The Standard Life Assurance Company 2006

Annual Financial Statements
For the period ended 31 December 2012

Registration number: Scotland Number SZ4

Contents

Directors and Officers

Directors

David Clayton
Mark Hesketh

Company Secretary

Frances Horsburgh

Registered Office

Standard Life House
30 Lothian Road
Edinburgh
EH1 2DH

Registered Number

SZ4

Independent Auditors

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

Report by the Directors

The directors present their report and the audited financial statements of The Standard Life Assurance Company 2006 ("the Company") for the fifteen months ended 31 December 2012. The comparatives cover the year ended 30 September 2011. The Company has changed its year end in order to align with that of Standard Life plc. The Company is an insurance company incorporated in Scotland (registration number SZ4).

Principal activities and business review

The only contract remaining in the Company is a with profits Capital Redemption Policy (the "sole member policy") that was issued by the Company to Standard Life Assurance Limited (SLAL) immediately following demutualisation of the Standard Life Assurance Company. It is expected no further business will be written by the Company. The Company is involved in the management of its investment activities.

The directors consider the results to be satisfactory and the Company will continue its operations.

Key performance indicators (KPIs)

Given the size of the Company's operations and the nature of the remaining business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

Only one policy remains in the Company at the year end and it is expected that no further business will be written by the Company. Consequently the Company is not subject to significant business risk or uncertainty. The key financial risk to which the Company is exposed is credit risk as outlined in note 13 of the financial statements.

Directors

The names of the current directors are listed on page 2. There have been no changes in directorship during the year.

Statement on disclosure of information to the auditors

In accordance with applicable company law, as the Company's directors, we certify that:

- So far as we are aware, there is no relevant information of which the Company's auditors are unaware; and
- As the directors of the Company we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

F Horsburgh

By order of the Board of Directors
Frances Horsburgh
Company Secretary
Edinburgh
13 March 2013

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

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

Independent Auditors' report to the members of The Standard Life Assurance Company 2006

We have audited the financial statements of The Standard Life Assurance Company 2006 for the fifteen months ended 31 December 2012 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Accounting policies and the related notes. 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 4 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 member 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 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 Directors report 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its results and cash flows for the period 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 period which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
13 March 2013

Income statement
For the period ended 31 December 2012

	Notes	15 months to 31 December 2012 £'000	12 months to 30 September 2011 £'000
Revenue			
Investment return	2	370	327
Total revenue		**370**	**327**
Result before tax		**370**	**327**
Tax expense	5	90	88
Result after tax		**280**	**239**
Transfer to unallocated divisible surplus	11	280	239
Balance on Income statement		**-**	**-**

Statement of comprehensive income
For the period ended 31 December 2012

	Notes	15 months to 31 December 2012 £'000	12 months to 30 September 2011 £'000
Result after tax		**280**	**239**
Exchange differences on translating foreign operations	11	2	(4)
Other comprehensive income for the period		**2**	**(4)**
Total comprehensive income for the period		**282**	**235**

The notes on pages 9 to 22 form an integral part of these financial statements.

Statement of financial position as at 31 December 2012

	Notes	31 December 2012 £'000	30 September 2011 £'000
Assets			
Debt securities	7	691	711
Receivables and other financial assets	8	24	30
Current tax assets	6	-	-
Cash and cash equivalents	9	41,684	41,402
Total assets		**42,399**	**42,143**
Liabilities			
Current tax liabilities	6	32	58
Unallocated divisible surplus	11	42,367	42,085
Total liabilities		**42,399**	**42,143**

Approved by the Board of Directors on 13 March 2013.

Mark Hesketh

The notes on pages 9 to 22 form an integral part of these financial statements.

Statement of cash flows
For the period ended 31 December 2012

	Notes	15 months to 31 December 2012 £'000	12 months to 30 September 2011 £'000
Cash flows from operating activities			
Result before tax		**370**	**327**
Net decrease/(increase) in operating assets and liabilities			
Investment securities		20	4
Receivables and other financial assets		6	(6)
		26	(2)
Taxation (paid)/received		(116)	87
Change in unallocated divisible surplus	11	2	(4)
Net cash flows from operating activities		**282**	**408**
Net increase in cash and cash equivalents		**282**	**408**
Cash and cash equivalents at the beginning of the year		41,402	40,994
Cash and cash equivalents at the end of the year	9	**41,684**	**41,402**
Supplemental disclosures on cash flow from operating activities			
Interest received		361	322

The notes on pages 9 to 22 form an integral part of these financial statements

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

(a)(i) 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 October 2011 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Company's financial statements:

- Amendment to IFRS 1 First time adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendment to IFRS 7 Financial instruments: Disclosures – Transfer of financial assets

(a)(ii) Standards, interpretations and amendments to published standards, relevant to the operations of the Company, that are not yet effective and have not been early adopted by 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 2013 or later periods. The Company has not early adopted the standards, amendments and interpretations described below:

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 adoption of the amendment to IAS 1 will change the presentation of the statement of comprehensive income in the financial statements of the Company.

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. The adoption of IFRS 13 is not expected to have a significant impact on the financial statements of the Company. The standard 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 or similar arrangements regardless of whether they are offset. The impact of the adoption of the amendment to IFRS 7 on the financial statements is not expected to be significant. The amendment has not yet been endorsed by the EU.

Annual improvements to IFRSs 2009-2011 Cycle (effective for annual periods beginning on or after 1 January 2013)
The publication published in May 2012 amends five standards. The amendments have not yet been endorsed by the EU.

Notes to the financial statements *continued*

1. Accounting policies *continued*

(a)(ii) Standards, interpretations and amendments to published standards, relevant to the operations of the Company, that are not yet effective and have not been early adopted by the Company *continued*

Amendment to IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 January 2014)
The amendment to IAS 32 clarifies the circumstances in which financial assets and financial liabilities may be offset on the statement of financial position. The impact of the adoption of the amendment to IAS 32 on the financial statements of the Company is not expected to be significant. The amendment has not yet been endorsed by the EU.

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 other comprehensive income. 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.

The adoption of IFRS 9 is not expected to have a significant impact on the Company. The standard has not yet been endorsed by the EU

Additionally, the IASB have published the following new standards, interpretations and amendments to existing standards during the year which are not yet effective;

- Amendment to *IAS 12 Income Taxes – Deferred Tax* (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)
- *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013)
- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013)
- *IAS 27 Separate Financial Statements* (2011) (effective for annual periods beginning on or after 1 January 2013)
- *IAS 28 Investments in Associates and Joint Ventures* (2011) (effective for annual periods beginning on or after 1 January 2013)

Management consider that the adoption of these will have no impact on the financial statements of the Company.

(a)(iii) Judgement in applying accounting policies

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP), requires management to exercise judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the period. The areas where those judgements have the most significant effect on the amounts recognised in the financial statements are as follows:

- Fair value determination of financial instruments at FVTPL – refer to (g) and Note 14.

(b) Foreign currency translation

The financial statements are presented in thousands pounds Sterling, which is the Company's presentation currency.

The statement of financial position of the Company's branch that has a different functional currency than the Company's presentation currency is translated into the presentation currency at the year-end exchange rate and its income statement and cash flows are translated at average exchange rates for the year. All resulting exchange differences are recognised in the foreign exchange reserve in Unallocated Divisible Surplus (UDS).

Notes to the financial statements *continued*

1. Accounting policies *continued*

(b) Foreign currency translation *continued*

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised 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 in the income statement. Translation differences on financial assets and liabilities held at amortised cost are included in foreign exchange gains or losses in the income statement.

(c) Classification of insurance and investment contracts

The measurement basis of assets and liabilities arising from life and pensions business contracts is dependent upon the classification of those contracts as either insurance or investment contracts. A contract is classified as insurance only if it transfers significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits to those payable if no insured event occurred, in any scenario, excluding scenarios that lack commercial substance. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Life and pensions business contracts that are not considered to be insurance contracts are classified as investment contracts.

The Company has written an investment contract which contains discretionary participating features (i.e. with profits business). This contract provides a contractual right to receive additional benefits as a supplement to guaranteed benefits. These additional benefits are based on the performance of the with profits fund and their amount and timing are at the discretion of the Company. This contract is referred to as a participating contract.

(d) Revenue recognition

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as FVTPL are recognised in the income statement in the period in which they occur.

For loans and receivables measured at amortised cost, interest income recognised in the income statement is calculated using the effective interest rate (EIR) method.

Dividend income is recognised when the right to receive payment is established.

(e) Expense recognition

(e)(i) Change in participating investment contract liabilities

The change in participating investment contract liabilities comprising the full movement in the corresponding liabilities during the period, excluding the impact of foreign exchange adjustments, is recognised in the income statement.

(e)(ii) Change in unallocated divisible surplus (UDS)

The change in UDS recognised in the income statement comprises the movement in the UDS during the period, excluding the impact of foreign exchange adjustments and also excluding the component of the movement in UDS that matches the movement in with profits funds assets and liabilities that are required to be taken directly to equity. This component of the movement in UDS is also taken directly to equity.

(f) Taxation

Current tax is based on the taxable profits or losses for the year, after adjustments in respect of prior periods.

Deferred tax is provided for 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 financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits 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.

Notes to the financial statements *continued*

1. Accounting policies *continued*

(f) Taxation *continued*

Deferred tax is recognised in the income statement except when it relates to items recognised directly in the statement of comprehensive income in which case it is credited or charged directly to unallocated divisible surplus through the statement of comprehensive income.

The tax expense is determined using rates enacted or substantively enacted at the statement of financial position date.

(g) Investment securities and derivatives

Management determines the classification of investment securities and derivatives at initial recognition. The Company has designated its investment securities as FVTPL. All derivatives are held at fair value and changes in fair value are recorded in the income statement.

Financial assets and liabilities are designated at FVTPL where the asset or liability is part of a group of assets that are evaluated and managed on a fair value basis. The Company holds investment securities that are all managed and monitored, through quarterly investment reports, on a fair value basis so as to maximise policyholder returns.

The Company uses derivative financial instruments for the purposes of matching contractual liabilities, reducing investment risks and for efficient portfolio management activities. In accordance with its capital management policy, the Company does not hold or issue derivative financial instruments for speculative trading purposes.

The Company recognises these assets at fair value on the trade date of the transaction. In the case of derivatives where no initial premium is paid or received the initial measurement value is nil. Directly attributable transaction costs are not included in the initial measurement value but are recognised 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. If a price/technique is not available to provide a reliable fair value the investment is carried at cost less a provision for impairment.

Where a valuation technique is used to establish the fair value of a financial instrument, a difference could arise between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation technique is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out.

(h) 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.

(i) Participating contract liabilities

For insurance contracts and participating investment contracts IFRS 4 *Insurance Contracts* permits the continued application of previously applied GAAP, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. The Company therefore adopts UK GAAP, including the requirements of FRS 27 *Life Assurance* in relation to its UK-regulated with profits fund, for the measurement of its participating contract liabilities.

Participating contract liabilities are analysed into the following components:

- Participating investment contract liabilities
- Unallocated divisible surplus

The policy for measuring each component is noted below.

Notes to the financial statements *continued*

1. Accounting policies *continued*

(i). Participating contract liabilities *continued*

The Capital Redemption Policy is classed as an investment contract with discretionary participating features and is valued using the gross premium valuation method and an appropriate discount rate. Since this is the only remaining contract and is valued at considerably less than £500m, a section 148 waiver has been granted so that the Company no longer falls under the FSA's realistic regime.

(i)(ii) Unallocated divisible surplus (UDS)

The UDS represents the difference between assets and all other recognised liabilities in the Company's with profits funds. It is presented as a liability.

(j) Provisions and contingent liabilities

Provisions for restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Contingent liabilities are disclosed if the future obligation is less than probable, but is greater than remote and the amount cannot be reasonably estimated.

Notes to the financial statements *continued*

2. Investment return

	15 months to 31 December 2012 £'000	12 months to 30 September 2011 £'000
Financial instruments other than those at FVTPL		
Interest income		
Cash and cash equivalents	361	300
Other	-	4
	361	**304**
Gains on financial instruments at FVTPL		
Debt securities	9	23
	9	**23**
Total net investment return	**370**	**327**

3. Staff costs and other employee related costs

The staff who manage the office of the Company in the UK are employed by Standard Life Employee Services Ltd, a fellow subsidiary of the ultimate parent Standard Life plc. No costs are recharged to the Company.

4. Auditors' remuneration

Auditors' remuneration amounted to £7k (2011: £7k) in respect of the audit of the Company's financial statements and these fees are met by a related undertaking. Auditors' remuneration for services other than the statutory audit of the Company are not disclosed in the Company's financial statements since the consolidated financial statements of Standard Life plc, the Company's ultimate controlling party, are required to disclose fees in respect of non-audit services on a consolidated basis.

5. Tax expense

(a) Tax expense

	15 months to 31 December 2012 £'000	12 months to 30 September 2011 £'000
Current tax:		
United Kingdom	90	88
Total current tax	**90**	**88**
Total tax expense	**90**	**88**

(b) Reconciliation of tax expense

	15 months to 31 December 2012 £'000	12 months to 30 September 2011 £'000
Result before tax	**370**	**327**
Tax at 24.8% (2011:27%)	92	88
Prior year adjustments	(2)	-
Total tax expense for the period	**90**	**88**

The 24.8% effective tax rate for the period to 31 December 2012 is the average of the 26% rate to 31 March 2012 and 24% rate thereafter. From 1 April 2013 the UK corporation tax rate will reduce from 24% to 23%; the effective tax rate for the Company for the year ended 31 December 2013 will therefore be 23.25%.

Notes to the financial statements *continued*

6. Tax assets and liabilities

	31 December 2012 £'000	30 September 2011 £'000
Current tax assets	-	-
Total tax assets	-	-

	31 December 2012 £'000	30 September 2011 £'000
Current tax liabilities	32	58
Total tax liabilities	**32**	**58**

7. Financial investments

	31 December 2012 £'000	30 September 2011 £'000
Financial investments at FVTPL:		
Designated upon initial recognition:		
Debt securities	691	711
Total financial investments designated upon initial recognition	**691**	**711**
Total financial investments at FVTPL	**691**	**711**
Loans and receivables:		
Receivables and other financial assets	24	30
Cash and cash equivalents	41,684	41,402
Total loans and receivables	**41,708**	**41,432**
Total financial assets	**42,399**	**42,143**

The amount of debt securities expected to be recovered or settled after more than 12 months is £691k (2011: £711k).

8. Receivables and other financial assets

The balance in receivables and other financial assets relates to accrued interest of £24k (2011: £30k). The amount of receivables and other financial assets expected to be recovered after more than 12 months is £Nil (2011: £Nil).

9. Cash and cash equivalents

	31 December 2012 £'000	30 September 2011 £'000
Cash at bank and in hand	692	783
Other short-term investments*	40,992	40,619
Total cash and cash equivalents	**41,684**	**41,402**

* Investment in Standard Life Investments (Global Liquidity Funds) plc, a related party of the Company.

Notes to the financial statements *continued*

10. Participating investment contract liabilities

The only policy remaining in the Company as at 31 December 2012 and 30 September 2011 is the Capital Redemption Policy. The Capital Redemption Policy is classed as an investment contract with discretionary participating features and is valued using the gross premium valuation method and an appropriate discount rate. The value of the Capital Redemption Policy has been less than £1,000 over the year.

11. Movement in components of unallocated divisible surplus

	Foreign currency translation	Remaining components	UDS* before Income statement recognition	Total income recognised in the Income statement	UDS*
2012	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 October 2011	**340**	**40,502**	**40,842**	**1,243**	**42,085**
Exchange differences on translating foreign operations	2	-	2	-	2
Other comprehensive income for the period	**2**	**-**	**2**	**-**	**2**
Transfer to unallocated divisible surplus	-	-	-	280	280
At 31 December 2012	**342**	**40,502**	**40,844**	**1,523**	**42,367**

* Unallocated divisible surplus.

	Foreign currency translation	Remaining components	UDS* before Income statement recognition	Total income recognised in the Income statement	UDS*
2011	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 October 2010	**344**	**40,502**	**40,846**	**1,004**	**41,850**
Exchange differences on translating foreign operations	(4)	-	(4)	-	(4)
Other comprehensive income for the year	**(4)**	**-**	**(4)**	**-**	**(4)**
Transfer to unallocated divisible surplus	-	-	-	239	239
At 30 September 2011	**340**	**40,502**	**40,842**	**1,243**	**42,085**

* Unallocated divisible surplus.

12. Pension and other post retirement benefit provisions

The staff who manage the affairs of 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 of the defined benefit scheme across the participating UK companies. The sponsoring employer for the defined benefit scheme is the parent undertaking, SLAL, and therefore the net defined benefit cost of the scheme is recognised by the parent undertaking. As a result the Company treats its participation in the defined benefit plan as a defined contribution plan. Contributions to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution. The contributions to the defined contribution and the defined benefit plans recognised as an expense for the fifteen months ended 31 December 2012 were £Nil (2011: £Nil).

Notes to the financial statements *continued*

13. Risk Management

(a) Overview

From the perspective of the Company, risk management is carried out within the Group's Enterprise Risk Management (ERM) framework. This is discussed in the risk management sections of the Business review and the Financial statements in the Group's Annual Report which does not form part of this report.

(b) Demographic and expense risk

The Company defines demographic and expense risk as being the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from the expected, which for the purposes of risk management include insurance and investment contract liabilities under IFRS.

As the only policy remaining in the Company is the Capital Redemption Policy that was issued by the Company to SLAL immediately following demutualisation, the Company has, in essence, no material exposure to demographic and expense risk at 31 December 2012 and 30 September 2011.

(c) Market risk

The Company defines market risk as the risk that arises from the Company's exposure to market movements, which could result in income, the value of financial assets and liabilities, or the resultant cash flows relating to these, fluctuating by differing amounts. The most significant elements of market risk for the Company arise from fluctuations in interest rates and the value of its holdings in Standard Life Investments (Global Liquidity Fund) plc.

(c)(i) Market risk concentrations

The market risk exposure of the Company at the Statement of financial position date can be analysed by geographic region. All of the Company's debt securities and cash and cash equivalents are denominated in Sterling or Canadian dollars. All of the Company's other assets are held with entities registered or incorporated in the United Kingdom and Canada.

(c)(ii) Sensitivity analysis – market risk

Sensitivity analysis has been performed in relation to the Company's interest rate risk exposures. If market interest rates change by +/- 1% the impact on the result after tax would be approximately £314k (2011: £308k) of an increase/decrease respectively.

(d) Credit risk

The Company defines credit risk as the risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of financial instruments due to widening of credit spreads.

Notes to the financial statements *continued*

13. Risk Management *continued*

(d) Credit risk *continued*

(d)(i) Concentrations of credit risk

Concentrations of credit risk are managed by setting maximum exposure limits to types of financial instruments and counterparties. The limits are established using the following controls:

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum counterparty exposure limits are set with reference to internal credit assessments.
Debt securities	The Company's policy is to set exposure limits by name of issuer, sector and credit rating.

(d)(ii) Credit exposure of financial assets that are neither past due nor impaired

The financial assets of the Company that are neither past due nor impaired at the Statement of financial position date are classified according to credit ratings of the counterparties assigned by external ratings agencies. The assets which are placed with external counterparties are its holdings of debt securities and cash and cash equivalents, which have a minimum A rating.

(d)(iii) Credit exposure to financial assets that are past due or impaired

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due. At 31 December 2012 the Company had no assets which were deemed to be past due or impaired (2011: £Nil).

(e) Liquidity risk

The Company defines liquidity risk as the risk that the Company is unable to realise investments and other assets in order to settle their financial obligations when they fall due or can do so only at excessive cost.

Liquidity risk is managed in consultation with the Group Capital Management function which incorporates treasury management.

As the unallocated divisible surplus does not have a defined maturity date and the value of the Capital Redemption Policy is insignificant, no analysis of remaining contractual or expected cash flows have been shown.

(f) Operational risk

The Company defines operational risk as the risk of loss, or adverse consequences for the Company's business, resulting from inadequate or failed internal processes, people or systems, or from external events.

The Company sets an acceptable level of operational risk in line with the standards and levels set out in the Group Operational Risk Policy.

The types of operational risk that the Company is exposed to are identified using the following operational risk categories:

- fraud or irregularities;
- regulatory or legal;
- customer treatment;
- business interruption and system failure;
- supplier failure;
- planning;
- process execution;
- information security; and
- people.

Notes to the financial statements *continued*

13. Risk Management *continued*

(f) Operational risk *continued*

Activities undertaken to ensure the practical operation of controls over financial risks (i.e. market, credit and liquidity risk) are treated as operational risk.

Operational risk exposures are controlled using a combination of one or all of the following:

- modifying operations such that there is no exposure to the risk;
- accepting exposure to the risk and choosing not to control the risk; or
- accepting exposure to the risk and controlling the exposure by risk transfer or risk treatment.

The level of control and nature of the controls implemented are based on, amongst other considerations:

- the potential cause and impact of the risk;
- the likelihood of the risk being realised in the absence of any controls;
- the ease with which the risk could be insured against;
- the cost of implementing controls to reduce the likelihood of the risk being realised; and
- operational risk appetite.

Control Self Assessment (CSA) is a monitoring activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. The assessment completed by business managers is validated and challenged by the Risk Function. Independent assurance as to the effectiveness of the CSA process is provided by Group Internal Audit. The results of CSA are reported through the risk governance structure.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. The maximum amount of operational risk the Company is willing to retain is defined using both quantitative limits, e.g. financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

The operational risks faced by the Company and its exposure to these risks forms its operational risk profile. The Company understands and reviews its profile based on a combination of the estimated impact and likelihood of risk events occurring in the future, the results of CSA and a review of risk exposures relative to approved limits.

The impact of a new product, a significant change, or any one-off transaction on the operational risk profile of the Company are assessed and managed in accordance with established guidelines or standards.

(g) Capital

Capital management policies and objectives

Managing capital is the on-going process of determining and maintaining the quantity and quality of capital appropriate for the Company and ensuring such capital is efficiently deployed.

The primary objective of capital management in the Company is to ensure that capital is, and will continue to be, adequate to maintain the required level of safety and stability of the Company and hence to provide an appropriate degree of security to our stakeholders – this aspect is measured by the Company's regulatory solvency position.

The Capital requirements of the Company are assessed against both forecast available capital and regulatory capital requirements. Capital plans are ultimately subject to approval by the Board.

Notes to the financial statements *continued*

13. Risk Management *continued*

(g) Capital *continued*

Regulatory capital

The Company undertakes life assurance business in the UK and is regulated by the FSA. The FSA specifies rules and guidance for the minimum level of capital required to meet regulatory requirements. The FSA requires all insurance companies to maintain Capital Resources (CR) in excess of their Capital Resources Requirement (CRR). CR includes the assets in excess of liabilities, valued on the regulatory basis, and certain other components of capital.

Capital Requirement

Based on the Company's draft regulatory return at 31 December 2012 the Company had available capital resources of £42,367k (2011: £42,085k) and a CRR of £2,238k (2011: £2,280k).

The Company has not breached any regulatory capital requirements at any time during the year.

14. Fair value of financial assets and liabilities

(a) Reconciliation by category of financial instruments

An analysis of the Company's financial investments and financial liabilities in accordance with the categories of financial instruments set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Note 7 and includes those financial assets and liabilities held at fair value.

(b) Methods used to determine fair value of financial assets and liabilities

Unless otherwise stated, the accounting policies in relation to the Company's financial assets and liabilities measured at fair value are set out in accounting policy (g).

The Company uses the methods applied by the Group to determine fair values for each major category of financial instrument measured at fair value.

(c) Fair value hierarchy

(c)(i) Determination of fair value hierarchy

The Company's financial assets and liabilities held at fair value have been analysed using a fair value hierarchy that reflects the significance of the inputs used in valuing those instruments. The fair value hierarchy is based on the following levels.

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
This category includes listed equity shares, government securities and certain supranational institution bonds and exchange traded futures and options.

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).
This category includes certain government bonds, listed or quoted corporate bonds, commercial paper, certificates of deposit and non-participating investment contract liabilities. Corporate bonds have generally been classified as level 2 instruments as the composite price provided by external pricing providers may include, as an input, quotes provided by some banks that are not based on actual transaction prices.

Level 3 Inputs for the asset or liability that are not based on observable market data.
Level 3 financial instruments principally include unlisted equity instruments and corporate bonds for which prices are not available from external pricing providers or where such prices are based on a single broker indicative quote.

Notes to the financial statements *continued*

14. Fair value of financial assets and liabilities *continued*

(c) Fair value hierarchy *continued*

(c)(ii) Fair value hierarchy for financial assets measured at fair value in the Statement of financial position

At 31 December 2012, the Company's financial assets measured at fair value comprised of debt securities of £691k (2011: £711k). The debt securities are categorised as level 2 instruments under the fair value hierarchy (2011: level 2).

(c)(iii) Reconciliation of movements in level 3 instruments

There were no financial instruments allocated to Level 3 of the fair value hierarchy during the fifteen months to 31 December 2012 (2011: Nil).

(d) Fair value of financial assets and liabilities carried at amortised cost

The carrying value of all financial assets and liabilities measured at amortised cost approximates their fair values.

15. Contingencies

The Company, like other insurers is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the directors do not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the Company.

The Company is subject to insurance solvency regulations in all territories in which it has issued insurance and investment contracts, and it has complied with all the local solvency regulations. There are no contingencies associated with the Company's compliance or lack of compliance with these regulations.

16. Related party transactions

(a) Transactions with and balances due from/to related parties

The Company's only policyholder is its parent company SLAL to whom the unallocated divisible surplus will eventually be paid over to. There are no other balances outstanding arising from transactions with related parties other than those referred to in Note 10 of the financial statements.

(b) Compensation of key management personnel

Key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Company, comprised two people (2011: three people) and included all the directors of the Company during the period.

A number of the key management personnel of the Company are also key management personnel of other entities within the Standard Life Group. However, for the purposes of this note an apportionment of the total compensation paid to the key management personnel of the Company by the Group has been made based on an estimate of the services rendered to the Company. On this basis, no apportionment of the total compensation paid to the key management personnel has been allocated to the Company during the fifteen months to 31 December 2012 (2011: £Nil).

In the fifteen months ended 31 December 2012, the directors were remunerated as part of their roles for Standard Life plc and there was no recharge to the Company in respect of their remuneration.

The directors are participants in a long-term incentive plan (LTIP) operated by the Group. At 31 December 2012, two directors were entitled to receive share awards under the long-term incentive scheme (2011: two directors).

Notes to the financial statements *continued*

16. Related party transactions *continued*

(b) Transactions with and balances due from/to key management personnel *continued*

At 31 December 2012, none of the directors had retirement benefits accruing under a defined benefit scheme operated by the Group (2011:£Nil).

At 31 December 2012 the highest paid director had unapportioned accrued pension benefits of £Nil (2011: £Nil).

All transactions between the key management and the Company during the fifteen months are on commercial terms which are equivalent to those available to all employees of the Company.

During the fifteen months to 31 December 2012 key management personnel contributed £254k (2011: £438k) to products sold by the Group. This primarily relates to investment and life and pension products.

At 31 December 2012 key management personnel had outstanding loans of £Nil (2011: £Nil).

17. Events after the reporting period

There are no significant events after the reporting period.

18. Ultimate parent undertaking and controlling party

The ultimate parent and controlling party of the Company is Standard Life plc.

Copies of Standard Life plc consolidated financial statements can be obtained from The Company Secretary, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.