankers	Lloyds TSB Bank Plc London Barclays Bank Plc Cardiff		
Economic adviser	Professor Patrick Minford Cardiff Business School		

Contents

Chairman's statement

I am pleased to present the Julian Hodge Bank Limited results for the year ended 31 October 2013.

The Bank made a pre-tax profit of £3.5 million *(2012: £3.1 million)* which, in the current trading environment is encouraging as the benefits of the nascent economic recovery have yet to be translated into tangible results.

Highlights

- Pre-tax profit has increased by 12.1%.
- Tier 1 capital ratio of 26.1%.
- Entry into Funding for Lending Scheme.
- Non-performing accounts reduced by over 70%.

Economic Environment

The early part of the year followed the pattern of previous years, with limited growth, an absence of business investment and little confidence being shown by consumers or businesses.

However as the year progressed, there was an upturn in confidence and growth began to return. The extent to which various government and Bank of England initiatives played a part in this is difficult to assess, but the Help to Buy and Funding for Lending Scheme will have undoubtedly helped.

The Bank of England's attempts at forward guidance are a new development and are beginning to be tested by financial markets, but the desire to maintain a low interest environment is clear. The question is whether in maintaining interest rates so low, the Bank of England will be forced further down the line to raise them higher than it would like to control inflation, rather than adopting a policy of small but gradual increases.

What is undoubtedly clear is that the UK and the USA are outperforming their European counterparts, where the Euro "one size fits all" straightjacket precludes individual nations from adopting recovery strategies relevant to their particular circumstances.

Financial Performance

The 2013 profit has been primarily driven by the sale of Standard Chartered shares. The Bank's financial performance continues to improve, although generating an acceptable interest margin remains a challenge, due to the cost of retail deposits and the imposition of stringent liquidity requirements on U.K. banks.

However the Funding for Lending Scheme has helped and the Bank's interest margin improved month on month in 2013 and is expected to continue to do so in 2014. In addition, the Prudential Regulation Authority has relaxed certain of its liquidity requirements recognising that they were diametrically opposed to the general objective of getting the economy moving by increasing bank lending, particularly to SME's.

During the year, the Bank made great progress in resolving a number of its more significant non-performing Commercial Lending accounts, without incurring any material write-off, which will improve the performance of that division in 2014. The Bank also benefitted from the sale of its share portfolio which yielded a significant profit.

Five Year Summary

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Profit before tax	**3.5**	**3.1**	**2.6**	**2.1**	**1.2**
Total assets	**726.5**	**802.5**	**710.9**	**825.3**	**738.0**
Loans and advances to customers	**384.0**	**358.8**	**362.8**	**398.4**	**470.2**
Customer deposits	**583.6**	**658.9**	**579.6**	**696.2**	**610.5**
Shareholder's funds	**128.2**	**125.6**	**124.7**	**124.1**	**122.1**

Chairman's statement (*continued*)

Commercial Lending

There has been little new business from the Bank's traditional heartland in Wales and the West Country but this has been offset to some extent by a very buoyant market in London and the South-east where we have concluded some very attractive deals.

However, as the economy has picked up and confidence has returned, there is clear evidence of increased activity within the commercial property marketplace generally. Whilst this has yet to be reflected in business written, the Bank's new business pipeline is currently much higher than it has been in recent years, which augurs well for 2014.

Possibly the most rewarding aspect this year has been the improvement in the non-performing accounts, where balances have reduced by over 70%. This result is due to the considerable efforts of the Commercial Lending team over a number of years and is a tribute to their tenacity. Resolution of these non-performing accounts also frees up resource to be deployed to more remunerative activities.

In general therefore, the outlook for Commercial Lending is much brighter than it has been at any point since the beginning of the financial crisis back in 2007.

Hodge Lifetime

Hodge Lifetime is the group's brand covering the retirement market. Our core products are pension annuities and equity release mortgages. We believe that this market offers significant growth potential, underpinned by strong demographic trends. There is a growing trend for lending into retirement for a variety of reasons – not least because the 'Bank of Mum and Dad' continues to be called upon to help children onto, and up, the property ladder. It is also more common for people to enter retirement without having paid off their mortgage.

During the year, we launched the Retirement Mortgage aimed at retirees with a reasonable pension. This product offers a more flexible way of borrowing in retirement, with the interest on the loan being paid from pension income, and offers an additional product choice to our portfolio of equity release plans – a choice that has not been available in recent years as mainstream mortgage lenders curtailed the availability of mortgages to those in retirement.

The Retirement Mortgage is funded by the Bank, and we hope that this product becomes a significant source of new business during 2014. As at 31 October 2013 the Bank also had £539 million of equity release mortgage assets under management including £333 million for other financial institutions.

Hodge Lifetime's equity release products are amongst the most flexible plans in the market, offering two unique features: the ability to repay an element of the loan capital should the customer's circumstances change, and the freedom to downsize to a smaller property and repay the loan without incurring any early repayment charges. These products highlight our commitment to innovation and serving the needs of the customer, and we were extremely pleased to be named the Best Equity Release Provider at the 2013 Moneyfacts Investment, Life and Pensions awards, and the Best Lifetime Mortgage Provider at the 2013 Equity Release Awards.

Hodge Life Assurance Company Limited, a wholly owned subsidiary of the Bank, specialises in matching pension annuity liabilities with the long-term fixed rate returns offered by traditional equity release loans. It had a very successful year reporting a profit before tax of £14.5 million *(2012: £9.6 million)*.

Treasury and Funding

As I commented last year, we were holding significant surplus liquidity as we waited for our Individual Liquidity Guidance from the Prudential Regulation Authority. Once in receipt of that, we have taken action to reduce our surplus liquidity in order to improve our interest margin, which whilst negative for the full year, improved month over month and finally went positive in September.

The Bank was accepted into the Funding for Lending Scheme in 2013, but it was only in the latter part of the year that we were able to pre-position assets within the scheme, which allows us to take advantage of the attractive borrowing rates and further improve margins.

Chairman's statement (*continued*)

Treasury and Funding *(continued)*

The Funding for Lending Scheme and the government and Bank of England's desire to keep interest rates low has a big impact on deposit rates which have continued an inexorable downward trend during 2013. In this respect I would like to thank those depositors that have remained loyal to the Bank. I can assure you that we do our best to offer competitive rates wherever possible and to provide products that are simple and straightforward.

Risk Management

Since the year end we have established a new board committee – the Risk and Conduct Committee. All members of the Risk and Conduct Committee are non-executive directors. The committee will be chaired by Alun Bowen and will meet at least four times a year.

The committee has been established to provide greater oversight of the management of risk and the conduct of business to ensure that significant risks are identified, understood, addressed and managed and that good outcomes are achieved for our customers.

Our People

I must pay tribute to our staff, who have continued to perform at a high level and our improving results are a reflection of the effort by all of them across all our businesses.

This year has also seen the retirement of Hywel Jones as a non-executive director. Hywel gave us great service over 11 years and his advice and counsel helped us negotiate the financial crisis better than most.

Hywel's successor is Alun Bowen, who retired from KPMG in June 2013, having served as a partner there for 25 years. I have no doubt that Alun will be an extremely good addition to the board.

Paul Budd, our Commercial Lending director, decided to return to academia this year after 9 years with the Bank and has been replaced by Kevin Beevers. Kevin joined us from HSBC in September, where he was Deputy Head of Corporate Banking for West and Wales. Given the importance of Commercial Lending to the Bank's overall strategy, we were delighted to secure Kevin's services and I am certain he will prove to be a great acquisition and cement our position as a key player in the commercial property funding market.

The Outlook

At last, I am able to say that things are looking up! As to whether we are seeing a continuing recovery, only time will tell. What is evident is that confidence is returning and that is a key plank of any economic recovery.

There is some concern that the recovery is consumer rather than investment led, which is fuelled by the various initiatives to bolster mortgage lending and the desire to keep interest rates as low as possible.

The Bank of England has already amended the Funding for Lending Scheme on the back of concerns that house prices are rising too quickly, but its forward guidance persists in downplaying the need for interest rates to rise. The reality is that the UK's inflation record has rarely been as good as that of its European neighbours or the USA and there is the danger that the horse will have bolted before action is taken. In a similar vein, the longer that the consumer is on the drug of ultra low interest rates, the harder it will be to wean them off.

Keith James
Chairman
19 December 2013

Strategic Report

Principal activities

The Bank is principally engaged in the business of banking and equity release. Details of the principal subsidiary and its activities are set out in note 14 to the accounts.

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

Corporate strategy

The Board has adopted a prudent strategic plan with the long term aim of achieving stable returns and modest capital growth in accordance with the requirements of its Shareholder. At the heart of the Bank's philosophy is a wish to protect its capital base for the benefit of its depositors and Shareholder by conducting business in those areas where it has the greatest expertise and experience and best understands the risks which it is taking.

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

Business review and future developments

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

Results and dividends

The profit for the year after taxation amounted to £3,543,000 *(2012: £2,565,000).* No dividend was paid during the year *(2012: £nil)* leaving a surplus for the year of £3,543,000 (*2012: £2,565,000)* to be taken to reserves.

Employees

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

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

Corporate governance

This statement explains the extent to which the Bank has applied the principles of good governance contained in The UK Corporate Governance Code for the year ended 31 October 2013.

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

The Board has sought to ensure that directors are properly briefed on issues arising at Board meetings by:

- distributing papers sufficiently in advance of meetings;
- considering the adequacy of the information provided before making decisions; and
- deferring decisions when directors have concerns about the quality of information.

Strategic Report *(continued)*

Corporate governance *(continued)*

The Board is ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness. The system of control is designed to manage rather than eliminate risks which are inherent in the Bank's business and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Bank's system of internal financial control includes appropriate levels of authorisation, segregation of duties and limits for each aspect of the business. There are established procedures and information systems for regular budgeting and reporting of financial information. Financial reports are presented to the Board monthly detailing the results and other performance data.

There is a well-established internal audit function within the Bank that is provided by PwC on an outsourced basis. Its role is primarily to review the effectiveness of controls and procedures established to manage risk. An audit programme is agreed annually in advance with the audit committee and the head of internal audit attends each meeting of the committee to present a summary of audit reports completed during the period and to provide any explanations required by the committee.

The audit committee has reviewed the effectiveness of the Bank's system of internal financial control during the year.

Governance framework

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

The Board

The Board has ultimate responsibility for the proper stewardship of the Bank in all its undertakings. It meets regularly throughout the year to discharge its responsibilities for all important aspects of the Bank's affairs, including monitoring performance, considering major strategic issues, approving budgets and business plans and reporting to the shareholder.

A Board control manual has been adopted which describes the high-level policy and decision-making arrangements within the Bank. The manual includes a schedule of matters reserved to the Board together with those items delegated to directors and Board and executive committees.

Board Committees

The Board has established the following standing committees:

- Audit committee: Adrian Piper (Chairman), Keith James, Jonathan Hodge and Alun Bowen

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

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

  The committee meets at least four times a year.

Strategic Report *(continued)*

Board Committees *(continued)*

- Remuneration and nomination committee: Jonathan Hodge (Chairman), Keith James, Alun Bowen and Adrian Piper.

  The role of this committee is twofold:

  1. To consider remuneration policy and specifically to determine the remuneration and other terms of service of executive directors and senior managers. The executive directors decide fees payable to non-executive directors.

  2. To recommend the appointment of directors to the Board and Board committees and to ensure that the Bank has an appropriate succession plan for executive and senior management positions.

  The committee meets as required.

Executive Committees

Executive management has primary responsibility for the operation of the Bank’s internal financial control framework. It monitors credit risk, market risk, liquidity risk and operational risk by means of relevant committees as described below. The Bank’s policy on risk management is set out on the following page.

- Divisional management boards

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

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

- Group risk committee

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

- Assets and liabilities committee

  Chaired by the Managing Director, the committee implements the policies of the Board with respect to liquidity and interest rate risk management and provides recommendations to the Board on strategies for managing these risks. It also monitors and controls treasury counterparty risk arising from deposits with other banks and institutions which are usually unsecured together with debt securities acquired as investments. The committee meets weekly.

- Credit committee

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

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

Strategic Report *(continued)*

Risk Management

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

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

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

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

The customer deposit base represents a stable source of funding due to the number and diversity of depositors. Liquidity is further managed through dealings in the money markets.

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

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

The table in note 25 shows an estimate of the interest rate sensitivity gap as at 31 October 2013. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

The Bank enters into derivative transactions, normally interest rate swaps. The purpose of such transactions is to manage the interest rate and other risks arising from the Bank's operations and other resultant positions. The Bank's interest rate risk management policy defines the type of derivative transactions that can be undertaken. Further information is given in note 25 to the accounts.

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

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

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

Strategic Report *(continued)*

Capital Requirements Directive IV (CRDIV)

On 1 January 2014 CRD IV comes into force; this is the legislative package intended to implement the Basel III agreement in the EU. The changes mark a significant change to capital and liquidity requirements and an enhancement to regulatory reporting across Europe. The enhanced reporting requirements include the introduction of a leverage ratio, liquidity coverage ratio and net stable funding ratio as well as COREP and FINREP regulatory returns.

Whilst this is a significant change to the regulatory landscape and a major piece of work to ensure full compliance, the business impact is mitigated for the Bank due to the quantum and quality of capital and liquidity which the Bank holds.

Going concern

The Bank's forecasts and projections include scenario testing undertaken in accordance with the Internal Capital Adequacy Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA), which are required by the Financial Services Authority to demonstrate appropriate levels of capital and liquidity respectively under stressed conditions. The directors consider that the overall level of capital, including Tier 1 capital of £114.0m (26.1% as a percentage of risk weighted assets) and liquidity, including liquid assets (Gilts, central bank reserves and wholesale cash deposits) of £139m (19.1% of total liabilities) are adequate. Accordingly the directors confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

Rhian Yates
Secretary

31 Windsor Place
Cardiff
CF10 3UR

19 December 2013

Directors' report

The directors present their report together with the audited financial statements for the year ended 31 October 2013.

Directors and their interests

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

Keith James*	- Chairman
Jonathan Hodge*	- Deputy Chairman
David Austin	- Managing Director
David Landen	- Finance Director
Hywel Jones*	- resigned on 29 August 2013
Adrian Piper*	
Alun Bowen*	- appointed on 29 August 2013

* Non-executive

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

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

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

Political contributions

The Bank made no political contributions during the year.

Disclosure of information to auditor

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

Auditor

Our auditor, KPMG Audit Plc has instigated an orderly wind down of its business. The Board has decided to put KPMG LLP forward to be appointed as auditor. A resolution for the appointment of KPMG LLP as auditor of the company and authorising audit committee to determine its remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Rhian Yates
Secretary

19 December 2013

31 Windsor Place
Cardiff
CF10 3UR

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

We have audited the financial statements of Julian Hodge Bank Limited for the year ended 31 October 2013 set out on pages 13 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's member, 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 member 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 member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at http://www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements:

• give a true and fair view of the state of the Company's affairs as at 31 October 2013 and of its profit for the year then ended;
• have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor’s report to the member of Julian Hodge Bank Limited
(continued)

Matters on which we are required to report by exception

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

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

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

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

19 December 2013

Profit and loss account
for the year ended 31 October 2013

	Note	**2013** **£000**	2012 £000 (restated – see note 1)
Interest receivable			
Interest receivable and similar income arising from treasury bills and debt securities		**4,493**	4,166
Other interest receivable and similar income		**23,021**	22,736
		27,514	26,902
Interest payable	*5*	**(29,424)**	(28,654)
Net interest expense		**(1,910)**	(1,752)
Dividend income from listed equity shares and subsidiary companies		**-**	156
Fees and commissions receivable		**1,140**	1,195
Fees and commissions payable		**(330)**	(23)
Other finance income	*6*	**300**	400
Other operating income:			
Rents receivable		**888**	892
Profit on sale of reversionary interests		**2,134**	2,130
Profit on sale of mortgage assets		**-**	2,896
Profit on sale of stock and work in progress		**676**	767
Profit on sale of treasury bills		**286**	1,380
Profit on sale of debt securities		**488**	104
Profit on sale of equities		**4,542**	-
Net operating income		**8,214**	8,145
Administrative expenses:			
Staff costs	*4*	**(3,478)**	(2,927)
Other administrative expenses		**(1,032)**	(1,971)
Depreciation and amortisation	*17*	**(31)**	(16)
Movement on provisions for bad and doubtful debts	*12*	**(125)**	762
Movement in valuation of stock and work in progress	*13*	**(97)**	(915)
Operating profit being profit on ordinary activities before taxation	*3*	**3,451**	3,078
Tax on profit on ordinary activities	*7*	**92**	(513)
Profit on ordinary activities after taxation being profit for the financial year	*23*	**3,543**	2,565

The results for the year ended 31 October 2013 relate entirely to continuing operations. There is no difference between the profit for the year and the profit on a historical cost basis.

The notes on pages 16 to 36 form part of these financial statements.

Statement of total recognised gains and losses

for the year ended 31 October 2013

	Note	2013	2012
		£000	£000
Profit for the financial year		**3,543**	2,565
Deficit on revaluation of investment properties	*18*	**-**	(405)
Actuarial loss recognised in the pension scheme	*27*	**(1,200)**	(1,400)
Deferred tax thereon		**240**	200
Total recognised gains and losses in the financial year		**2,583**	960

Balance sheet
at 31 October 2013

	Note	**2013**	2012
		£000	£000
Assets			
Cash and balances held at central banks	*8*	**35,593**	37,015
Treasury bills	*9*	**78,148**	81,333
Loans and advances to banks	*10*	**25,640**	90,596
Loans and advances to customers	*11 & 12*	**384,021**	358,756
		523,402	567,700
Stock and work in progress	*13*	**4,519**	5,237
Shares in group undertakings and participating interests	*14*	**15,972**	16,068
Equity shares	*15*	**-**	837
Debt securities	*16*	**87,602**	89,541
Tangible fixed assets	*17*	**115**	92
Investment properties	*18*	**8,870**	8,870
Reversionary interests in properties	*19*	**59,360**	61,162
Other assets	*21*	**23,165**	49,223
Corporation tax		**803**	454
Prepayments and accrued income		**2,697**	3,322
Total assets		**726,505**	802,506
Liabilities			
Amounts owed to credit institutions and central banks		**5,000**	8,916
Customer accounts	*20*	**583,587**	658,876
Other liabilities:			
Other		**1,411**	2,485
Accruals and deferred income		**6,128**	5,193
Pension deficit	*27*	**2,160**	1,400
Total liabilities		**598,286**	676,870
Share capital and reserves			
Called-up share capital	*22*	**100,000**	100,000
Profit and loss account	*23*	**29,668**	27,085
Revaluation reserve	*23*	**(1,449)**	(1,449)
Shareholder's funds	*23*	**128,219**	125,636
Total liabilities and shareholder's funds		**726,505**	802,506
Memorandum items			
Commitments	*24*	**141,578**	119,612

These financial statements were approved by the Board of directors on 19 December 2013 and were signed on its behalf by:

David Austin
Director

David Landen
Director

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

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

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

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

Certain 2012 profit and loss account items have been reclassified as, in the opinion of the directors, the new presentation better reflects the nature of the costs incurred. The impact on the 2012 profit and loss account was as follows:

	2012	**2012**
	As Reported	As Reclassified
Profit on sale of stock and work in progress	£526,000	£767,000
Other administrative expenses	£(2,645,000)	£ (1,971,000)
Movement in value of stock and work in progress	£nil	£(915,000)

The reclassification did not affect profit for the financial year ended 31 October 2012 or net assets as at 31 October 2012.

Going Concern

The Bank's forecasts and projections include scenario testing as carried out in accordance with the Internal Capital Adequacy Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA), which are processes required by the Prudential Regulatory Authority to demonstrate appropriate levels of capital and liquidity respectively under stressed conditions. The directors consider that the overall level of capital, including Tier 1 capital of £113.7m and liquid assets, (made up of Gilts, central bank reserves and wholesale cash deposits) of £139m are adequate. Accordingly the directors confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

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

Shares in group undertakings and participating interests

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

Treasury bills

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Equity shares

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

Debt securities

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

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

Loans and advances

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

Fees and commissions receivable

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

Off balance sheet instruments

The Bank's policy is to hedge against mismatches when it is appropriate or prudent to do so by the use of interest rate swaps and caps. The related costs are recognised in the profit and loss account within interest payable.

Tangible fixed assets and depreciation

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Investment properties

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

In accordance with SSAP 19:

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

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

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

Reversionary interests in properties

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

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

Stock

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

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

Taxation

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Related party disclosures

As the Bank is a wholly owned subsidiary of The Carlyle Trust Limited it has taken advantage of the exemption under FRS 8 from the requirement to disclose transactions and balances with other wholly owned subsidiaries in the same group or investees in that group.

Pension scheme

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

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

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

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

Funding for lending scheme (FLS)

In order for the Bank to access funding from the FLS, covered bonds have been pledged as collateral. Where the risk and reward of ownership of the collateral remains with the Bank they are retained on balance sheet. The interest receivable on these assets continues to be accounted for as earned on an accruals basis. Treasury bills borrowed under the FLS are not recognised on the balance sheet when substantially all the risks and rewards of the ownership remain with the lender. The interest cost of borrowing the treasury bills is accrued on a straight line basis over the drawdown period.

2 Segmental information

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

3 Profit on ordinary activities before taxation

	2013	2012
	£000	£000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Remuneration of the auditor and its associates		
Audit of these financial statements	**21**	35
Audit of financial statements of subsidiaries pursuant to legislation	**21**	30
Other services relating to taxation	**27**	33
Other advisory services	**10**	37
Pension scheme audit	**8**	8
Depreciation	**31**	16
Bad debt provision charge/(release)	**1,179**	(762)
Hire of vehicles under operating leases	**32**	26

Notes *(continued)*

4 Directors and employees

	2013	2012
	£000	£000
Staff costs		
Wages and salaries	**2,935**	2,438
Social security	**250**	223
Pension costs (note 27)	**293**	266
	3,478	2,927

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

	2013	2012
	No	No
Provision of finance and banking	**49**	46
Property, investment and other	**27**	19
	76	65

Staff costs include remuneration in respect of directors as follows:

	2013	2012
	£000	£000
Fees	**174**	134
Aggregate emoluments as executives	**281**	253
	455	387

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

Aggregate emoluments	**188**	172

The highest paid director is a member of a defined benefit scheme under which his accrued pension at the year end was £49,000 *(2012: £47,000).*

Retirement benefits are accruing to 2 *(2012: 2)* directors in a defined benefit scheme.

5 Interest payable

	2013	2012
	£000	£000
On deposits by banks	**12,892**	10,579
On customer accounts	**16,528**	18,045
On amounts owed to parent and fellow subsidiary undertakings	**4**	30
	29,424	28,654

Notes *(continued)*

6 Other finance income/(cost)

	2013	2012
	£000	£000
Expected return on pension scheme assets (note 27)	**1,300**	1,400
Interest on pension scheme liabilities (note 27)	**(1,000)**	(1,000)
Net finance income	**300**	400

7 Tax on profit on ordinary activities

Analysis of charge in year

	2013		2012	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year		**(1,205)**		(453)
Adjustments in respect of prior years		**230**		555
Total current tax		**(975)**		102
Deferred tax (see note 21)				
Origination/reversal of timing differences	**1,035**		1,246	
Deferred tax movement on pension scheme	**100**			
Adjustment in respect of prior years	**(252)**		(835)	
		883		411
Tax on profit on ordinary activities		**(92)**		513

The current tax charge for the year is lower (*2012: lower)* than the blended rate of corporation tax in the UK. The differences are explained below.

	2013	2012
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**3,451**	3,078
Current tax at 23.42% *(2012: 24.83%)*	**808**	764
Effects of:		
Expenses not deductible for tax purposes	**36**	20
Capital allowances for the year in excess of depreciation	**(47)**	(55)
Release of provisions not deductible until paid	**(867)**	(1,043)
Franked investment income/intra-group dividends	**-**	(39)
Adjustments in respect of prior years	**230**	555
Pension contributions	**(71)**	(100)
Non-taxable gain on sale of investments	**(1,064)**	-
Total current tax (credit)/charge (see above)	**(975)**	102

Notes *(continued)*

7 Tax on profit on ordinary activities (continued)

A reduction in the UK corporation tax rate from 25% to 24% (effective from 1 April 2012) and a further reduction to 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 17 July 2013. This will reduce the company's future current tax charge accordingly.

The standard rate of corporation tax used in these accounts is 23.42% (2012: 24.83%) as a result of the financial year straddling periods at 24% and 23%.

8 Cash and balances held at central banks

	2013	2012
	£000	£000
Repayable on demand	**35,593**	37,015

9 Treasury bills

	2013	2012
	£000	£000
Listed on a UK recognised investment exchange	**78,148**	81,333

Maturity analysis	**2013**	2012
	£000	£000
Between three months and one year	**3,017**	1,008
More than one year but less than five years	**9,439**	9,952
Five years and over	**65,692**	70,373
	78,148	81,333

Of this amount £54,634,000 has been provided as collateral for derivative financial instruments (see note 25)

	Nominal value	**Net premium/(discount)**	**Net book value**
	£000	**£000**	**£000**
Movement			
At beginning of year	80,634	699	81,333
Additions	-	-	-
Disposals	(2,000)	(70)	(2,070)
Redemptions	(1,000)	(72)	(1,072)
Amortisation of premium	-	(43)	(43)
At end of year	**77,634**	**514**	**78,148**

Market value	**2013**	2012
	£000	£000
Listed on a UK recognised investment exchange	**81,591**	86,301

Notes *(continued)*

10 Loans and advances to banks

	2013 £000	2012 £000
Repayable		
On demand	**25,640**	90,596
Within three months	**-**	-
	25,640	90,596

11 Loans and advances to customers

	2013 £000	2012 £000
Loans and advances	**357,513**	343,930
Amounts owed by immediate parent and fellow subsidiary undertakings	**26,508**	14,826
Amounts owed by subsidiary undertakings	**-**	-
	384,021	358,756

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

	2013 £000	2012 £000
Within three months	**51,422**	38,239
Between three months and one year	**48,414**	54,467
Between one and five years	**62,401**	87,266
Over five years	**202,901**	185,503
General and specific bad debt provisions (note 12)	**(7,625)**	(21,545)
	357,513	343,930
Of which repayable on demand or at short notice	**15,720**	378

Notes *(continued)*

12 Provisions for bad and doubtful debts

2013

	Total £000	**Specific £000**	**General £000**
At 1 November 2012	**21,545**	**17,030**	**4,515**
Charge/(release) against profits	**1,179**	**3,638**	**(2,459)**
Amounts written off	**(15,099)**	**(15,099)**	**-**
Recoveries	**-**	**-**	**-**
At 31 October 2013	**7,625**	**5,569**	**2,056**

The charge above excludes a recovery of £1,054,000 of an amount previously written off.

2012

	Total £000	Specific £000	General £000
At 1 November 2011	23,000	15,975	7,025
Charge/(release) against profits	(762)	1,748	(2,510)
Amounts written off	(705)	(705)	-
Recoveries	12	12	-
At 31 October 2012	21,545	17,030	4,515

	2013 £000	2012 £000
Loans and advances for which interest is suspended:		
Loans and advances before specific provisions	**11,197**	40,238
Loans and advances after specific provisions	**5,569**	21,093

Notes *(continued)*

13 Movement in valuation of stock and work in progress

2013

	Total £000
At 1 November 2012	**5,237**
Additions	433
Disposals	(1,054)
Movement in valuation	(97)
At 31 October 2013	**4,519**

14 Shares in group undertakings and participating interests

	Investments in subsidiary undertakings £000
Cost and net book value	
At beginning of year	**16,068**
Write off of investment in subsidiaries	(96)
At end of year	**15,972**

The Bank's principal subsidiary undertaking is as follows:

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

15 Equity shares

	£000
Cost and net book value	
At beginning of year	837
Disposals	(837)
At end of year	**-**

Notes *(continued)*

16 Debt securities

Debt securities	**2013**	2012
	£000	£000
Debt securities – listed on a UK recognised investment exchange	**87,602**	89,541

Debt securities – maturity analysis	**2013**	2012
	£000	£000
Within three months	**-**	4,152
Between three months and one year	**-**	1,781
More than one year but less than five years	**47,955**	43,665
Five years and over	**39,647**	39,943
	87,602	89,541

	Nominal value	**Net premium/(discount)**	**Net book value**
	£000	**£000**	**£000**
Debt securities – movement			
At beginning of year	88,221	1,320	89,541
Additions	11,122	900	12,022
Disposals	(8,850)	141	(8,709)
Redemptions	(4,892)	(67)	(4,959)
Amortisation of premium	-	(293)	(293)
At end of year	**85,601**	**2,001**	**87,602**

Of this amount £18,435,000 has been pledged as collateral under the Funding for Lending Scheme

Debt securities – market value	**2013**	2012
	£000	£000
Debt securities – listed on a UK recognised investment exchange	**92,433**	92,909

Notes *(continued)*

17 Tangible fixed assets

	Total £000	Short leasehold improvements £000	Fixtures, fittings and equipment £000
Cost			
At 1 November 2012	845	65	780
Additions	55	-	55
Disposals	(4)	-	(4)
At 31 October 2013	**896**	**65**	**831**
Depreciation			
At 1 November 2012	753	65	688
Provided in the year	31	-	31
Disposals	(3)	-	(3)
At 31 October 2013	**781**	**65**	**716**
Net book value			
At 31 October 2013	**115**	**-**	**115**
At 31 October 2012	92	-	92

18 Investment properties

Freehold	**£000**
At 1 November 2012	8,870
Revaluation	-
At 31 October 2013	**8,870**
The historical cost of investment properties was:	
At 31 October 2013	**10,319**
At 1 November 2012	10,319

A desktop market valuation was undertaken by DTZ as at 31 October 2013.

19 Reversionary interests in properties

The estimated market value of the Bank's reversionary interests in properties is £79,934,000 (*2012: £76,391,925).* If these were realised at their market value on 31 October 2013 an additional tax charge of £4,740,000 *(2012: £3,807,000)* would have arisen.

Notes *(continued)*

20 Customer accounts

	2013 **£000**	2012 £000
Repayable on demand	**13,496**	16,599
With agreed maturity dates or periods of notice and repayable:		
- within three months	**196,265**	219,605
- between three months and one year	**231,306**	286,384
- between one and five years	**140,729**	132,018
- over five years	**1,202**	675
Amounts owed to parent and fellow subsidiary undertakings	**-**	3,055
Amounts owed to subsidiary undertakings	**589**	540
	583,587	658,876

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

21 Other assets

	2013 **£000**	2012 £000
Collateral held by swap counterparties (see note 25)	**17,015**	43,197
Other debtors	**5,237**	4,330
Deferred tax assets (see below)	**913**	1,696
	23,165	49,223

The deferred taxation asset is calculated at 20% *(2012: 23%)* as follows:

	2013 **£000**	2012 £000
Tax losses	**67**	-
Accelerated capital allowances	**327**	363
Other timing differences	**519**	1,333
	913	1,696

The unprovided deferred tax asset is £nil (*2012: £nil*).

The deferred tax asset at 31 October 2013 has been calculated based on the rate of 20%, substantially enacted at the balance sheet date.

Notes *(continued)*

22 Called up share capital

	2013	2012
	£000	£000
Allotted, called-up and fully paid:		
100,000,000 *(2012: 100,000,000)* ordinary shares of £1 each	**100,000**	100,000

23 Capital and reserves – reconciliation of movements in shareholder's funds

	Called up share capital	**Profit and loss account**	**Revaluation reserve**	**Total**
	£000	**£000**	**£000**	**£000**
Year ended 31 October 2013				
At beginning of year	**100,000**	**27,085**	**(1,449)**	**125,636**
Profit for the financial year	**-**	**3,543**	**-**	**3,543**
Actuarial loss recognised	**-**	**(960)**	**-**	**(960)**
At end of year	**100,000**	**29,668**	**(1,449)**	**128,219**

	Called up share capital	Profit and loss account	Revaluation reserve	Total
	£000	£000	£000	£000
Year ended 31 October 2012				
At beginning of year	100,000	25,720	(1,044)	124,676
Profit for the financial year	-	2,565	-	2,565
Deficit on revaluation	-	-	(405)	(405)
Actuarial loss recognised	-	(1,200)	-	(1,200)
At end of year	100,000	27,085	(1,449)	125,636

24 Memorandum items and interest rate contracts

	2013	2012
	£000	£000
Commitments		
Undrawn credit lines, stand-by facilities, other lending commitments and capital commitments of which:		
expiring in less than one year	**65,903**	23,450
expiring in more than one year	**75,675**	96,162
	141,578	119,612
Interest rate contracts (principal amount)		
Hedging	**431,750**	551,797

Notes *(continued)*

25 Financial instruments

Objectives and policies

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

Interest rate risk

2013	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Assets							
Cash and balances held at central banks	35,593	-	-	-	-	-	35,593
Treasury bills (note 9)	55,134	1,499	1,018	9,439	11,058	-	78,148
Loans and advances to banks	25,640	-	-	-	-	-	25,640
Loans and advances to Customers (note 11)	188,568	2,132	8,825	25,568	164,412	(5,484)	384,021
Shares in group undertakings	-	-	-	-	-	15,972	15,972
Debt securities (note 15)	17,346	645	752	29,212	39,647	-	87,602
Investment properties	-	-	-	-	-	8,870	8,870
Reversionary interests in properties	666	144	187	4,612	53,751	-	59,360
Stock and work in progress	-	-	-	-	-	4,519	4,519
Other assets (notes 13 and 21)	17,015	-	-	-	-	6,150	23,165
Non-financial assets	-	-	-	-	-	3,615	3,615
Total assets	**339,962**	**4,420**	**10,782**	**68,831**	**268,868**	**33,642**	**726,505**
Liabilities							
Deposits by banks	5,000	-	-	-	-	-	5,000
Customer accounts (note 19)	210,193	57,709	173,393	140,501	1,202	589	583,587
Other liabilities	-	-	-	-	-	3,571	3,571
Non-financial liabilities	-	-	-	-	-	6,128	6,128
Shareholder's funds	-	-	-	-	-	128,219	128,219
Total liabilities	**215,193**	**57,709**	**173,393**	**140,501**	**1,202**	**138,507**	**726,505**
Off balance sheet items	**175,350**	**155,400**	**(3,716)**	**(73,717)**	**(253,717)**	**-**	**-**
Interest rate sensitivity gap	**300,119**	**102,111**	**(166,327)**	**(145,387)**	**13,949**		
Cumulative gap	**300,119**	**402,230**	**235,903**	**90,516**	**104,465**		

Notes *(continued)*

25 Financial instruments *(continued)*

2012	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Assets							
Cash and balances held at central banks	37,015	-	-	-	-	-	37,015
Treasury bills (note 9)	55,125	989	0	9,769	15,450	-	81,333
Loans and advances to banks	90,596	-	-	-	-	-	90,596
Loans and advances to Customers (note 11)	157,486	6,630	13,660	41,388	161,035	(21,443)	358,756
Shares in group undertakings	-	-	-	-	-	16,068	16,068
Equity shares	-	-	-	-	-	837	837
Debt securities (note 15)	18,206	3,786	-	31,420	36,129	-	89,541
Investment properties	-	-	-	-	-	8,870	8,870
Reversionary interests in properties	110	365	94	3,147	57,446	-	61,162
Stock and work in progress	-	-	-	-	-	5,237	5,237
Other assets (note 21)	43,197	-	-	-	-	6,026	49,223
Non-financial assets	-	-	-	-	-	3,868	3,868
Total assets	**401,735**	**11,770**	**13,754**	**85,724**	**270,060**	**19,463**	**802,506**
Liabilities							
Deposits by banks	8,916	-	-	-	-	-	8,916
Customer accounts (note 19)	240,008	99,508	186,427	131,718	675	540	658,876
Other liabilities	-	-	-	-	-	3,885	3,885
Non-financial liabilities	-	-	-	-	-	5,193	5,193
Shareholder’s funds	-	-	-	-	-	125,636	125,636
Total liabilities	**248,924**	**99,508**	**186,427**	**131,718**	**675**	**135,254**	**802,506**
Off balance sheet items	**88,852**	**230,876**	**22,500**	**(71,432)**	**(270,796)**	**-**	**-**
Interest rate sensitivity gap	**241,663**	**143,138**	**(150,173)**	**(117,426)**	**(1,411)**		
Cumulative gap	**241,663**	**384,801**	**234,628**	**117,202**	**115,791**		

The tables above summarise the re-pricing mismatches on the Bank’s balance sheet as at 31 October 2013 and 31 October 2012. Items are allocated to time-bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

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

Fair values

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

Notes *(continued)*

25 Financial instruments *(continued)*

Fair values *(continued)*

	Book value		Fair value	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Financial assets				
Treasury bills	**78,148**	81,333	81,591	85,619
Listed investments	**-**	837	-	4,706
Debt securities	**87,602**	89,541	91,028	92,909
Interest rate swaps	**-**	-	(71,769)	(95,099)

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

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

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

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

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

Hedges

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

	2013	2012
	£000	£000
Gains	**1,536**	143
Losses	**(14,428)**	(10,722)
Net losses to 31 October	**(12,892)**	(10,579)

As at 31 October 2013, the Bank had a number of outstanding interest rate swap contracts that were entered into for hedging purposes. The notional losses that would have arisen had these contracts matured on 31 October 2013 amounted to £71,769,000 *(2012: £95,099,000)*. These amounts have not been recognised in the financial statements as at 31 October 2013, nor do they reflect the actual losses (if any) that will be recognised in the financial statements as these contracts mature in the future.

The collateral pledged against the market value of derivative instruments comprises interest-bearing cash deposits, which are included in Other assets (note 21), and Treasury bills (note 9). Interest on this collateral is included in the profit and loss accounts within interest receivable.

Foreign currencies

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

Notes *(continued)*

26 Capital commitments

The Bank had contracted commitments amounting to £nil at 31 October 2013 *(2012: £293,000).*

27 Pension schemes

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

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

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

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

The most recent actuarial report of the scheme, as at 1 April 2013, showed that the value of the assets was £22,200,000. This represented 85% of the CARE benefits that had accrued to members after allowing for expected future increases to benefits. Future investment returns of 5.20% per annum up to retirement and 4.2% in retirement and future benefit increases of 3.6% per annum were assumed.

The Bank's total expense for the year, including its share of prior service savings, amounted to £293,000 *(2012: £266,000)*. The employer's contribution rate remained unchanged at 14.5% *(2012: 14.5%).*

The FRS 17 valuation as at 31 October 2013 has been produced by a qualified independent actuary, and is based on the results of the valuation as at 1 April 2013.

Scheme assets

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

	2013	2012
	£m	£m
Fair value of plan assets	**23.0**	21.0
Present value of funded defined benefit obligations	**(25.7)**	(22.8)
Deficit	**(2.7)**	(1.8)
Related deferred tax asset	**0.6**	0.4
Net deficit	**(2.1)**	(1.4)

Notes *(continued)*

27 Pension schemes *(continued)*

Movements in present value of defined benefit obligation

	2013	2012
	£m	£m
Present value of scheme liabilities at start of the period	**22.8**	20.8
Interest cost	**1.0**	1.0
Current service cost	**0.3**	0.3
Member contributions	**0.1**	0.1
Actuarial loss	**2.0**	1.3
Benefits paid	**(0.5)**	(0.7)
Present value of scheme liabilities at end of the period	**25.7**	22.8

Movements in fair value of plan assets

	2013	2012
	£m	£m
Market value of assets at the beginning of the year	**21.0**	20.0
Expected return on scheme assets	**1.3**	1.4
Actuarial gain/(loss)	**0.8**	(0.1)
Member contributions	**0.1**	0.1
Employer contributions	**0.3**	0.3
Benefits paid	**(0.5)**	(0.7)
Market value of assets at the end of the year	**23.0**	21.0

Expense recognised in the profit and loss account

	2013	2012
	£m	£m
Current service cost	**(0.3)**	(0.3)
Interest cost	**(1.0)**	(1.0)
Expected return on scheme assets	**1.3**	1.4
Total	**0.0**	0.1

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

	2013	2012
	£m	£m
Other finance income/(cost)	**0.3**	0.4
Staff costs	**(0.3)**	(0.3)
Total	**0.0**	0.1

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a loss of £1.2m *(2012: loss of £1.4m)* before tax.

Notes *(continued)*

27 **Pension schemes** *(continued)*

Cumulative actuarial gains/(losses) reported in the statement of total recognised gains and losses for accounting periods ended on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are losses of £6.1m *(2012: losses of £4.9m)* before tax.

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

	Fair value 2013 £m	**Long term rate of return 2013**	Fair value 2012 £m	Long term rate of return 2012
Equities	13.1	6.5%	10.3	6.5%
Bonds	4.6	4.0%	5.4	4.0%
Property	0.5	5.5%	0.1	5.5%
Other – cash	4.8	3.5%	5.2	3.5%
Total market value of assets	23.0		21.0	

The actual return on assets was 10% (2012: 6%)

The major assumptions used in this valuation were:

	2013	2012
Rate of increase in salaries	**4.30%**	3.60%
Rate of increase in LPI pensions in payment and deferred pensions	**3.20%**	2.60%
Rate of CARE revaluation	**3.20%**	2.60%
Discount rate applied to scheme liabilities	**4.40%**	4.40%
Inflation assumption	**3.30%**	2.60%

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

Post retirement mortality (life expectancy)	**2013**	2012
Current pensioners age 65 - male	**87.3**	87.7
Current pensioners age 65 - female	**89.5**	91.0
Future pensioners age 65 (current age 45) - males	**88.6**	89.7
Future pensioners age 65 (current age 45) - females	**91.0**	93.1

History of plan balance sheets

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of plan assets	**23.0**	21.0	20.0	19.9	17.4
Present value of funded defined benefit obligations	**(25.7)**	(22.8)	(20.8)	(20.1)	(18.5)
(Deficit)/surplus	**(2.7)**	(1.8)	(0.8)	(0.2)	(1.1)
Related deferred tax asset	**0.6**	0.4	0.2	0.1	0.2
Net deficit	**(2.1)**	(1.4)	(0.6)	(0.1)	(0.9)

Notes *(continued)*

27 Pension schemes *(continued)*

History of experience gains and losses

	2013	2012	2011	2010	2009
Difference between the expected and actual return on scheme assets:					
Amount	**£0.8m**	£(0.4)m	£(0.9)m	£1.5m	£2.2m
Percentage of year end scheme assets	**3.5%**	1.9%	4.5%	7.5%	12.6%
Experience gains and losses on scheme liabilities:					
Amount	**£0.0m**	£0.0m	£0.0m	£0.6m	£0.0m
Percentage of year end present value of scheme liabilities	**0.0%**	0.0%	0.0%	3.0%	0.0%
Total amount recognised in statement of total recognised gains and losses:					
Gains/(losses) before tax	**£(1.2)m**	£(1.4)m	£(0.5)m	£0.8m	£(3.7)m
Percentage of year end present value of scheme liabilities	**4.7%**	6.1%	2.4%	4.0%	20.0%

The Bank expects to contribute approximately £0.4m to its defined benefit plan in the next financial year.

28 Ultimate parent undertaking

The immediate parent undertaking of the Bank is The Carlyle Trust Limited, registered in England and Wales, which controls and co-ordinates the management of a group of companies. The ultimate parent undertaking and controller is The Carlyle Trust (Jersey) Limited (incorporated in Jersey). Within the meaning of the Companies Act 2006, The Carlyle Trust Limited is the parent undertaking of the largest and only group of undertakings for which group accounts are drawn up and of which the Bank is a member. The accounts of The Carlyle Trust Limited can be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

29 FSCS Levy

The Bank is a member of the Financial Services Compensation Scheme (FSCS), and it has been advised by the Prudential Regulatory Authority (formerly Financial Services Authority) that it will be asked to contribute additional levies for the foreseeable future following the failure of a number of banks during the recent credit crunch. The FSCS has advised of an expected shortfall in the region of £800 million; this will be levied in three equal instalments between 2013 and 2015. JHB has paid the first of three instalments and this is included in the current year charge.

A provision of £300,000 for Julian Hodge Bank's estimated share of the levy remains in force at the balance sheet date *(2012: £280,000)*.