Standard Life Investments

STANDARD LIFE INVESTMENTS (HOLDINGS) LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Registered in Scotland Number SC298143

General Information

Directors

C M Clark	
J D S Dawson	(Non-Executive)
V A Holmes	(Non-Executive)
D T Nish	
R L Paris	
J G H Paynter	(Chairman, Non-Executive)
N K Skeoch	(Chief Executive)
C R Walklin	

Company Secretary

D J Burns

Registered Office

1 George Street
Edinburgh
EH2 2LL
United Kingdom

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
68 - 73 Queen Street
Edinburgh EH2 4NH
United Kingdom

Directors' annual report
for the year ended 31 December 2011

The Directors present their report together with the audited financial statements of Standard Life Investments (Holdings) Limited (the Company) and the consolidated financial statements of the Company and its controlled entities (the Group) for the year ended 31 December 2011.

Directors

The names of the current Directors of the Company are shown on page 1.

J G H Paynter was appointed as Chairman on 1 January 2012.

C A M Buchan, D T Cumming, W R Littleboy and R A Renaud resigned as Directors on 1 January 2012.

The Group's ultimate parent company, Standard Life plc, maintains directors' and officers' liability insurance on behalf of its Directors and officers.

Principal activities

The principal activity of the Group is to provide investment management services to members of the Standard Life Group, mutual funds, pension funds and other institutions. The principal activity of the Company is that of a holding company.

Business review

The Group recorded a profit after tax for the year ended 31 December 2011 of £92,135,000 (2010: £78,736,000). Earnings Before Interest and Taxation (EBIT), the Group's key measure of underlying profitability, was £125,963,000 (2010: £105,751,000).

The Group continued to deliver robust long-term investment performance in 2011, despite volatile markets. Third party net inflows of institutional and wholesale business were £4.3bn (2010: £6.2bn) in what have been very challenging market conditions. Third party assets under management increased to a year end record of £71.8bn (2010: £71.6bn). These underlying new business flows underpinned strong total revenue growth of 16%, driving EBIT up 19% to £126m and delivering an EBIT margin of 34% and a return on equity of 43%. The Group continues to focus on serving existing clients and winning new clients through strong investment performance, product innovation, global distribution and high levels of customer service.

The Group continued to deliver a robust investment performance over the longer term: 49% of funds over one year, and 82% of funds over three year time periods outperformed their benchmark. The GARS fund has outperformed its LIBOR benchmark over all time periods since inception and mutual funds strength is shown by the proportion of eligible and actively managed funds (22 out of 29) rated A or above by Standard & Poor's in the UK. The pipeline for institutional business is strong with fixed income and GARS products attracting a lot of interest, increasingly from outside the UK. There is also positive demand for mutual funds in the UK and for SICAV funds in continental Europe.

The Group continues to grow its share of the wholesale market in the UK, reflected in the UK mutual funds assets under management breaking through the £10bn barrier. The Group also continues to develop its GARS product range, which now exceeds £13bn of assets under management, and is strengthening its alternative capabilities in areas such as private equity and real estate as well as continuing to enhance its multi-manager offerings. MyFolio has proved successful since its launch, providing new business flows into Standard Life Investments' actively managed funds. Net flows into the MyFolio range were £880m. The Group has entered into an agreement with John Hancock Financial giving the GARS fund access to the United States market and allowing the Group to work with a leading distributor to help deliver potential for its global clients.

During 2011, Standard Life Investments successfully launched its refreshed visual identity and brand positioning. This builds on its commitment to increasing the international nature of its business, as well as broadening the asset classes in which it excels, and helps to ensure that it presents itself in a way that reflects its ambition, strengths and increasingly diversified business.

The Group takes its responsibility as a long-term investor seriously. A cornerstone of the investment process is the belief that stewardship and environmental, social and governance (ESG) factors have a fundamental impact on long-term investment returns. Systematic consideration of stewardship and ESG factors at company level is firmly integrated into the investment process using proprietary indicators in the analysis. In addition, as responsible long-term investors, the Group engages regularly with investee companies to hold them to account and to promote high standards.

Directors' annual report (continued)
for the year ended 31 December 2011

Future outlook

Although the continuing volatility of markets provides a challenging environment in which to do business, the Group intends to continue to build on its strong and profitable momentum.

The Group's pipeline of new investment initiatives is strong and it is confident that it will continue to meet the ever-changing demands of its clients through new and innovative solutions.

Dividends

The Directors recommended and paid a dividend of £88,000,000 in 2011 (2010: £18,000,000). During the year £556,000 (2010: £nil) was distributed to Standard Life plc in respect of the Group's Long Term Incentive Plans, as set out in Note 29.

Key performance indicators (KPIs)

The Directors monitor progress in relation to the overall Group strategy by reference to the following five KPIs:

	2011	2010
EBIT [1]	£126m	£106m
EBIT margin [2]	34%	33%
Return on equity [3]	43%	41%
AUM [4]	£154.9bn	£156.9bn
Third Party AUM [5]	£71.8bn	£71.6bn

1) EBIT is defined as earnings before interest, taxation, foreign exchange gains and losses, fair value movements on certain derivatives, restructuring costs and non-controlling interest. This KPI measures directly the underlying operating profitability of the Group.

2) EBIT margin is defined as EBIT as a percentage of net revenue. This KPI measures the Group's efficiency.

3) Return on equity is defined as IFRS operating profit after tax expressed as a percentage of the opening IFRS equity, adjusted for dividends paid to equity holders.

4) AUM is defined as assets under management and is the value of assets managed by the Group on behalf of clients.

5) Third Party AUM is defined as third party assets under management and is the value of assets managed by the Group on behalf of clients external to the Standard Life Group.

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks.

The main business risks to which the Group is exposed, and its financial risk management objectives and policies are considered in Note 26 to this report and financial statements. Other key business risks include the development and retention of key employees as well as competition from other providers of investment management services.

Employees

The Group's policy is to recruit, develop and employ staff on the basis of the suitability of their qualifications and experience to the work performed, regardless of ethnic origin, religion, sex, marital status or disability. Full consideration is given to continuing the employment of staff who become disabled and to provide training and career development opportunities to disabled employees.

The Group keeps staff informed of progress and policies through line management channels, training courses, conferences and an internal communication programme, which consists of various in-house publications and briefing seminars with staff.

Charitable and political donations

During the year, the Group paid charitable donations totalling £55,000 (2010: £nil). The Group did not make any donations to any political party, organisation or election candidate, or incur any political expenditure.

Creditor payment policy

It is the Group's policy to negotiate payment terms with principal suppliers and to pay in accordance with the terms agreed. For other suppliers, where goods and services have been supplied to specification, payment is made in accordance with the terms offered by the supplier. There was an average 28 days (2010: 28 days) taken to make payment for services provided in 2011.

Directors' annual report (continued)
for the year ended 31 December 2011

Annual general meeting
There was no annual general meeting held in the period, as permitted by the Companies Act 2006.

Independent Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Disclosure of information to auditors
So far as each Director is aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware.

Each of the Directors has taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board of Directors

D J Burns, Company Secretary

Edinburgh, 8 March 2012

Statement of Directors' responsibilities for preparing the financial statements for the year ended 31 December 2011

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the independent auditors' reports, is made to help shareholders distinguish the respective responsibilities of the Directors and the auditors in relation to the financial statements for 2011.

The Directors are responsible for preparing the annual 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 the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements of the Standard Life Group must be prepared in accordance with IFRSs issued by the International Accounting Standards Board, as adopted for use in the European Union, the Companies Act 2006 and Article 4 of the IAS Regulation. The Directors have elected to prepare the Group's and the Company's financial statements on the same basis.

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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by the IASB, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Consolidated income statement
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue			
Management fee income		378,176	328,961
Earned premiums		2,558	2,886
Other operating income	3	20,995	13,167
Total revenue		**401,729**	**345,014**
Fee and commission expense		(33,272)	(22,157)
Net revenue		**368,457**	**322,857**
Operating expenses			
Administrative expenses		(257,750)	(228,599)
Total operating expenses		**(257,750)**	**(228,599)**
Operating profit	5	**110,707**	**94,258**
Finance income	6	505	763
Finance costs	7	(152)	(421)
Restructuring and corporate transaction expenses	8	(4,567)	(138)
Net foreign exchange losses		(181)	(635)
Share of profit after tax of investment in associate	14	14,106	8,588
Investment in associate dilution gain	14	1,150	605
Reversal of impairment of investment in associate	14	-	2,300
Fair value gain on derivatives	15	-	589
Profit before tax		**121,568**	**105,909**
Tax expense	9	(29,433)	(27,252)
Profit for the year		**92,135**	**78,657**
Attributable to:			
Equity holders of the parent		92,135	78,736
Non-controlling interest		-	(79)
		92,135	**78,657**

The notes on pages 11 to 45 form part of these financial statements.

The Company has elected to take advantage of the exemption under Section 408 of the Companies Act 2006 to not present the parent company income statement.

The profit after tax for the Company for the year was £94,174,000 (2010: £18,011,000).

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the year		**92,135**	**78,657**
Other comprehensive (expense) / income			
Fair value gains / (losses) on cash flow hedges	20	1,689	(1,634)
Exchange differences on translating associate and subsidiaries	20	(5,667)	2,531
Total other comprehensive (expense) / income for the year		**(3,978)**	**897**
Total comprehensive income for the year		**88,157**	**79,554**
Attributable to:			
Equity holders of the parent		88,157	79,633
Non-controlling interest		-	(79)
		88,157	**79,554**

Comprehensive income is stated net of tax. There is a taxation impact of £310,000 (2010: (£324,000)) relating to fair value gains / (losses) on cash flow hedges.

The notes on pages 11 to 45 form part of these financial statements.

Consolidated statement of financial position
as at 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Intangible assets	11	2,957	-
Property and equipment	12	3,344	2,627
Deferred tax assets	13	9,910	26,519
Investment in associate	14	47,911	42,261
Investment securities	16	5,811	5,451
Trade and other receivables	17	584	789
Total non-current assets		**70,517**	**77,647**
Current assets			
Current tax recoverable	13	384	1,599
Derivative financial assets	15	1,092	415
Investment securities	16	154,466	152,461
Trade and other receivables	17	123,602	127,776
Cash and cash equivalents	18	115,913	99,609
Total current assets		**395,457**	**381,860**
Total assets		**465,974**	**459,507**
Equity			
Share capital	19	44,318	44,318
Other reserves	20	791	4,769
Merger reserve	21	53,638	53,638
Retained earnings	22	156,832	153,253
Equity attributable to equity shareholders of the Company		**255,579**	**255,978**
Non-controlling interest in equity	23	**40**	**40**
Total equity		**255,619**	**256,018**
Liabilities			
Non-current liabilities			
Trade and other payables	24	21,372	5,159
Total non-current liabilities		**21,372**	**5,159**
Current liabilities			
Current tax liabilities	13	130	199
Derivative financial liabilities	15	4	880
Trade and other payables	24	188,849	193,972
Bank overdraft	18	-	3,279
Total current liabilities		**188,983**	**198,330**
Total liabilities		**210,355**	**203,489**
Total equity and liabilities		**465,974**	**459,507**

The notes on pages 11 to 45 form part of these financial statements.

Approved on behalf of the Board of Directors and authorised for issue on 8 March 2012 by the following Director:

C R Walkin, Director

Consolidated statement of changes in equity
for the year ended 31 December 2011

	Note	Share capital	Other reserves	Merger reserve	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2010		**44,318**	**3,872**	**53,638**	**92,596**	**194,424**	**40**	**194,464**
Comprehensive income								
Profit for the year		-	-	-	78,736	78,736	(79)	78,657
Other comprehensive income								
Fair value losses on cash flow hedges	**20**	-	(1,634)	-	-	(1,634)	-	(1,634)
Foreign exchange differences	**20**	-	2,531	-	-	2,531	-	2,531
Total comprehensive income for the year		-	**897**	-	**78,736**	**79,633**	**(79)**	**79,554**
Transactions with owners								
Dividends paid	**10**	-	-	-	(18,000)	(18,000)	-	(18,000)
Other movements in non-controlling interests in the year	**23**	-	-	-	(79)	(79)	79	-
Balance at 31 December 2010		**44,318**	**4,769**	**53,638**	**153,253**	**255,978**	**40**	**256,018**
Balance at 1 January 2011		**44,318**	**4,769**	**53,638**	**153,253**	**255,978**	**40**	**256,018**
Comprehensive income								
Profit for the year		-	-	-	92,135	92,135	-	92,135
Other comprehensive income								
Fair value gains on cash flow hedges	**20**	-	1,689	-	-	1,689	-	1,689
Foreign exchange differences	**20**	-	(5,667)	-	-	(5,667)	-	(5,667)
Total comprehensive income for the year		-	**(3,978)**	-	**92,135**	**88,157**	-	**88,157**
Transactions with owners								
Dividends and distributions	**10**	-	-	-	(88,556)	(88,556)	-	(88,556)
Balance at 31 December 2011		**44,318**	**791**	**53,638**	**156,832**	**255,579**	**40**	**255,619**

The notes on pages 11 to 45 form part of these financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Profit before tax		**121,568**	**105,909**
Interest income classified as investing activity	6	(505)	(763)
Finance costs classified as financing activity	7	152	421
Depreciation of property and equipment	12	733	700
Fair value loss / (gain) on derivatives	15	419	(1,004)
Ineffective part of cash flow hedge	15	27	152
		122,394	105,415
Adjustments for:			
Disposal of investment securities		336,900	67,735
Purchase of investment securities		(338,720)	(213,203)
Fair value movement on investment securities		(546)	(1,625)
Net sale of non-current assets held for sale		-	7,191
Share of profit after tax of associate	14	(14,106)	(8,588)
Reversal of impairment of investment in associate	14	-	(2,300)
Dilution gain on investment in associate	14	(1,150)	(605)
Dividends received from associate	14	4,023	3,200
Movement in operating assets and liabilities	25	15,469	(23,268)
Group relief included in operating assets and liabilities		-	396
Premium payable on contract for differences		-	(12,782)
Payment under indemnity		-	(73,614)
Receipts on settlement of financial instruments		-	37,567
Taxation paid		(11,996)	(14,380)
Net cash flows from / (used in) operating activities		**112,268**	**(128,861)**
Cash flows (used in) / from investing activities			
Interest received	6	505	763
Purchase of property and equipment	12	(1,723)	(381)
Purchase of intangible assets	11	(2,957)	-
Net cash flows (used in) / from investing activities		**(4,175)**	**382**
Cash flows used in financing activities			
Dividends paid	10	(88,556)	(18,000)
Finance costs	7	(152)	(421)
Repayment of subordinated liability		-	(15,000)
Net cash flows used in financing activities		**(88,708)**	**(33,421)**
Net increase / (decrease) in cash and cash equivalents		19,385	(161,900)
Cash and cash equivalents at the beginning of the year		96,330	258,485
Effects of exchange rate changes on cash and cash equivalents		198	(255)
Cash and cash equivalents at the end of the year	18	**115,912**	**96,330**

The notes on pages 11 to 45 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

(i) Statement of compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission for use in the European Union (IFRS) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities, which include derivatives, at fair value through profit or loss (FVTPL).

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in the consolidated financial statements and by all Group entities, unless otherwise stated. Additional information has been included within the financial statements for the current and prior year, resulting in some minor changes in comparison to the presentation in the prior year.

All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements.

The principal accounting policies of the Company are disclosed in the separate financial statements of the Company on pages 47 to 58.

(ii) New standards, interpretations and amendments to published standards that have been adopted by the Group

The Group has adopted the following amendments to IFRSs, International Accounting Standards (IASs) and interpretations which are effective from 1 January 2011 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Group's financial statements:

IAS 24 (revised) Related Party Disclosures

Annual Improvements 2010

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Amendment to IFRIC 14 Prepayment of a Minimum Funding Requirement

(iii) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2012. The Group has not early adopted the standards, amendments and interpretations described below:

Amendment to IFRS 1 First time adoption of IFRS (effective for annual periods beginning on or after 1 July 2011)

IFRS 1 amendment eliminates the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. Additionally, the revised standard provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendment has not yet been endorsed by the EU. The adoption of the amendment to IFRS 1 is not expected to have an impact on the financial statements of the Group.

Amendment to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2011)

The amendment to IFRS 7 requires additional disclosures for financial instruments which are designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets. This includes understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of the amendment to IFRS 7 is not expected to have a significant impact on the financial statements of the Group.

1. Accounting policies (continued)

Amendment to IAS 12 Income Taxes (effective for annual periods beginning on or after 1 January 2012)

IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment to IAS 12 introduces a presumption that the recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. The adoption of the amendment to IAS 12 is not expected to have a significant impact on the financial statements of the Group.

Amendment to IAS 1 Presentation of Financial Instruments (effective for annual periods beginning on or after 1 July 2012)

The amendment to IAS 1 revises the way other comprehensive income (OCI) is presented. The key changes are as follows:

- Requirement to group items presented in OCI according to whether they will subsequently be reclassified to profit and loss
- Requirement to show separately the tax associated with items presented before tax in OCI for each classification of OCI items

The amendment to IAS 1 has not yet been endorsed by the EU. The adoption of the amendment to IAS 1 will change the presentation of the consolidated statement of comprehensive income in the financial statements of the Group.

IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after 1 January 2013)

IFRS 10 introduces a single consolidation model be applied to all entities and replaces previous requirements on control and consolidation in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 defines control, determines how to identify if an investor controls an investee and requires an investor to consolidate entities it controls under the new standard. IFRS 10 identifies three elements which must be present for an investor to control an investee, which are as follows:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use that power over the investee to affect the amount of the returns.

IFRS 10 has not yet been endorsed by the EU. The adoption of IFRS 10 is expected to have a significant impact on the financial statements of the Group.

IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2013)

IFRS 11 defines and establishes accounting principles for joint arrangements and replaces previous requirements in IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The standard distinguishes between two types of joint arrangements – Joint Ventures and Joint Operations – based on how rights and obligations are shared by the parties to the arrangement. Joint operators should recognise their share of the assets, liabilities, revenue and expenses of the interest in accordance with applicable IFRSs. Joint venturers should apply the equity method of accounting prescribed in IAS 28 (revised 2011) Investments in Associates and Joint Ventures to account for their interest.

IFRS 11 has not yet been endorsed by the EU. The adoption of IFRS 11 is not expected to have a significant impact on the financial statements of the Group.

IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2013)

IFRS 12 is a single disclosure standard which applies to all entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 requires entities to disclose information to enable users of the financial statements to evaluate the nature, risks and financial effects associated with interests in other entities. The required disclosures are grouped into the following main categories:

- Significant judgements and assumptions
- Interests in subsidiaries
- Interests in joint arrangements and associates
- Interests in unconsolidated structured entities

IFRS 12 has not yet been endorsed by the EU. The adoption of IFRS 12 is expected to have a significant impact on the financial statements of the Group.

1. Accounting policies (continued)

Amendment to IAS 27 Separate Financial Statements (2011) (effective for periods beginning on or after 1 January 2013)

IAS 27 is amended to remove the requirements for consolidated financial statements which are superseded by the issue of IFRS 10. The amendment has not yet been endorsed by the EU.

Amendment to IAS 28 Investments in Associates and Joint Ventures (2011) (effective for periods beginning on or after 1 January 2013)

IAS 28 is amended to include Joint Ventures as well as associates. Joint Ventures are required to be equity accounted following the issue of IFRS 11. The amendment has not yet been endorsed by the EU. The amendment to IAS 28 is not expected to have a significant impact on the financial statements of the Group.

IFRS 10, IFRS 11, IFRS 12, Amendment to IAS 27 and Amendment to IAS 28 must be adopted concurrently.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 replaces the guidance on fair value measurement in existing IFRSs with a single standard. The standard does not change requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value and enhances disclosures about fair value measurement.

Entities are required to make various quantitative and qualitative disclosures about fair value measurements and their classification within the hierarchy. IFRS 13 has not yet been endorsed by the EU. The adoption of IFRS 13 is expected to result in additional disclosures in the financial statements of the Group.

Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013)

IAS 19 amendment revises requirements for pensions and other post retirement benefits, termination benefits and other employee benefits. The key changes which affect defined benefit plans are as follows:

- All actuarial gains and losses should be recognised immediately in OCI. Companies will no longer be able to defer gains and losses under the corridor approach.
- The calculation of the finance cost through profit and loss has been revised.
- Enhanced disclosures surrounding the characteristics and risk profile of defined benefit plans are required.

Other changes include changes to accounting for termination benefits and clarification of various miscellaneous issues and other matters submitted to the IFRS Interpretations Committee. The adoption of the amendment to IAS 19 is expected to have an impact on the measurement and presentation of defined benefit plans and related balances in the Group's financial statements. Additional disclosures will also be presented. The amendment has not yet been endorsed by the EU.

Amendment to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2013)

This amendment to IFRS 7 enhances the disclosure requirements where financial assets and liabilities are offset on the statement of financial position. The new requirements focus on enhancing quantitative disclosures about recognised financial instruments that are offset. Additionally enhanced disclosures are required on financial instruments subject to master netting of similar arrangements regardless of whether they are offset. The amendment has not yet been endorsed by the EU. The impact of the adoption of the amendment to IFRS 7 on the financial statements of the Group is currently being reviewed by management.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015)

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in OCI. Financial liabilities that are neither held for trading nor elected to be held at FVTPL are measured at amortised cost. Financial liabilities that are held for trading are measured at FVTPL.

In December 2011 the IASB issued Mandatory *Effective Date of IFRS 9 and Transition Disclosures*, which amends IFRS 9 to require application for annual periods beginning on or after 1 January 2015, rather than 1 January 2013. IFRS 9 has not yet been endorsed by the EU.

(iv) New standards, interpretations and amendments to published standards that are deemed not relevant to the Group

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2011 or later periods. These are listed below and are deemed not relevant to the Group:

Amendment to IAS 32 Financial Instruments: Presentation – classification of rights issues

(b) Basis of consolidation

The Group financial statements consolidate the income statements and statements of financial position of the Company and its subsidiary undertakings. Investments in associate undertakings are accounted for using the equity method from the date that significant influence commences until the date this ceases.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. Such power, generally but not exclusively, accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the date that control ceases.

The Group uses the acquisition method of accounting for the purchase of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed when incurred.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset.

The interests of parties other than the Group in all other types of entities are recorded as non-controlling interest in equity.

(ii) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Associates are accounted for using the equity method in the consolidated financial statements. Under the equity method, the associate is initially recognised at cost. The Group's share of post-acquisition profit or loss of its associate is recognised in the consolidated income statement. The Group's share of any post-acquisition movements in reserves, where the associate would recognise these within the statement of comprehensive income, is recognised in the Group's consolidated statement of comprehensive income. The Group's share of any post-acquisition movements in reserves, where the associate would recognise these within the statement of changes in equity is not reflected within the Group's carrying value.

Where the Group's share of losses in an associate equals or exceeds its interest in an associate, including any other unsecured receivables, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations in connection with, or made payments on behalf of, an associate.

Details of the Group's associate are found in Note 14.

(iii) Group reconstructions

The Group uses merger accounting principles to account for group reconstructions which are not business combinations within the scope of IFRS 3 (revised) Business Combinations. Under the principles of merger accounting, assets and liabilities transferred to a new entity are recorded in the new entity at the carrying value they were measured at by the transferor. No goodwill is recognised as a result of such transactions.

(c) Revenue recognition

(i) Management fee income

All fees and costs associated with the provision of investment management services are recognised, subject to recoverability, as the services are provided. Front-end fees relating to investment management services are deferred as a liability and recognised over the average period over which services are provided.

Performance fees are calculated with reference to performance benchmarks specified in the individual investment management agreements. Revenues arising in respect of performance fee arrangements are recognised provided that the outcome of such arrangements can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

(ii) Earned premiums

Premiums are shown net of related expenses as defined in note 1(e).

1. Accounting policies (continued)

(iii) Deferred income reserve

The deferred income reserve (DIR) liability resulting from the deferral of front-end fees is amortised on a basis consistent with the associated deferred acquisition cost asset in note (d)(ii).

(iv) Other operating income

Other operating income includes the gross value of sales and liquidations of units and shares in unit trusts and open-ended investment vehicles respectively, net of discounts, less the gross value of creations and repurchases of units and shares in unit trusts and open-ended investment vehicles respectively.

Investment gains and losses resulting from changes in market value on investments classified as FVTPL and certain derivatives are recognised in the period in which they occur.

Distributions from collective investment schemes and dividend income are recognised when the right to receive payment is established.

Registrar's fees and other operating income are recognised on an accruals basis.

(d) Expense recognition

(i) Trail commission

To the extent that any future trail commission payments are not for ongoing services but for services provided in promoting and selling the product initially, the net present value of the future trail commission obligation is recognised as a financial liability, together with a matching financial asset, at the time the obligation arises.

(ii) Deferred acquisition costs (DAC)

Incremental costs directly related to the cost of acquiring new business (i.e. commission) which are incurred during a financial period but which relate to subsequent financial periods are deferred, to the extent that they are recoverable from future charges. The recoverability test takes account of any front-end fees that have been deferred.

The DAC asset is amortised on a straight line basis through fee and commission expenses in the income statement over the average period over which investment management services are provided. The carrying amount is tested for impairment at each reporting date.

(iii) Impairment of non-financial assets

The carrying amounts of assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. Where there is an indication of impairment, an impairment review is performed and an impairment loss recognised in the income statement to the extent that the carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and value in use. In assessing value in use, any estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, or the net assets value is used where appropriate. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit, or group of units, to which the asset belongs.

(iv) Administrative expenses

Administrative expenses are recognised on an accruals basis.

(e) General Insurance

(i) Classification of insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% greater than the benefits payable if the insured event did not occur.

(ii) Earned premiums

Premiums are recognised as revenue and earned proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks as at the statement of financial position date, is reported as the unearned premium liability. Premiums are shown after deduction of commission.

1. Accounting policies (continued)

(iii) Claims

Insurance claims comprise claims, related expenses paid and movements in technical provisions in the period. Provision is made at the period-end for the estimated cost of claims incurred but not settled at the statement of financial position date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims.

(f) Foreign currency

Foreign currency transactions and fair values are translated using the exchange rates applying to the functional currency, which is Sterling, prevailing at the dates of the transactions or at the date the fair value was determined, with related foreign currency exchange gains or losses reflected in the income statement. Translation differences on non-monetary items such as equities held at FVTPL, are reported as part of the fair value gain or loss.

The income statements of foreign subsidiaries are translated into Sterling at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at the closing rate at the statement of financial position date. On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, are taken to the foreign currency translation reserve in equity shareholders' funds.

(g) Property and equipment

Property and equipment is capitalised at cost and depreciation is charged to the income statement, within 'Administrative expenses', on a straight-line basis, over their estimated useful lives of between two and ten years.

(h) Intangible assets

Intangible assets, including internally developed software and software purchased from third parties, are recognised in the statement of financial position if it is probable that the relevant future economic benefits attributable to the asset will flow to the Group and their cost can be measured reliably and are either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of up to six years of the intangible asset. Impairment losses are calculated and recorded on an individual basis in a manner consistent with policy (d) (iii). Amortisation commences at the time from which an intangible asset becomes available for use.

(i) Income tax

(i) Current tax

The current tax expense is based on the taxable results for the year, using tax rates enacted or substantively enacted at the statement of financial position date, including any adjustments in respect of prior years. Amounts are charged or credited to the income statement or equity as appropriate.

(ii) Deferred tax

Deferred tax is provided using the statement of financial position liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable results will be available against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future.

Deferred tax is recognised in the income statement except when it relates to items recognised directly in the statement of changes in equity in which case it is credited or charged directly to retained earnings through the statement of changes in equity.

(j) Financial assets - designation

(i) Designation as fair value through profit or loss

Financial assets are designated as FVTPL where the asset or liability is part of a group of assets that are evaluated and managed on a fair value basis.

1. Accounting policies (continued)

All investment securities and derivatives including units or shares in unit trusts and open ended investment companies respectively, that are held as part of the manager's box, equity securities and seed monies are designated as FVTPL. Box positions are not held to create speculative proprietary positions but are managed in accordance with specified criteria and authorisation limits.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Group's loans and receivables comprise 'Trade and other receivables' and 'Cash and cash equivalents' in the statement of financial position.

(k) Investment securities and derivatives

Management determines the classification of investment securities and derivatives at initial recognition, other than derivatives held as economic hedges which are classified as held for trading. The Group recognises investment securities at fair value on the trade date of the transaction. Directly attributable transaction costs are not included in the initial measurement value but are recognised in the income statement. All derivatives are held at fair value and where derivatives are not designated as part of a hedging relationship, changes in fair value are recorded in the income statement.

Fair values are based upon the current quoted bid price where an active market exists. Where a quoted price in an active market cannot be obtained, an appropriate market consistent valuation technique (for example discounted cash flows and recent market transactions) is used to determine fair value. Estimates and assumptions used in determining fair values are disclosed in note 2(iv).

(l) Hedge accounting

A hedge relationship will qualify for hedge accounting by the Group if, and only if, the following conditions are met:

- Formal hedging documentation at inception of the hedge is completed detailing the hedging instrument, hedged item, risk management objective, strategy, effectiveness testing methodology and hedge relationship;
- The hedge relationship is expected to be highly effective at inception in achieving offsetting changes in fair value or cash flow attributable to the hedged risk; and
- The effectiveness of the hedge can be reliably measured and the hedge is assessed for effectiveness regularly during the reporting period for which the hedge was designated to demonstrate that it has been highly effective.

The Group discontinues hedge accounting in the following circumstances:

- It is evident from the effectiveness tests that the hedge is not, or ceased to be, highly effective;
- Hedging instrument expires, or is sold, terminated or exercised; or
- Hedged item matures or is sold or repaid.

Cash flow hedge relationships

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. A cash flow hedge is therefore used to hedge exposure to variability in cash flows such as those on variable rate assets and liabilities. Where a derivative is designated and qualifies as a cash flow hedge, the effective part of any gain or loss resulting from the change in fair value of the derivative is recognised directly in the cash flow reserve in equity. Any ineffectiveness is recognised immediately in the income statement. Amounts that have been recognised directly in the cash flow hedge reserve are recognised in the income statement in the same period or periods during which the hedged item affects the profit or loss.

If a cash flow hedge no longer meets the relevant hedging criteria, hedge accounting is discontinued and no further changes in the fair value of the derivative are recognised in the cash flow hedge reserve. Amounts that have already been recognised directly in the cash flow hedge reserve are recognised in the income statement in the same period or periods during which the hedged item affects the profit or loss.

Where the forecast transaction is no longer expected to occur or the asset or liability is derecognised, the associated accumulated amounts in the cash flow reserve are recognised immediately in the income statement.

1. Accounting policies (continued)

(m) Non-current assets for sale

Non-current assets acquired exclusively with a view to subsequent disposal through sale or deemed disposal are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Directors must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. At date of sale, post-tax gains or losses on such assets are taken to the income statement where they are recorded within income.

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less a provision for impairment where this is deemed necessary. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) may be considered indicators that the trade receivable is impaired.

The amount of any provision is the difference between the asset's carrying amount and its estimated realisable value. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of any loss is recognised in the income statement within 'Administrative expenses'. When a trade receivable is uncollectible, it is written off against 'Trade and other receivables'. Subsequent recoveries of amounts previously written off are credited against 'Administrative expenses' in the income statement.

(o) Cash and cash equivalents

'Cash and cash equivalents' include cash in hand, deposits held at call with banks and any highly liquid investments with less than three months to maturity from the date of acquisition. 'Cash and cash equivalents' are categorised for measurement purposes as loans and receivables and are therefore measured at amortised cost. For the purpose of the statement of cash flows 'Cash and cash equivalents' also include bank overdrafts, which are included in current liabilities on the statement of financial position.

(p) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in the share premium account. Incremental costs directly attributable to the issue of new equity instruments are shown in the share premium account as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments in a business combination are included in the cost of acquisition.

(q) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under Section 612 of the UK Companies Act 2006 are met, a sum equal to the difference between the issue value and the nominal value is transferred to a merger reserve.

(r) Trade and other payables

Trade and other payables are recognised at their initial fair value and subsequently measured at amortised cost.

(s) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

There are no material finance leases affecting the Group as either lessor or lessee.

(t) Pension costs and other post retirement benefits

Standard Life plc and its subsidiaries (Standard Life Group) operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the Standard Life Group of companies, determined by periodic actuarial calculations.

1. Accounting policies (continued)

The Group is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes on a consistent and reasonable basis, therefore it treats these schemes as defined contribution schemes. Consequently the costs of these schemes and the defined contribution schemes represent the contributions payable for the accounting period.

For the defined contribution scheme, the Group pays contributions to separately administered pension insurance schemes. The contributions are recognised in staff expenses when they are due.

(u) Dividends and distributions

Dividends are recognised directly in equity in the Group's financial statements in the period in which they are paid.

Distributions relate to the additional charge payable to Standard Life plc as a result of dividend shares on Long Term Incentive Plans, as set out in Note 29. Distributions are recognised directly in equity in the Company's financial statements in the period in which the awards, to which they relate, vest.

(v) Employee share-based payments

Standard Life Group operates share incentive plans for all employees, share-based long term incentive plans for senior employees and may award annual performance shares to all eligible employees when targets for each scheme are met. The schemes are all in respect of Standard Life plc shares and further details are set out in Note 29. The majority of schemes are treated as equity-settled share-based payment schemes under IFRS 2 Share-based payment.

The awards in respect of employees employed by and domiciled in USA, France and Asia are cash settled. For cash-settled share-based payment transactions, services received are measured at the fair value of the liability using an option pricing model. The fair value of the liability is remeasured at each reporting date and any changes in fair value are recognised in profit and loss for the period.

For equity-settled share-based payment employee transactions, the services received as compensation are measured at their fair value. This fair value is measured by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at the grant date, which is the date that the Standard Life Group and the employees have a shared understanding of the terms and conditions of the award. If that award is subject to an approval process then the grant date is the date when that approval is obtained. The charge in respect of the services received by the Group from its employees is recharged to the Group by Standard Life Group.

If the equity instruments granted vest immediately, the employees become unconditionally entitled to those equity instruments. Therefore, the Group recognises immediately the full charge in the income statement with a corresponding amount due to Standard Life Group.

If the equity instruments do not vest until the employee has fulfilled specified vesting conditions, the Group presumes that the services to be rendered by the employee as consideration for those equity instruments will be received in the future, during the period of those vesting conditions (vesting period). Therefore, the Group recognises the charge in respect of those services as they are rendered during the vesting period with a corresponding amount due to Standard Life Group.

(w) Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(x) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Directors consider the business to comprise one operating and geographical segment due to the similarity of risks faced within its business.

2. Key estimates and judgements

The preparation of financial statements, in conformity with IFRS, may require the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

2. Key estimates and judgements (continued)

Key judgements made in selecting accounting policies and critical accounting estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates and assumptions in determining the amounts recognised in the financial statements. These estimates and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, results ultimately may differ from these estimates. The most significant areas where judgements and estimates are made are set out below:

(i) Long Term Incentive Plans

The key judgement in respect of the Group's Long Term Incentive Plan is in relation to the number of awards the Directors expect to vest at each individual vesting date. This judgement is arrived at using a number of factors including expectations of the Group's future cumulative pre-variable compensation Earnings Before Interest and Taxation (EBIT) from third party assets under management.

(ii) Insurance claims reserving

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

(iii) Impairment assumptions

The Group conducts annual impairment tests on the carrying value of the associate. The recoverable amount is determined from value-in-use calculations. The key assumptions in the value-in-use calculations reflect management's expectations of the medium-term operating performance of the associate and growth prospects in the associate's market.

(iv) Fair value calculations

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Where quoted market prices are not available, fair value is based upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and option volatilities. Other factors are also considered, such as counterparty credit quality and liquidity. Management must use judgement and estimates where not all necessary data can be externally sourced or where factors specific to the Group's holdings need to be considered. The accuracy of the fair value calculations would therefore be affected by unexpected market movements, inaccuracies within the models used compared to actual outcomes and incorrect assumptions. The derivative assets and liabilities in Note 15 reflect the most significant judgements in relation to fair value calculations.

3. Other operating income

	2011	2010
	£'000	£'000
Profit on unit and share dealing (net of rebates)	442	369
Registrar's fees	11,354	8,939
Profit on financial instruments carried at FVTPL	1,156	3,109
Gains on disposal of money markets mandates	6,838	-
Other	1,205	750
Total other operating income	**20,995**	**13,167**

4. Staff and other employee related costs

	2011	2010
	£'000	£'000
The aggregate remuneration payable in respect of employees was:		
Wages and salaries	120,002	108,741
Social security costs	13,689	11,271
Pension costs (Note 28)	7,963	6,417
Share based payment expenses (Note 29)	18,538	14,760
Other	7,009	4,123
Total staff and other employee related costs	**167,201**	**145,312**

The average number of staff employed by the Group during the year was 980 (2010: 805).

4. Staff and other employee related costs (continued)

The Directors of the Company did not receive any remuneration for services to the Company. Details of Directors' remuneration for services to subsidiary undertakings of the Company are as follows:

	2011	2010
	£'000	£'000
Aggregate emoluments	11,044	9,522
Amounts (including options in Standard Life plc shares) receivable under Long Term Incentive Plans	2,498	2,738

Five Directors (2010: eight) of the Company are participants in Long Term Incentive Plans. The benefits arising under the incentive plans are recorded in the period in which entitlement is determined. The Non-executive Directors of the Company do not participate in the bonus or Long Term Incentive Plans.

Retirement benefits are accruing to two Directors (2010: five) in respect of their services to the Company and its subsidiaries under a defined benefit scheme operated by the Standard Life Group. Non-executive Directors are not entitled to retirement benefits in respect of their service to the Company.

The highest paid Director of the Company received aggregate remuneration during the period of £2,171,000 (2010: £1,929,000). At 31 December 2011, the highest paid Director also held accrued pension benefits of £13,000 (2010: £14,000) under a defined benefit pension scheme operated by the Standard Life Group.

5. Operating profit

The following have been included in arriving at operating profit:

	2011	2010
	£'000	£'000
Staff and other employee related costs (Note 4)	167,201	145,312
Operating lease rentals	1,628	1,688
Depreciation of property and equipment (Note 12)	733	700
Amortisation of deferred acquisition costs	639	400
Auditors' remuneration (see below)	529	516

Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements	40	41
Fees payable to the Company's auditors pursuant to legislation:		
The audit of the Company's subsidiaries pursuant to legislation	141	155
Other services pursuant to legislation	51	24
Other assurance services	200	192
Tax advisory services	17	104
Tax compliance services	80	-
Total payable to the Company's auditors	**529**	**516**

6. Finance income

Interest income of £505,000 (2010: £763,000) is derived from 'Cash and cash equivalents'.

7. Finance costs

	2011	2010
	£'000	£'000
Subordinated debt interest expense	-	121
Other	152	300
Total finance costs	**152**	**421**

8. Restructuring and corporate transaction expenses

Restructuring costs of £4,567,000 (2010: £nil) relate to expenses incurred by the Group during the process of restructuring operations.

In 2010, restructuring costs of £138,000 were in relation to the Group's Continuous Improvement Programme mainly in relation to redundancy payments, consultancy costs and process improvement projects.

9. Tax expense

(a) Analysis of the tax charge for the year

	2011	2010
	£'000	£'000
Current tax		
United Kingdom corporation tax	18,630	13,253
Double taxation relief	(46)	(52)
Adjustment to tax expense in respect of prior years	(5,603)	320
Withholding tax	39	-
Overseas tax	123	322
Total current tax	**13,143**	**13,843**
Deferred tax		
Deferred tax charge arising in the current year (note 13(b))	16,290	13,409
Total deferred tax	**16,290**	**13,409**
Total tax expense	**29,433**	**27,252**

(b) Reconciliation of tax expense :	2011	2010
	£'000	£'000
Profit before tax	121,568	105,909
Tax at UK corporation tax rate of 26.5% (2010: 28%)	32,216	29,655
Effects of:		
Permanent differences	388	213
Temporary differences	(60)	(241)
Different tax rates applicable to foreign subsidiaries	154	(933)
Profits from associate included on a net of tax basis	(3,822)	(3,218)
Prior year adjustment in respect of current tax expense	(5,603)	320
Prior year adjustment in respect of deferred tax expense	5,807	-
Taxation on unremitted earnings	-	(689)
Recognition of previously unrecognised deferred tax	(269)	-
Change in tax rate	542	958
Overseas tax	115	270
Share of profits from controlled foreign companies	-	965
Other	(35)	(48)
Total tax expense	**29,433**	**27,252**

From 1 April 2011 the main rate of UK corporation tax has decreased from 28% to 26%. Accordingly, this results in an effective current tax rate of 26.5% for the year.

The share of tax of associate is £6,358,000 (2010: £4,449,000) and is included above the line 'Profit before tax' in the income statement in 'Share of profit after tax of investment in associate'.

10. Dividends and distributions

	2011	2010
	£'000	£'000
Dividends paid to parent undertaking	88,000	18,000
Distributions made to parent undertaking	556	-
Total dividends and distributions	**88,556**	**18,000**

	2011	2010
	pence per share	pence per share
Dividends paid to parent undertaking	198.6	41.0

11. Intangible assets

	2011	2010
	£'000	£'000
Internally developed software	2,957	-

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation will be charged to the income statement on a straight-line basis over the estimated useful life of up to six years of the intangible asset. Amortisation will commence on the date that the intangible assets become available for use.

Impairment losses will be calculated and recorded on an individual basis in a manner consistent with Note 1 (d).

There has been no amortisation or depreciation charged throughout the year. The movement in the year relates solely to additions.

12. Property and equipment

	Computers	Furniture & equipment	Leasehold improvements	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 January 2010	4,031	571	536	5,138
Exchange differences	5	153	144	302
Additions	19	174	188	381
Disposals	-	-	-	-
At 31 December 2010	**4,055**	**898**	**868**	**5,821**
Exchange differences	(220)	-	-	(220)
Additions	220	880	623	1,723
Disposals	(75)	-	-	(75)
At 31 December 2011	**3,980**	**1,778**	**1,491**	**7,249**
Accumulated depreciation:				
At 1 January 2010	1,673	569	225	2,467
Exchange differences	20	9	(2)	27
Depreciation for the year	66	187	447	700
Disposals	-	-	-	-
At 31 December 2010	**1,759**	**765**	**670**	**3,194**
Exchange differences	(22)	-	-	(22)
Depreciation for the year	312	274	147	733
Disposals	-	-	-	-
At 31 December 2011	**2,049**	**1,039**	**817**	**3,905**
Net book value:				
At 31 December 2010	**2,296**	**133**	**198**	**2,627**
At 31 December 2011	**1,931**	**739**	**674**	**3,344**

All property and equipment is disclosed as non-current assets.

13. Tax assets and liabilities

(a) Tax assets and liabilities

	2011	2010
	£'000	£'000
Deferred tax asset (see (b) below)	9,910	26,519
Current tax recoverable	384	1,599
Total tax assets	**10,294**	**28,118**
Current tax liabilities	130	199
Total tax liabilities	**130**	**199**

13. Tax assets and liabilities (continued)

(b) Recognised deferred tax

	2011	2010
	£'000	£'000
Deferred tax assets comprise:		
Employee benefits	9,603	10,786
Unutilised losses carried forward	-	14,704
Legal and marketing provision	250	540
Unrealised loss on investments	1	-
Depreciable assets	94	110
Other	438	695
Gross deferred tax assets	**10,386**	**26,835**
Less: offset of deferred tax liabilities	(476)	(316)
Net deferred tax assets	**9,910**	**26,519**
Deferred tax liabilities comprise:		
Deferred acquisition costs	-	7
Unrealised gain on investment securities	453	309
Other	23	-
Gross deferred tax liabilities	**476**	**316**
Less: offset against deferred tax assets	(476)	(316)
Net deferred tax liabilities	-	-
Movements in net deferred tax assets comprise:		
At 1 January	26,519	39,553
Exchange differences	(9)	51
Amounts charged to equity	(310)	324
Amounts debited to the income statement (note 9(a))	(16,290)	(13,409)
At 31 December	**9,910**	**26,519**

Deferred tax balances have been measured at 25% (2010: 27%), this being the tax rate substantively enacted at the statement of financial position date.

14. Investment in associate

The Group has an associate, HDFC Asset Management Company Limited (HDFC AMC), an investment management company incorporated in India. The Group holds a 40% (2010: 40%) interest in the equity share capital and no interest in the non-equity share capital of HDFC AMC (2010: nil). The Group has significant influence in the associate. HDFC AMC has a financial year end date of 31 March. For the purposes of consolidation these accounts incorporate the result from 1 October 2010 to 30 September 2011. The accounts incorporated include 6 months of audited accounts to 31 March 2011 and 6 months of unaudited management accounts from 1 April 2011 to 30 September 2011. Any significant transactions or events occurring between 1 October 2011 and 31 December 2011 are also included as required by IAS 28 Investments in associates.

The Group's investment in the associate is as follows:

	2011	2010
	£'000	£'000
At 1 January	42,261	31,918
Share of profit after tax	14,106	8,588
Reversal of impairment of associate	-	2,300
Dilution gain	1,150	605
Foreign exchange differences	(5,583)	2,050
Dividends received	(4,023)	(3,200)
At 31 December	**47,911**	**42,261**

The Company tested the holding of HDFC AMC for impairment in 2009 as described in Note 1 (d) (iii). Using this policy, the value in use of HDFC AMC was determined using estimated cash flows, which represented management's view of likely cash flows, adjusted using a pre-tax discount rate of 20%. This discount rate reflected the cost of capital and a risk premium considered appropriate for this investment.

At that time the recoverable amount of HDFC AMC, calculated as described above, was less than the carrying amount of the investment and accordingly the investment was impaired by £3,800,000 in the 2008 financial statements.

14. Investment in associate (continued)

Testing for impairment in 2010 identified that the recoverable amount of HDFC AMC, calculated as described above, was greater than the carrying amount of the investment and this led to a partial reversal of £1,500,000 in the 2009 financial statements. Retesting at the time of the 2010 financial statements identified that the remaining impairment of £2,300,000 should be reversed.

During 2010 an HDFC AMC dealer was suspended due to alleged involvement with third parties trading securities in a manner contrary to regulatory guidelines. HDFC AMC has lodged funds with the Trustees to compensate investors. Investigations ongoing indicate that there will be a further financial impact on HDFC AMC. Due to the uncertainty as to the amount of any impact, a provision to cover costs has been made and the financial results of HDFC AMC have been adjusted to reflect the present value of this action. This resulted in the revenues of HDFC AMC being decreased by £1,000,000. At 31 December 2011 the investigations are still underway and accordingly this provision has been retained.

HDFC AMC operates a number of Employee Stock Option Schemes. During 2011 two (2010: one) schemes reached their vesting dates and, in the course of participants exercising their options, dilution gains were recognised. These represented the difference between the nominal value of HDFC AMC equity shares and the exercise price of options to buy such shares.

The financial information of the Group's share of the associate is detailed below:

	2011	2010
	£'000	£'000
Assets	58,926	58,550
Liabilities	(27,903)	(27,783)
	31,023	**30,767**
Revenues	**37,562**	**30,955**
Profit	**14,106**	**8,588**

15. Derivative financial instruments

The Group designates certain derivative financial instruments as cash flow hedges, to mitigate risk, as detailed below. Derivative financial instruments that are not designated as part of a hedge relationship are categorised below as 'held for trading'.

	2011		
	Contract amount	Fair value assets	Fair value liabilities
	£'000	£'000	£'000
Cash flow hedges	24,333	1,092	-
Held for trading	59	-	4
	24,392	**1,092**	**4**

	2010		
	Contract amount	Fair value assets	Fair value liabilities
	£'000	£'000	£'000
Cash flow hedges	25,117	-	880
Held for trading	3,194	415	-
	28,311	**415**	**880**

(a) Cash flow hedges

The Group designates as cash flow hedges those currency forwards used to reduce the exposure to variability in cash flows arising from the foreign exchange risk associated with certain investment management fees invoiced in Euros.

Foreign exchange forwards with an aggregate notional principal amount of £24,333,000 (2010: £25,117,000) and a net fair value of £1,092,000 (2010: £(880,000)) were designated as cash flow hedges. The cash flows from these instruments are reported in the income statement through 'Net foreign exchange (losses)/gains'. In the year, the ineffectiveness recognised in the income statement that arises from cash flow hedges, was a loss of £27,000 (2010: loss of £153,000).

There were no transactions for which cash flow hedge accounting had to cease in 2011 or 2010 as a result of the highly probable cash flows no longer being expected to occur.

15. Derivative financial instruments (continued)

	2011		
	Contract amount	Fair value assets	Fair value liabilities
	£'000	£'000	£'000
Foreign exchange derivatives:			
Forwards	24,333	1,092	-
	24,333	**1,092**	-

	2010		
	Contract amount	Fair value assets	Fair value liabilities
	£'000	£'000	£'000
Foreign exchange derivatives:			
Forwards	25,117	-	880
	25,117	-	**880**

(b) Held for trading

Derivative financial instruments classified as held for trading include those that the Group holds as economic hedges. Held for trading derivative financial instruments are also held by the Group to achieve portfolio management in respect of instruments measured at fair value.

The Group holds the following derivative financial instruments designated as held for trading:

	2011		
	Contract amount	Fair value assets	Fair value liabilities
	£'000	£'000	£'000
Forwards	59	-	4
	59	-	**4**

	2010		
	Contract amount	Fair value assets	Fair value liabilities
	£'000	£'000	£'000
Forwards	3,194	415	-
	3,194	**415**	-

Details of the derivative financial assets and liabilities are disclosed below:

	2011	2010
	£'000	£'000
Derivative financial asset - all current	1,092	415

	2011	2010
	£'000	£'000
Derivative financial liability - all current	4	880

During 2011 a loss of £419,000 (2010: gain of £415,000) was allocated to 'Other operating income', a loss of £27,000 (2010: £153,000) was allocated to to 'Net foreign exchange losses' and £nil (2010: £589,000) was allocated to 'Fair value gain on derivatives'.

16. Investment securities

Investment securities comprise the following listed and unlisted instruments:

	2011	2010
	£'000	£'000
Equity securities and interests in pooled investment funds:		
Listed	151,624	144,647
Unlisted	5,811	5,765
Debt securities:		
Unlisted	2,842	7,500
	160,277	**157,912**
Presented as:		
Non-current	5,811	5,451
Current	154,466	152,461
Investment securities	**160,277**	**157,912**

Listed equity securities and interests in pooled investment funds consist of amounts in regulated collective investment schemes.

Unlisted equity securities consist primarily of capital invested into limited partnerships.

Unlisted debt consists wholly of investments in Canadian government treasury bonds.

17. Trade and other receivables

	2011	2010
	£'000	£'000
Amounts due from funds/unit trusts	43,737	64,326
Amounts due from investors in collective investment schemes	25,494	14,783
Amounts due from Standard Life Group undertakings	18,010	9,056
Trade receivables	1,642	1,584
Prepayments and accrued income	31,789	34,310
Deferred acquisition costs	875	1,189
Other	2,639	3,317
Total trade and other receivables	**124,186**	**128,565**
Presented as:		
Non-current	584	789
Current	123,602	127,776
Total trade and other receivables	**124,186**	**128,565**

All of the financial assets above are non-interest bearing. Note 26 to these financial statements provides an analysis of the credit and foreign currency risks from the financial assets noted above.

18. Cash and cash equivalents

	2011	2010
	£'000	£'000
Cash at bank and in hand	34,655	36,632
Demand and term deposits with original maturity of less than 3 months	81,258	61,472
Debt investments with original maturity of less than 3 months	-	1,505
	115,913	99,609
Bank overdraft	-	(3,279)
Cash and cash equivalents	**115,913**	**96,330**

Cash at bank and in hand and deposits are subject to variable interest rates.

All of the 'Cash and cash equivalents' balances at the statement of financial position date were held with counterparties rated (Standard & Poor's) A or above (2010: A or above).

19. Share capital

	Authorised			
	2011		2010	
	No.	£'000	No.	£'000
Ordinary Shares of £1 each	100,000,000	100,000	100,000,000	100,000

	Allotted, Called Up and Fully Paid			
	2011		2010	
	No.	£'000	No.	£'000
Ordinary Shares of £1 each	44,318,395	44,318	44,318,395	44,318

20. Other reserves

	Foreign currency translation reserve	Cash flow hedge reserve	Total
	£'000	£'000	£'000
At 1 January 2010	2,756	1,116	3,872
Fair value movements on derivatives designated as cash flow hedges	-	(1,634)	(1,634)
Foreign exchange differences	2,531	-	2,531
At 31 December 2010	**5,287**	**(518)**	**4,769**
At 1 January 2011	5,287	(518)	4,769
Fair value movements on derivatives designated as cash flow hedges	-	1,689	1,689
Foreign exchange differences	(5,667)	-	(5,667)
At 31 December 2011	**(380)**	**1,171**	**791**

21. Merger reserve

On demutualisation of The Standard Life Assurance Company (SLAC), the demutualisation shares issued by the Company qualified for merger relief under Section 612 of the UK Companies Act 2006. Merger relief permits, where shares are issued at a premium, the difference between the issue value and the nominal value of the shares issued to be transferred to a reserve other than the share premium account. The difference between the issue value and the nominal value of the demutualisation shares was transferred to the merger reserve following the dividend in specie.

	2011	2010
	£'000	£'000
At 1 January	53,638	53,638
At 31 December	**53,638**	**53,638**

During 2011 and 2010 none of the merger reserve of £53,638,000 was utilised and transferred to retained earnings.

22. Retained earnings

	2011	2010
	£'000	£'000
At 1 January	153,253	92,596
Profit for the year attributable to equity holders	92,135	78,736
Loss for the year attributable to non-controlling interest	-	(79)
Dividend and distributions	(88,556)	(18,000)
At 31 December	**156,832**	**153,253**

23. Non-controlling interest

There is a 40% (2010: 40%) non-controlling interest (NCI) in SL Capital Partners LLP. NCI on the Group consolidated statement of financial position is £40,000 (2010: £40,000). This amount remains fixed as all profits of the LLP are paid out to its Members.

The Group also has a 75.1% (2010: 75.1%) holding in Aida Capital Limited. There is no amount shown on the Group consolidated statement of financial position in relation to the 24.1% held by Aida's NCI as Aida is currently loss making and the Group are liable for 100% of losses sustained.

During 2011 it was decided to restructure the Aida business. This involved transferring some staff and operational activities into other areas of the Company's business. Subsequently it has been agreed that Aida Capital Limited will be closed down.

24. Trade and other payables

	2011	2010
	£'000	£'000
Amounts due to funds/unit trusts	31,589	48,372
Amounts due to investors in collective investment schemes	28,284	21,106
Amounts due to Standard Life Group undertakings	45,369	22,030
Insurance contract liabilities	2,509	2,946
Accruals	93,589	97,898
Deferred income	2,955	3,074
Other	5,926	3,705
Total trade and other payables	**210,221**	**199,131**
Presented as:		
Non-current	21,372	5,159
Current	188,849	193,972
Total trade and other payables	**210,221**	**199,131**

All 'Trade and other payables' with the exception of certain accruals and deferred income due after one year are expected to be settled within 12 months. All of the financial liabilities listed above are non-interest bearing.

25. Movement in operating assets and liabilities

	2011	2010
	£'000	£'000
Movement in operating assets:		
Trade and other receivables	4,379	(21,041)
Movement in operating liabilities:		
Trade and other payables	11,090	(2,227)
Movement in operating assets and liabilities	**15,469**	**(23,268)**

26. Financial risk management

(a) Standard Life Group approach to risk management

Standard Life plc, the ultimate parent of the Group, has established an Enterprise Risk Management (ERM) Framework to provide the basis for ensuring that risks inherent in the design and execution of all Standard Life Group strategy are managed in line with its expectations.

(b) Standard Life Investments (Holdings) Limited and its subsidiaries (the Group) approach to risk and capital management

The Group operates within the governance structure of the Standard Life Group. The Group also has its own established governance framework, with clear terms of reference for the Group Board (the Board) and risk committees and a clear organisation structure, with documented, delegated authorities and responsibilities.

The Group takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Group's risk profile. The Board has approved a risk policy which outlines the framework for identifying, assessing, monitoring and controlling risk.

Capital is managed within the regulatory framework in which the Group operates. This makes use of an Internal Capital Adequacy Assessment Process (ICAAP), approved by the Board, to identify the risks to which the business is exposed and to quantify their impact on economic capital, including changes thereto by way of stress and scenario tests. The ICAAP estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. The Group is required at all times to maintain at least this level of capital. The Group's calculation thereof is subject to review by the Financial Services Authority (FSA) who also monitor compliance by way of quarterly and annual submissions made by the Group and periodic visits.

The ICAAP is subject to high level quarterly review within the Group, with detailed annual review and approval by the Board. The potential impact of any significant risks identified outwith these timescales would be subject to immediate review.

(c) The management of financial and non-financial risks

The following tables reconcile the classes of financial instruments used for the risk management analysis to line items in the statement of financial position.

(i) Statement of financial position reconciliation

	2011			
	Financial assets			
	FVTPL	Loans and receivables	Non-financial assets	Total
	£'000	£'000	£'000	£'000
Intangible assets	-	-	2,957	2,957
Property and equipment	-	-	3,344	3,344
Deferred tax assets	-	-	9,910	9,910
Investment in associate	-	-	47,911	47,911
Investment securities	160,277	-	-	160,277
Derivative financial assets	1,092	-	-	1,092
Trade and other receivables	-	121,499	2,687	124,186
Current tax recoverable	-	-	384	384
Cash and cash equivalents	-	115,913	-	115,913
Total assets	**161,369**	**237,412**	**67,193**	**465,974**

26. Financial risk management (continued)

	2010			
	Financial assets			
	FVTPL	Loans and receivables	Non-financial assets	Total
	£'000	£'000	£'000	£'000
Property and equipment	-	-	2,627	2,627
Deferred tax assets	-	-	26,519	26,519
Investment in associate	-	-	42,261	42,261
Investment securities	157,912	-	-	157,912
Derivative financial assets	415	-	-	415
Trade and other receivables	-	127,376	1,189	128,565
Current tax recoverable	-	-	1,599	1,599
Cash and cash equivalents	-	99,609	-	99,609
Total assets	**158,327**	**226,985**	**74,195**	**459,507**

	2011			
	Financial liabilities			
	FVTPL	Other financial liabilities	Non-financial liabilities	Total
	£'000	£'000	£'000	£'000
Current tax liabilities	-	-	130	130
Derivative financial liabilities	4	-	-	4
Trade and other payables	-	207,266	2,955	210,221
Total liabilities	**4**	**207,266**	**3,085**	**210,355**

	2010			
	Financial liabilities			
	FVTPL	Other financial liabilities	Non-financial liabilities	Total
	£'000	£'000	£'000	£'000
Current tax liabilities	-	-	199	199
Derivative financial liabilities	880	-	-	880
Trade and other payables	-	196,057	3,074	199,131
Bank overdraft	-	3,279	-	3,279
Total liabilities	**880**	**199,336**	**3,273**	**203,489**

(ii) Fair value of assets and liabilities

All financial assets and liabilities that are held as fair value through the income statement are carried at their fair value which is stated in the table above. All assets and liabilities listed as FVTPL are classified as designated on initial recognition other than £nil (2010: £415,000) within derivative financial assets and £4,000 (2010: £nil) within derivative financial liabilities which are classified as held for trading. With the exception of the derivative financial asset and derivative financial liability which are priced at market value, due to the short term nature of current financial assets and current financial liabilities, the amortised cost is approximate to the fair value.

26. Financial risk management (continued)

The accounting standards define fair value hierarchy levels which describe the nature of an instrument's fair value measurement as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table classifies the financial instruments held at FVTPL into one of the above three levels:

	2011			
	Level 1	Level 2	Level 3	Total
Assets	**£'000**	**£'000**	**£'000**	**£'000**
Investment securities	1,793	152,730	5,754	160,277
Derivative financial assets	-	1,092	-	1,092
	1,793	**153,822**	**5,754**	**161,369**
Liabilities				
Derivative financial liabilities	-	**4**	-	**4**

	2010			
	Level 1	Level 2	Level 3	Total
Assets	**£'000**	**£'000**	**£'000**	**£'000**
Investment securities	829	151,635	5,448	157,912
Derivative financial assets	-	415	-	415
	829	**152,050**	**5,448**	**158,327**
Liabilities				
Derivative financial liabilities	-	**880**	-	**880**

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market, and are therefore treated as level 1 instruments within the fair value hierarchy.

A valuation technique is used for unlisted equity securities. The Group's exposure to unlisted equity securities primarily relates to private equity investments. The majority of the Group's private equity investments are carried out through European fund of funds structures, where the Group receives valuations from the investment managers of the underlying funds. The valuation of these investments by the investment managers of the underlying funds is based on European Venture Capital Association Guidelines, including price/earnings ratio based valuations. The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting period. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

(iii) Reconciliation of movements in level 3 instruments

Level 3 investment securities principally comprise interests in Private Equity co-investments. The movements in level 3 financial assets and liabilities held at fair value are set out below.

	2011	2010
	Investment securities	**Investment securities**
	£'000	**£'000**
At 1 January	5,448	2,701
Total gains or losses recognised in the income statement	114	1,540
Purchases	866	1,352
Sales	(534)	(18)
Foreign exchange adjustment	(140)	(127)
As 31 December	**5,754**	**5,448**

26. Financial risk management (continued)

Total gains and losses recognised in the income statement shown above are included in 'Other operating income' for investment securities and 'Fair value gain on derivatives' for derivative assets and liabilities.

(iv) Credit risk

The Group is exposed to credit risk through capital investments, cash and margin deposits, trade receivables and intercompany balances. For cash and margin deposits an internal credit assessment of each counterparty is used to set counterparty limits by the Group. This is presented to the Standard Life Group Credit Risk Committee for review and approval.

Management fee income provides the bulk of the Group's revenues and is the largest component of trade and other receivables. Funds are managed in accordance with legal agreements in place, with both Standard Life Group companies and third parties, that specify contractual payment terms. The majority of receipts by value are received either monthly or quarterly.

Cash deposits, comprising the majority of 'Cash and cash equivalents', are placed for terms of less than 3 months, with counterparties selected according to the criteria noted above.

The table below provides an analysis of total assets bearing credit risk:

	2011	2010
	£'000	£'000
Debt securities	2,842	7,500
Trade and other receivables	121,499	127,376
Derivative financial assets	1,092	415
Cash and cash equivalents	115,913	99,609
	241,346	**234,900**

At the statement of financial position date, none of the financial assets above were impaired but 'Trade and other receivables' classified as past due amounted to £4,159,000 (2010: £10,699,000), of which £nil (2010: £870,000) was overdue for greater than 3 months and £nil (2010: £8,000) over 12 months. Of the total Group balance overdue of £4,159,000 (2010: £10,699,000), £4,099,000 (2010: £9,497,000) is in respect of certain transactions in collective investment funds. These are either amounts due from customers or are due from the funds in respect of cancellations. If amounts due from customers are not settled, the Group could recover the amounts due through selling the accompanying units/shares of those customers.

(v) Market risk

Market risk is the risk of adverse impact on the Group of changes in the fair values of financial instruments from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices.

The Group uses sensitivity test-based analysis including market and property value changes, foreign exchange and interest rate movements, detailed in its ICAAP, to understand their impact on expected earnings for decision-making and planning purposes.

During the year four forward foreign exchange hedges were taken out to hedge currency exposure to private equity Euro denominated investment management fees. These are disclosed in Note 15 under cash flow hedges.

26. Financial risk management (continued)

A derivative financial liability has arisen at the year end as a result of an economic currency hedge taken out to cover the seeding of a US dollar denominated offshore GARS fund. This is disclosed in Note 15.

The impact of a fall in asset values at a point in time would primarily impact revenue, which is accrued based on those values, and is not hedged. A 10% change in market levels would result in a change in management fee income and profit before tax of £37,818,000 (2010: £32,896,000) and a change in equity of £27,796,000 (2010: £23,685,000.

The Group transacts most of its business in Sterling but has exposure to foreign exchange movements through its overseas subsidiaries, its Indian associate, foreign currency denominated cash balances, and fee income derived from Canadian Dollar and US Dollar assets, all unhedged, or Euro denominated assets, primarily hedged. The Group's currency exposure at the statement of financial position date was as follows:

2011	Sterling	Indian Rupees	Canadian Dollar	Other currencies
	£000	£'000	£'000	£'000
Investment in associate	-	47,911	-	-
Investment securities	152,303	-	2,842	5,132
Trade and other receivables	119,197	-	2,116	2,873
Derivative financial asset	1,092	-	-	-
Cash and cash equivalents	101,723	-	6,792	7,398
	374,315	**47,911**	**11,750**	**15,403**

2010	Sterling	Indian Rupees	Canadian Dollar	Other currencies
	£000	£'000	£'000	£'000
Investment in associate	-	42,261	-	-
Investment securities	145,068	-	7,501	5,343
Trade and other receivables	119,702	-	4,421	4,442
Derivative financial asset	415	-	-	-
Cash and cash equivalents	91,118	-	246	8,245
	356,303	**42,261**	**12,168**	**18,030**

A 10% movement in the exchange rate between Sterling and the two material foreign currency exposures would have the following impact:

2011	10% increase in currency against Sterling		10% decrease in currency against Sterling	
	Indian Rupees	Canadian Dollar	Indian Rupees	Canadian Dollar
	£000	£'000	£'000	£'000
Impact on profit before tax	4,791	1,175	(4,791)	(1,175)
Impact on equity	3,521	864	(3,521)	(864)

2010	10% increase in currency against Sterling		10% decrease in currency against Sterling	
	Indian Rupees	Canadian Dollar	Indian Rupees	Canadian Dollar
	£000	£'000	£'000	£'000
Impact on profit before tax	4,226	1,217	(4,226)	(1,217)
Impact on equity	3,043	876	(3,043)	(876)

26. Financial risk management (continued)

The Group is exposed to interest rate risk through its 'Cash and cash equivalents' as disclosed in the statement of financial position. A sensitivity impact of interest rate change, based on Bank of England base rates prevailing at the statement of financial position date, on the profits of the Group is shown below:

	2011	
	10% increase in interest rates	**10% decrease in interest rates**
	£'000	**£'000**
Impact on profit before tax:		
Cash and cash equivalents	58	(58)
	58	**(58)**

	2010	
	10% increase in interest rates	**10% decrease in interest rates**
	£'000	**£'000**
Impact on profit before tax:		
Cash and cash equivalents	50	(50)
	50	**(50)**

(vi) Liquidity risk

Liquidity risk is the risk of the Group being unable to maintain sufficient cash and marketable securities to enable it to meet cash flow obligations as they fall due.

The Group's cash flows are such that short term liabilities are generally matched by similarly short term assets, and longer term liabilities are covered by short term assets, normally held in cash or highly liquid securities. The Group manages its liquidity risk by regular monitoring of its cash position, credit control including credit risk assessment noted above, forward planning including cash flow analysis and regular reporting thereon to the Board and the Operational Risk Committee.

Surplus cash is generally invested in cash deposits with institutions meeting the Group's credit risk approval criteria, repayable on demand. These are disclosed in the statement of financial position under 'Cash and cash equivalents'.

The following tables represent the Group's ability to meet its cash commitments as they fall due:

	2011			
Financial assets	**Investment securities**	**Derivative financial instruments**	**Trade and other receivables**	**Cash and cash equivalents**
	£'000	**£'000**	**£'000**	**£'000**
Due on demand	154,466	-	-	115,913
Due within 1 month	-	-	103,489	-
Due within 1 year	-	1,092	-	-
No contractual maturity date	5,811	-	18,010	-
	160,277	**1,092**	**121,499**	**115,913**

26. Financial risk management (continued)

Financial assets	2010 Investment securities	Derivative financial instruments	Trade and other receivables	Cash and cash equivalents
	£'000	£'000	£'000	£'000
Due on demand	152,147	-	-	99,609
Due within 1 month	-	-	118,320	-
Due within 1 year	-	415	-	-
No contractual maturity date	5,765	-	9,056	-
	157,912	**415**	**127,376**	**99,609**

Financial liabilities	2011 Derivative financial instruments	Trade and other payables	Cash and cash equivalents
	£'000	£'000	£'000
Due within 1 month	-	103,123	-
Due within 1 year	4	51,657	-
Due between 1 and 5 years	-	21,372	-
No contractual maturity date	-	31,114	-
	4	**207,266**	-

Financial liabilities	2010 Derivative financial instruments	Trade and other payables	Cash and cash equivalents
	£'000	£'000	£'000
Due on demand	-	-	3,279
Due within 1 month	-	127,201	-
Due within 1 year	880	41,667	-
Due between 1 and 5 years	-	5,159	-
No contractual maturity date	-	22,030	-
	880	**196,057**	**3,279**

(vii) Operational risk

Operational risk is defined as the risk of loss, or adverse consequences for the business, resulting from inadequate or failed internal processes, people and systems, or from external events. The Group sets an acceptable level of operational risk through the risk policy.

The types of operational risk the Group is exposed to are identified using the following operational risk categories: fraud or irregularities; regulatory or legal; customer treatment; business interruption; supplier failure; planning; process execution; and people. Activities undertaken to ensure the practical operation of controls over financial risks (i.e. market, credit, liquidity and insurance risk) are treated as an operational risk.

The Group assesses its exposure to operational risk to enable efficient allocation of resources to manage such risks. The Group assesses its historical operational risk exposure using objective quantitative data. The Group also assesses the impact and likelihood of operational risks materialising in the future through a combination of qualitative data arising from management's judgement and historical data.

The Group's control environment is subject to quarterly self-assessment by management. Managers are responsible for correcting any control weaknesses identified through this process, taking into account the cost of implementing preventive or corrective action plans and the Group's acceptable level of operational risk as set out in the risk policy.

The impact of a new product, a significant change, or any one-off transaction on the operational risk profile of the Group is assessed and managed.

26. Financial risk management (continued)

(d) Compliance with FSA regulatory requirements

The Capital Requirements Directive created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In the United Kingdom, this has been implemented by our regulator, the FSA which has created rules and guidance specifically through the creation of the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The FSA framework consists of three 'Pillars':

Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risks;

Pillar 2 requires each company, and the FSA, to take a view on whether the company needs to hold additional capital against firm-specific risks not covered by Pillar 1; and

Pillar 3 requires each company to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position.

Rule II of BIPRU sets out the provision for Pillar 3 disclosure. This must be carried out in accordance with a formal disclosure document. The disclosure document meets the Group's obligation with respect to Pillar 3, and can be found at:

http://www.standardlifeinvestments.com/Global_Pillar_3_Policy/getLatest.pdf

The Pillar 3 disclosure does not fall within the remit of the annual audit.

27. Related party transactions

Parent and ultimate controlling party

The Company's parent undertaking and the Group's ultimate controlling party is Standard Life plc.

Copies of the Annual Report and Accounts of Standard Life plc are available to the public from Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

Group transactions between and balances with related parties

In the normal course of business, the Group enters into transactions with related parties in respect of investment management business. Such related party transactions are at arm's length.

The following are details of significant transactions with related parties during the year and year end balances arising from such transactions:

	2011			
	Revenues	**Expenses**	**Amounts owed by related parties**	**Amounts owed to related parties**
	£'000	**£'000**	**£'000**	**£'000**
Key management personnel	-	11,044	-	8,577
Pension schemes	-	7,963	-	-
Other (including fellow subsidiaries)	127,918	32,118	18,010	45,369
	127,918	**51,125**	**18,010**	**53,946**

27. Related party transactions (continued)

	2010			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel	-	9,522	-	6,932
Parent	-	121	-	-
Pension schemes	-	6,417	-	-
Other (including fellow subsidiaries)	122,169	36,077	9,056	22,030
	122,169	**52,137**	**9,056**	**28,962**

Key management personnel comprised 12 people (2010: 12 people) within the Group, including all directors, both executive and non-executive. Detailed disclosures of Directors' remuneration for the year and transactions in which the directors are interested are contained in the staff and other employee related costs note, Note 4, in the financial statements.

Interest paid to the parent company amounted to £nil (2010: £121,000). Interest paid to other related parties amounted to £nil (2010: £nil).

Dividend income from the investment in associate amounted to £4,023,000 (2010: £3,200,000). Dividends owed by the associate amounted to £nil (2010: £nil).

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense for bad and doubtful debts has been recognised in the year, or in the prior year, in respect of the amounts owed by related parties.

28. Pension obligations

The majority of the staff who manage the affairs of the Group and the Company are members of a defined benefit pension scheme and a defined contribution pension scheme operated by the Standard Life Group for its employees in the United Kingdom. There is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit scheme across the participating UK companies. The sponsoring employer for the UK defined benefit scheme is a fellow subsidiary of Standard Life and therefore the net defined benefit cost of the scheme is recognised by Standard Life Assurance Limited. As a result the Group and the Company account for their contributions to the defined benefit scheme as an expense in the period they are payable. A similar arrangement is in place for the employees of the Group's Canadian subsidiary, Standard Life Investments Inc., where the sponsoring employer is The Standard Life Assurance Company of Canada.

The Group also makes contributions to state pension schemes in Hong Kong, the People's Republic of China and the Republic of Korea as well as a defined contribution pension scheme for its employees in the United States of America. Contributions to defined contribution plans (including state plans) are expenses when employees have rendered services in exchange for such contributions, generally in the year of contribution.

The contributions to the defined benefit and the defined contribution schemes recognised as an expense for the year ended 31 December 2011 were £7,963,000 (2010: £6,417,000).

The Group is required, under IAS 19 Employee Benefits, to provide the following disclosures relating to the Standard Life Group's UK and Canadian defined benefit schemes.

Changes to the UK defined benefit scheme

With effect from 16 November 2004, the UK scheme was closed to new entrants. The benefits provided by the UK scheme have since undergone substantial further review. In November 2007, as part of a broader suite of changes and subsequent to appropriate consultation, members were given a choice of two options which took effect from January 2008:

(i) maintaining a link to final salary for benefit accrued to 31 December 2007, with future service benefits accruing on a defined contribution basis; or

(ii) linking benefits accrued to 31 December 2007 to movements in the Retail Price Index, with future service to be credited on defined benefit basis, as earned and revalued thereafter in line with the same index.

Approximately 95% of members selected option (ii). The financial information presented in this note reflects the outcome of this activity. Further information is outlined below, where appropriate.

28. Pension obligations (continued)

Contributions to UK and Canadian defined benefit schemes

The following table shows the actual contributions made to the Standard Life Group plans in 2010 and 2011:

	2011	2010
	£m	£m
United Kingdom - normal funding	30	31
United Kingdom - additional contributions	20	70
Canada	5	4

Expected contributions to the plans in 2012 are as follows:

	2012
	£m
United Kingdom - normal funding	29
United Kingdom - additional contributions	20
Canada	2

Note that the total contributions to the UK scheme include deficit reduction contributions paid in accordance with the existing agreement with the scheme trustees.

Canada – post-retirement medical benefits

In Canada, certain of the scheme plans provide employees with post retirement medical benefits. A 1% point change in assumed medical cost trend rates would have the following effects:

	One percentage point increase		One percentage point decrease	
	2011	2010	2011	2010
Effect on the aggregate of the service cost and interest cost	-	-	-	-
Effect on defined benefit obligation	5	4	(4)	(3)

(a) Analysis of amounts recognised in the Standard Life Group statement of financial position for the UK and Canadian defined benefit schemes

The present value of the defined benefit obligation less the fair value of gross scheme assets is as follows:

	2011		
	United Kingdom	Canada	Total
	£m	£m	£m
Present value of funded obligation	(1,972)	(215)	(2,187)
Present value of unfunded obligations	-	(68)	(68)
Fair value of plan assets	2,519	179	2,698
Adjustment for unrecognised past service costs	-	(5)	(5)
Surplus not recognised	(209)	-	(209)
Net liability on the Standard Life Group statement of financial position	338	(109)	229

	2010		
	United Kingdom	Canada	Total
	£m	£m	£m
Present value of funded obligation	(1,724)	(175)	(1,899)
Present value of unfunded obligations	-	(56)	(56)
Fair value of plan assets	2,005	175	2,180
Adjustment for unrecognised past service costs	-	(6)	(6)
Net liability on the Standard Life Group statement of financial position	281	(62)	219

28. Pension obligations (continued)

(b) Defined benefit obligation

The movement in the present value of defined benefit obligation is as follows:

	2011	2010
	£m	£m
At 1 January	1,955	1,877
Foreign exchange differences	(4)	15
Current service cost	45	53
Interest cost	104	107
Actuarial losses	262	12
Past service cost	(64)	(59)
Benefits paid	(44)	(50)
At 31 December	**2,254**	**1,955**

The defined benefit obligation is funded as follows:

	2011	2010
	£m	£m
Wholly unfunded	68	56
Wholly funded	1,971	1,899
Partly funded	215	-
At 31 December	**2,254**	**1,955**

(c) Plan assets

The changes in the fair value of plan assets are as follows:

	2011	2010
	£m	£m
At 1 January	2,180	1,788
Expected return on plan assets	134	116
Actuarial losses	375	206
Contributions by employer	54	106
Exchange difference on foreign plans	(4)	12
Benefits paid	(42)	(48)
At 31 December	**2,697**	**2,180**

The distribution of the fair value of the plan assets at year end is as follows:

	2011		
	United Kingdom	Canada	Total
	£m	£m	£m
Equities	472	92	564
Bonds - government	457	64	521
Bonds - corporate	701	2	703
Property	52	9	61
Other	837	11	848
Total	**2,519**	**178**	**2,697**

28. Pension obligations (continued)

	2010		
	United Kingdom	Canada	Total
	£m	£m	£m
Equities	490	127	617
Bonds - government	317	46	363
Bonds - corporate	577	-	577
Property	47	-	47
Other	574	2	576
Total	**2,005**	**175**	**2,180**

Derivative instruments are used by the UK scheme to modify the profile of the assets of the scheme to better match the scheme's liabilities and to execute specific strategies as defined within the scheme's investment guidelines.

The expected return on plan assets is based on market expectations at the beginning of the period for returns over the entire life of the related benefits obligations. The expected return by geography is as follows:

	2011		2010	
	United Kingdom	Canada	United Kingdom	Canada
Total expected return	5.45	5.75	6.15	7.00

The actual return on plan assets during 2011 was £499m (2010: £322m).

(d) Principal assumptions

The principal economic assumptions used in determining pension benefit obligation for the Standard Life Group's plans are as follows:

	2011		2010	
	United Kingdom	Canada	United Kingdom	Canada
	%	%	%	%
Rate of increase in salaries	4.45-5.45	3.50	4.65-5.65	3.50
Rate of increase in pensions	2.85	1.33	3.05-3.65	1.33
Discount rate	4.60	4.50	5.30	5.50
Inflation assumption	2.85-3.45	2.00	3.05-3.65	2.00
Rate of return on plan assets	5.45	5.75	6.15	7.00

The valuation of scheme liabilities is sensitive primarily to both the assumed discount and inflation rates and in particular to the difference between these two rates. A reduction of ten basis points in the discount rate used to value the UK scheme would increase the defined benefit obligation by £49m (2010: £43m).

28. Pension obligations (continued)

The most significant non-economic assumption is that made in respect of mortality post retirement. The mortality tables (along with sample complete expectations of life) are illustrated below:

	Table	Improvements	Normal Retirement Age
United Kingdom	Scheme specific basis reflecting membership demographics	'Double entry' table, CMI cohort projections with underpin	60
Canada	UP94 proj to 2015	scale AA	63

	Male, age today NRA	Male, age today 40	Female, age today NRA	Female, age today 40
United Kingdom	28.3	30.3	29.3	29.9
Canada	21.4	23.2	23.8	24.8

29. Employee share based payments

The Group does not operate any share-based payment schemes. During the year the Group's ultimate parent company, Standard Life plc, operated a number of share-based payment schemes, the majority of which are equity settled. Details of these arrangements are as follows:

(i) Long Term Incentive Plan (LTIP)

Under the terms of the LTIP, share options are awarded to executives and senior management based on performance results of the Standard Life Group over a three year period.

The performance period and grant date for the active LTIP schemes are as follows:

Plan	2011	2010	2009
Grant date	31/03/2011	25/06/2011	20/04/2009
Performance period	1 January 2011 - 31 Dec 2013	1 January 2010 - 31 Dec 2012	1 January 2009 - 31 Dec 2011

For each of the LTIP schemes additional grants have been made to individuals who joined the scheme between the grant date and 31 December in the year of the grant.

The performance target of the 2009 plan was altered during 2010. For 2009, the performance condition is based on the Standard Life Group's return on capital, while the performance condition for the 2010 - 2011 performance period of the 2009 plan is based on the Standard Life Group's IFRS operating profit. Since this modification relates to non-market vesting conditions, there was no impact on the fair value of the granted instruments recognised by the Standard Life Group. In addition, in respect of the 2009 plan, the number of options that ultimately vest is also subject to a Total Shareholder Return multiplier.

The performance target for the 2010 plan is based on the Standard Life Group's IFRS operating profit.

The performance target for the 2011 plan is in two parts. Part I is based on the Standard Life Group's IFRS operating profit. Part II is based on the Group's performance against its 2013 Group scorecard.

(ii) Standard Life Investments Long Term Incentive Plan

Under the terms of the 2011, 2010 and 2009 Standard Life Investments Long Term Incentive Plans, share options are awarded to participants based on performance results of Standard Life Investments over a three year period. The performance target is based on Standard Life Investments' earnings before interest and tax (EBIT) from third party assets under management, before variable compensation, subject to an investment performance underpin based on the three year money-weighted average investment performance of all assets under management against relevant benchmarks. The participants are also entitled to receive dividends in the form of an entitlement to additional shares. At the grant date the participants are advised of the range of options that will be awarded. The actual number of options that ultimately vest is determined at the end of the three year performance period. The terms and conditions of the Standard Life Investments Long Term Incentive Plans shown below represent the maximum number of options that can vest.

29. Employee share based payments (continued)

The majority of the awards granted under the Standard Life Investments Long Term Incentive Plans are equity-settled share-based payment transactions. The awards in respect of participants employed and domiciled in USA, France and Asia are cash-settled.

(iii) Share incentive plans

The Standard Life Group operates share incentive plans, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any year is £1,500. The Standard Life Group offers to match the first £25 of shares bought each month. The matching shares awarded under the Share Incentive Plan are granted at the end of each month. The matching shares are generally subject to a three-year service period and an employee may forfeit some or all of the matching shares if they leave the Standard Life Group prior to completing three years of service from the date of grant.

(iv) Annual bonus deferred shares

The majority of the members of the executive and senior management including Executive Directors participate in the Group annual bonus. Under the terms of the 2011 and 2010 annual bonus, half of any bonus in excess of 25% of salary is settled in shares which are deferred for a period of two years, subject to the deferred amount being worth 10% or more of salary.

The value of any dividends paid on those shares over the two year deferral period will be added to the value of the deferred bonus. Should an employee resign during the two year deferral period, some or all of the deferred shares will be forfeited.

The share-based payment expense in respect of the deferred shares has been measured with reference to the proportion of the annual bonus entitlement to be settled in deferred shares and will be recognised over the vesting period, which includes a two year deferral period. The share-based payment expense in respect of annual bonus deferred shares amounted to £36k (2010: £8k).

The number of instruments granted in 2011 was 25,529 (2010: 6,330).

(v) Save-as-you-earn

During the year the Standard Life Group launched a Save-as-you-earn (SAYE) plan, allowing eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in Standard Life plc at a predetermined price at the end of the savings period. Employees are granted a predetermined number of options based on the monthly savings amount and duration of their contract. The conditions attached to the options are that the employee remains in employment for three years after the grant date of the options and that the employee satisfies the monthly savings requirement.

(a) Long Term Incentive Plan

The terms and conditions attaching to each of the ongoing arrangements are set out in the table below. The assumptions disclosed are based on the weighted average number of awards.

Arrangement	2011	2010	2009
Date of Grant	31 March 2011	25 June 2010	20 April 2009
Number of instruments granted	412,701	376,061	340,945
Share price at date of grant	207p	179p	187p
Expected outcome of meeting performance criteria (at the grant date)	50%	50%	50%
Fair value per granted instrument determined at the grant date	207p	179p	155p

The majority of share options are granted to participants in the Long Term Incentive Plan on one particular date during the year. Additional grants of share options are made throughout the year to accommodate those individuals who become entitled to participate in the scheme by becoming eligible employees of the Standard Life Group.

The share options granted will have a nil exercise price and settlement will be made in the form of shares. Both the contractual life and expected option life at grant date is 3.5 years. No departures are expected at the grant date, with any leavers being accounted for on departure.

The plans include the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date.

29. Employee share based payments (continued)

At 31 December 2011, 1,130,000 options were outstanding (2010: 859,000). The weighted average remaining expected life at 31 December 2011 was 1.41 years (2010: 1.66 years), while the weighted average remaining contractual life was 1.91 years (2010: 2.16 years).

A reconciliation of movements in the number of share options granted to executives and senior management is set out in the table below.

	2011	2010
	Number of options	
	£'000's	£'000's
Outstanding at start of year	859	570
Granted	413	376
Exercised	-	(43)
Expired	(142)	(44)
Outstanding at end of year	**1,130**	**859**

The performance conditions attached to the 2008 LTIP scheme were not met and as a result there were no options exercised during 2011. The options exercised in 2010 related to the 2007 scheme. The weighted average share price at the time of exercise of options in 2010 was 206p. The weighted average exercise price was nil.

(b) Standard Life Investments Long Term Incentive Plan

The terms and conditions attaching to each of the ongoing arrangements are set out in the table below. The assumptions disclosed are based on the weighted average number of awards.

Arrangement	2011	2010	2009
Date of Grant	31/03/2011	16/06/2010	06/11/2009
Number of instruments granted	17,143,992	15,521,139	10,933,348
Share price at date of grant	207p	188p	213p
Contractual life (years)	3.75 years	3.96 years	3.80 years
Expected option life at grant date (years)	3.5 years	3.5 years	2.95 years
Expected outcome of meeting performance criteria (at the grant date)	50%	50%	50%
Fair value per granted instrument determined at the grant date	207p	188p	213p
Fair value per cash settled instrument granted determined at 31 December	206p	216p	217p

The share options granted will have a nil exercise price and settlement will be made in the form of shares. No departures are expected at the grant date, with any leavers being accounted for on departure.

At 31 December 2011 there were 42,029,000 options outstanding (2010:31,119,000). The weighted average remaining expected life at 31 December 2011 was 1.50 years (2010: 1.10 years), while the weighted average remaining contractual life was 2.00 years (2010: 1.57 years).

A reconciliation of movements in the number of share options granted to executives and senior management is set out in the table below.

	2011	2010
	Number of options	
	£'000's	£'000's
Outstanding at start of year	31,119	21,066
Granted	17,143	15,521
Forfeited	(1,070)	(781)
Exercised	(5,163)	(4,687)
Outstanding at end of year	**42,029**	**31,119**

The options exercised during 2011 and 2010 relate to the 2008 and 2007 schemes respectively. The weighted average share price at the time of exercise of the options was 216p (2010:207p). The weighted average exercise price was nil.

29. Employee share based payments (continued)

(c) Share incentive plans

The terms and conditions attaching to each of the ongoing arrangements are set out in the table below and are based on the weighted average number of awards.

Arrangement	Share incentive plans 2011	Share incentive plans 2010	Share incentive plans 2009
Number of instruments granted	67,941	51,194	51,757
Share price at date of grant	206p	203p	198p
Fair value per cash settled instrument determined at 31 December	206p	203p	198p

At the grant date all awards are expected to vest. No departures are expected at the grant date, with leavers being accounted for on departure.

(d) Save-as-you-earn (SAYE)

The grant date for the SAYE scheme is 15 September 2011. On this date there were 608,000 options granted to employees participating in the three year scheme and 627,000 options granted to employees participating in the five year scheme. The fair value of the three year options is 33.78p and the five year options is 33.35p.

The share options granted will have an exercise price of £1.57 and settlement will be made in the form of shares. No departures are expected at the grant date, with any leavers being accounted for on departure.

As at 31 December 2011, 608,000 options were outstanding in the three year scheme and 627,000 options outstanding in the five year scheme. The remaining expected and contractual lives of three year options are 2.75 and 3.25 years respectively, and of five year options are 4.75 and 5.25 years respectively.

(e) Share-based payment expense

The amounts recognised as an expense in relation to the share options granted are as follows:

	2011	2010
	£'000	£'000
Share options granted under Long Term Incentive Plans	18,342	14,651
Matching shares granted under share incentive plans	128	109
Annual bonus deferred shares granted	36	-
Save as you earn shares granted	32	-
	18,538	**14,760**

30. Commitments

a) Operating lease commitments

The Group's annual commitments under non-cancellable operating leases for land and buildings were as follows:

	2011	2010
	£'000	£'000
Within one year	1,675	1,467
Expiring during years 2 to 5	4,576	5,856
Expiring thereafter	6,448	6,584

b) Commitments to limited partnerships

The Group has entered into partnership agreements which have committed the Group to invest a maximum of £15,541,000 (2010: £15,918,000) into limited partnerships. During the year the Group invested £26,000 (2010: £1,311,000) with a remaining maximum commitment of £9,751,000 (2010: £10,572,000).

31. Events after the statement of financial position date

There have been no significant events after the reporting period.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD LIFE INVESTMENTS (HOLDINGS) LIMITED

We have audited the consolidated financial statements of Standard Life Investments (Holdings) Limited for the year ended 31 December 2011 which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 5, 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.

This report, including the opinions, has been prepared for and only for the Group's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- 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.

Other matter

We have reported separately on the parent company financial statements of Standard Life Investments (Holdings) Limited for the year ended 31 December 2011.

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
8 March 2012

Company statement of financial position
as at 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Investments in subsidiaries	B	790,692	791,556
Trade and other receivables	C	-	1,879
Cash and cash equivalents	D	9,823	2
Total assets		**800,515**	**793,437**
Equity			
Ordinary share capital	E	44,318	44,318
Merger reserve	F	740,286	740,286
Retained earnings	G	13,475	7,301
Equity attributable to equity holders of the parent		**798,079**	**791,905**
Liabilities			
Current tax liabilities	H	-	1,532
Trade and other payables	I	2,436	-
Total liabilities		**2,436**	**1,532**
Total equity and liabilities		**800,515**	**793,437**

The notes on pages 50 to 58 form part of these financial statements.

Approved on behalf of the Board of Directors and authorised for issue on 8 March 2012 by the following Director:

C R Walkin, Director

Registered in Scotland Number SC298143

Company statement of changes in equity
for the year ended 31 December 2011

	Ordinary share capital and share premium	Merger reserve	Retained earnings	Total equity attributable to equity holders of the parent
	£'000	£'000	£'000	£'000
Equity at 1 January 2010	**44,318**	**740,286**	**7,290**	**791,894**
Profit for the year	-	-	18,011	18,011
Total comprehensive income at 31 December 2010	-	-	18,011	18,011
Dividends			(18,000)	(18,000)
Equity at 31 December 2010	**44,318**	**740,286**	**7,301**	**791,905**
Equity at 1 January 2011	44,318	740,286	7,301	791,905
Profit for the year	-	-	94,174	94,174
Total comprehensive income at 31 December 2011	-	-	94,174	94,174
Dividends			(88,000)	(88,000)
Equity at 31 December 2011	**44,318**	**740,286**	**13,475**	**798,079**

The Company did not recognise any income or expense directly in equity during the year.

The notes on pages 50 to 58 form part of these financial statements.

Company statement of cash flows
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Profit before tax		94,849	18,953
Interest income classified as investing activity		(15)	(23)
Impairment losses		3,625	1,349
		98,459	20,279
Adjustments for:			
Movement in operating assets and liabilities	J	4,315	2,432
Group relief included in operating assets and liabilities		(758)	84
Taxation paid		(1,449)	(1,578)
Net cash flows from operating activities		**100,567**	**21,217**
Cash flows from / (used in) investing activities			
Investment in subsidiaries	B	(2,761)	(3,240)
Finance income received		15	23
Net cash flows used in investing activities		**(2,746)**	**(3,217)**
Cash flows from / (used in) financing activities			
Dividends paid		(88,000)	(18,000)
Net cash flows used in financing activities		**(88,000)**	**(18,000)**
Net increase in cash and cash equivalents		9,821	-
Cash and cash equivalents at the beginning of the year		2	2
Cash and cash equivalents at the end of the year		**9,823**	**2**

The notes on pages 50 to 58 form part of these financial statements.

Notes to the financial statements

A. Accounting policies

(a) Basis of preparation

(i) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission for use in the European Union (IFRS) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities which include derivatives at fair value through profit or loss (FVTPL).

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in the financial statements, unless otherwise stated. Additional information has been included within certain notes to the financial statements for the current and prior year, resulting in some minor changes in comparison to the presentation in the prior year.

All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements.

(ii) New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has adopted the following amendments to IFRSs, International Accounting Standards (IASs) and interpretations which are effective from 1 January 2011 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Company's financial statements:

IAS 24 (revised) Related Party Disclosures

Annual Improvements 2010

(iii) New standards, interpretations and amendments to published standards that are deemed not relevant to the Company

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2011 or later periods. These are listed below and are deemed not relevant to the Company:

Amendment to IFRIC 14 Prepayment of a Minimum Funding Requirement

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Amendment to IAS 32 Financial Instruments: Presentation – classification of rights issues

(iv) Standards, interpretations and amendments to published standards that are not yet effective and which are not relevant to the Company

Amendment to IFRS 1 First time adoption of IFRS (effective for annual periods beginning on or after 1 July 2011)

Amendment to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2011)

Amendment to IAS 12 Income Taxes (effective for annual periods beginning on or after 1 January 2012)

Amendment to IAS 1 Presentation of Financial Instruments (effective for annual periods beginning on or after 1 July 2012)

IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after 1 January 2013)

IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2013)

IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2013)

Amendment to IAS 28 Investments in Associates and Joint Ventures (2011) (effective for periods beginning on or after 1 January 2013)

Amendment to IAS 27 Separate Financial Statements (2011) (effective for periods beginning on or after 1 January 2013)

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013)

A. Accounting policies (continued)

Amendment to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2013)

IFRS 9 Financial instruments

(b) Investments in subsidiaries

All subsidiaries are accounted for at cost less any provisions for impairment. Any impairment on individual investments in subsidiaries held at cost is determined, at each reporting date, by an evaluation of the exposure on a case-by-case basis. Impairment losses are calculated and recorded on an individual basis in a manner consistent with the impairment policy described in section (c) below.

(c) Impairment of non-financial assets

The carrying amounts of assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. Where there is an indication of impairment an impairment review is performed and an impairment loss recognised in the income statement to the extent that the carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit, or group of units, to which the asset belongs.

(d) Deferred tax

Deferred tax is provided using the statement of financial position liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable results will be available against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Temporary differences arising from investments in subsidiaries give rise to deferred tax in the company statement of financial position only to the extent that it is probable that the temporary difference will reverse in the foreseeable future or the Company does not control the timing of the reversal of that difference. Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future.

Deferred tax is recognised in the income statement except when it relates to items recognised directly in the statement of changes in equity in which case it is credited or charged directly to retained earnings through the statement of changes in equity.

(e) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less a provision for impairment where this is deemed necessary. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) may be considered indicators that the trade receivable is impaired.

The amount of any provision is the difference between the asset's carrying amount and its estimated realisable value. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'Administrative expenses'. When a trade receivable is uncollectible, it is written off against 'Trade receivables'. Subsequent recoveries of amounts previously written off are credited against 'Administrative expenses' in the income statement.

(f) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in the share premium account. Incremental costs directly attributable to the issue of new equity instruments are shown in the share premium account as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments in a business combination are included in the cost of acquisition.

A. Accounting policies (continued)

(g) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under Section 612 of the UK Companies Act 2006 are met, a sum equal to the difference between the issue value and the nominal value is transferred to a merger reserve.

(h) Dividend distribution

Dividend distribution to the Company's sole shareholder is recognised directly in equity in the Company's financial statements in the period in which the dividend is paid.

(i) Trade and other payables

'Trade and other payables' are recognised at their initial fair value and subsequently measured at amortised cost.

Key judgements made in selecting accounting policies and critical accounting estimates

In the process of applying the Company's accounting policies, management has used its judgement and made estimates and assumptions in determining the amounts recognised in the financial statements. These estimates and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, results ultimately may differ from these estimates. The most significant area where judgements and estimates are made is set out below:

Impairment assumptions

The Company conducts annual impairment tests on the carrying value of its subsidiaries. The recoverable amount of an asset is the greater of its net asset value and value in use. The key assumptions in the value-in-use calculations reflect management's expectations of the medium-term operating performance of the subsidiaries and growth prospects in the subsidiaries' market.

B. Investments in subsidiaries

	2011	2010
	£'000	£'000
At 1 January	791,556	789,665
Additional investment in subsidiaries	2,761	3,240
Impairment of subsidiary	(3,625)	(1,349)
At 31 December	**790,692**	**791,556**

The Company purchased a 75.1% controlling interest in Aida Capital Limited during the year to 31 December 2010. The non-controlling interest consists of 24.9% share of losses to date, attributable to external parties. These losses are restricted to the majority's interest in the equity of Aida Capital Limited. As at the statement of financial position date it is the intention of the directors to dissolve Aida Capital Limited.

B. Investments in subsidiaries (continued)

The following are the particulars of the Company's significant subsidiary undertakings:

Name	Country of registration/ incorporation	Share class	% owned	Nature of business
Standard Life Investments Limited	Scotland	Ordinary	100	Investment management
Standard Life Investments (Mutual Funds) Limited *	Scotland	Ordinary & Redeemable Preference	100	Collective investment products management
SLTM Limited *	Scotland	Ordinary & Redeemable Preference	100	Collective investment products management
Standard Life Investments (Corporate Funds) Limited *	Scotland	Ordinary & Redeemable Preference	100	Investment management
Standard Life Investments (Private Equity) Limited *	Scotland	Ordinary	100	Investment management
SL Capital Partners LLP +	Scotland	Ordinary	60	Investment management
Standard Life Investments Inc. *	Canada	Ordinary	100	Investment management
Standard Life Investments (Asia) Limited *	Scotland	Ordinary	100	Investment management
Standard Life Investments (USA) Limited *	Scotland	Ordinary & Redeemable Preference	100	Investment management
Standard Life Investments (Hong Kong) Limited *	Hong Kong	Ordinary	100	Investment management
Standard Life Investments (Jersey) Limited *	Jersey	Ordinary	100	Property investment management
Touchstone Insurance Company Limited	Guernsey	Ordinary	100	General property insurance
Standard Life Investments (France) Limited *	France	Ordinary	100	Investment management
Standard Life Portfolio Investments Limited	Scotland	Ordinary & Redeemable Preference	100	Investment management
Aida Capital Limited	England	Ordinary	75.1	Investment management

Companies marked * are subsidiary undertakings of Standard Life Investments Limited and those marked + are subsidiary undertakings of Standard Life Investments (Private Equity) Limited.

All of the above noted companies are unlisted and all have a year end of 31 December, except Standard Life Investments (Jersey) Limited which has a financial year end date of 31 March. A full list of subsidiaries can be obtained on request from Standard Life plc, Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

C. Trade and other receivables

	2011	2010
	£'000	£'000
Amounts due from subsidiary undertakings	-	1,879
Total trade and other receivables	**-**	**1,879**

D. Cash and cash equivalents

	2011	2010
	£'000	£'000
Cash at bank and in hand	1,001	2
Short term cash deposits	8,822	-
	9,823	**2**

Cash at bank and in hand and deposits are subject to variable interest rates.

All of the 'Cash and cash equivalents' balances at the statement of financial position date were held with counterparties rated (Standard & Poor's) A or above (2010: A or above).

E. Share capital

	2011		2010	
	No.	£'000	No.	£'000
Ordinary Shares of £1 each	100,000,000	100,000	100,000,000	100,000

	Allotted, Called Up and Fully Paid			
	2011		2010	
	No.	£'000	No.	£'000
Ordinary Shares of £1 each	44,318,395	44,318	44,318,395	44,318

F. Merger reserve

	2011	2010
	£'000	£'000
At 1 January	740,286	740,286
At 31 December	**740,286**	**740,286**

On demutualisation of The Standard Life Assurance Company (SLAC), the demutualisation shares issued by the Company qualified for merger relief under Section 612 of the UK Companies Act 2006. Merger relief permits, where shares are issued at a premium, the difference between the issue value and the nominal value of the shares issued to be transferred to a reserve other than the share premium account.

G. Retained earnings

	2011	2010
	£'000	£'000
At 1 January	7,301	7,290
Profit for the year attributable to equity holders	94,174	18,011
Dividends paid	(88,000)	(18,000)
At 31 December	**13,475**	**7,301**

H. Tax liabilities

	2011	2010
	£'000	£'000
Current tax liabilities	-	1,532
Total tax liabilities	**-**	**1,532**
Movements in net deferred tax liabilities comprise:		
At 1 January	-	506
Amounts credited to the income statement	-	(506)
At 31 December	**-**	**-**

I. Trade and other payables

	2011	2010
	£'000	£'000
Amounts due to related parties	2,436	-
Total trade and other payables	**2,436**	-

J. Movement in operating assets and liabilities

	2011	2010
	£'000	£'000
Movement in operating assets:		
Trade and other receivables	1,879	4,432
	1,879	**4,432**
Movement in operating liabilities:		
Trade and other payables	2,436	(2,000)
	2,436	**(2,000)**
Movement in operating assets and liabilities	**4,315**	**2,432**

K. Financial risk management

(a) Standard Life Group approach to risk management

Standard Life plc, the ultimate parent of the Company, has established an Enterprise Risk Management (ERM) Framework to provide the basis for ensuring that risks inherent in the design and execution of Standard Life Group strategy are managed in line with its expectations.

(b) Standard Life Investments (Holdings) Limited and its subsidiaries (the Group)

The Company operates within the governance structure of the Group. The Group has its own established governance framework, with clear terms of reference for the Group Board (the Board) and risk committees and a clear organisation structure, with documented, delegated authorities and responsibilities.

The Group takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Group's risk profile. The Board has approved a risk policy which outlines the framework for identifying, assessing, monitoring and controlling risk.

Capital is managed within the regulatory framework in which the Group operates. This makes use of an Internal Capital Adequacy Assessment Process (ICAAP), approved by the Board, to identify the risks to which the business is exposed and to quantify their impact on economic capital, including changes thereto by way of stress and scenario tests. The ICAAP estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. The Group is required at all times to maintain at least this level of capital. While the Company does not have its own ICAAP it is a part of the Group ICAAP. The Group's calculation thereof is subject to review by the FSA who also monitor compliance by way of quarterly and annual submissions made by the Group and periodic visits.

The ICAAP is subject to high level quarterly review within the Group, with detailed annual review and approval by the Board. The potential impact of any significant risks identified outwith these timescales would be subject to immediate review.

(c) The management of financial and non-financial risks

The Company has financial assets classified under loans and receivables of 'Cash and cash equivalents' of £9,823,000 (2010: £2,000) and 'Trade and other receivables' of £nil (2010: £1,879,000).

(i) Credit risk

The Company is exposed to credit risk through capital investments, cash deposits, trade receivables and intercompany balances. For cash deposits an internal credit assessment of each counterparty is used to set counterparty limits by the Group. This is presented to the Standard Life Group Credit Risk Committee for review and approval.

The Company's revenues consist wholly of dividend income.

Cash deposits, comprising the majority of 'Cash and cash equivalents', are placed for terms of less than 3 months, with counterparties selected according to the criteria noted above.

K. Financial risk management (continued)

The table below provides an analysis of total assets bearing credit risk:

	2011	2010
	£'000	£'000
Trade and other receivables	-	1,879
Cash and cash equivalents	9,823	2
	9,823	**1,881**

At the statement of financial position date, none of the financial assets above were impaired or past due.

(ii) Market risk

Market risk is the risk of adverse impact on the Company of changes in the fair values of financial instruments from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices.

The Group uses sensitivity test-based analysis including market and property value changes, foreign exchange and interest rate movements, detailed in the Group ICAAP, to understand their impact on expected earnings for decision-making and planning purposes.

The Company is only exposed to market risk with regard to the effect it would have on the dividend income receivable from it's subsidiaries should their fee income be impacted by a change in market conditions.

The Company transacts most of its business in Sterling but has exposure to foreign exchange movements ultimately through the Group's overseas subsidiaries. The Company has no direct foreign currency exposure.

The Company is exposed to interest rate risk through its 'Cash and cash equivalents' as disclosed in the statement of financial position. A sensitivity impact of interest rate change on the profits of the Company is shown below:

	2011	
	10% increase in interest rates	**10% decrease in interest rates**
	£'000	£'000
Impact on profit before tax:		
Cash and cash equivalents	5	(5)
	5	**(5)**

There was no material interest rate risk for 2010.

(iii) Liquidity risk

Liquidity risk is the risk of the Company being unable to maintain sufficient cash and marketable securities to enable it to meet cash flow obligations as they fall due.

The Company's cash flows are wholly dependant on the Group through dividends receivable and payable. The Group manages its liquidity risk by regular monitoring of its cash position, credit control including credit risk assessment noted above, forward planning including cash flow analysis and regular reporting thereon to the Board and the Operational Risk Committee.

The following table represents the Company's ability to meet its cash commitments as they fall due:

	2011		
Financial assets	**Trade and other receivables**	**Cash and cash equivalents**	**Total**
	£'000	£'000	£'000
Due on demand	-	9,823	9,823
	-	**9,823**	**9,823**

K. Financial risk management (continued)

Financial assets	2010 Trade and other receivables	2010 Cash and cash equivalents	2010 Total
	£'000	£'000	£'000
Due on demand	-	2	2
No contractual maturity date	1,879	-	1,879
	1,879	**2**	**1,881**

Financial liabilities	2011 Trade and other payables	2010 Trade and other payables
	£'000	£'000
No contractual maturity date	2,436	-

(iv) Operational risk

Operational risk is defined as the risk of loss, or adverse consequences for the business, resulting from inadequate or failed internal processes, people and systems, or from external events. The Group sets an acceptable level of operational risk through the risk policy.

The types of operational risk the Company is exposed to are identified using the following operational risk categories: fraud or irregularities; regulatory or legal; customer treatment; business interruption; supplier failure; planning; process execution; and people. Activities undertaken to ensure the practical operation of controls over financial risks (i.e. market, credit, liquidity and insurance risk) are treated as an operational risk.

The Group assesses its exposure to operational risk to enable efficient allocation of resources to manage such risks. The Group assesses its historical operational risk exposure using objective quantitative data. The Group also assesses the impact and likelihood of operational risks materialising in the future through a combination of qualitative data arising from management's judgement and historical data.

The Group's control environment is subject to quarterly self-assessment by management. Managers are responsible for correcting any control weaknesses identified through this process, taking into account the cost of implementing preventive or corrective action plans and the Group's acceptable level of operational risk as set out in the risk policy.

The impact of a new product, a significant change, or any one-off transaction on the operational risk profile of the Company is assessed and managed.

L. Related party transactions

a) Parent and ultimate controlling party

The Company's parent and ultimate controlling party is Standard Life plc.

Copies of the Annual Report and Accounts of Standard Life plc are available to the public from Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

b) Company transactions between and balances with related parties

In the normal course of business, the Company enters into transactions with related parties in respect of its role as a holding Company. Such related party transactions are at arm's length.

The following are details of significant transactions with related parties during the period and period end balances arising from such transactions:

	2011 Revenues	2011 Expenses	2011 Amounts owed by related parties	2011 Amounts owed to related parties
	£'000	£'000	£'000	£'000
Subsidiaries	98,459	3,625	-	2,436
	98,459	**3,625**	-	**2,436**

L. Related party transactions (continued)

	2010			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Subsidiaries	20,280	1,349	1,879	1,532
	20,280	**1,349**	**1,879**	**1,532**

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense for bad and doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

c) Compensation of key management personnel

The Directors of the Company did not receive any remuneration for services to the Company. Details of Directors' remuneration for services to subsidiary undertakings of the Company are contained in the staff and other employee related costs note (Note 4) in the Group financial statements.

M. Events after the statement of financial position date

There have been no significant events after the reporting period.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD LIFE INVESTMENTS (HOLDINGS) LIMITED

We have audited the parent company financial statements of Standard Life Investments (Holdings) Limited for the year ended 31 December 2011 which comprise the company statement of financial position, the company statement of cash flows, the company statement of changes in equity and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 5 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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Other matter

We have reported separately on the Group financial statements of Standard Life Investments (Holdings) Limited for the year ended 31 December 2011.

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
8 March 2012