IMPALA LOAN COMPANY 1 LIMITED

Company Registration Number: SC212709

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2011

Contents **Page**

Directors' report

The Directors present their report and the financial statements of Impala Loan Company 1 Limited ('the Company') for the year ended 31 December 2011.

The Company is incorporated in the United Kingdom as a private limited company. Its registration number is SC212709 and its registered Office is 301 St. Vincent Street, Glasgow, G2 5HN.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

Business Review

Principal activities
The principal activity of the Company is that of an investment company. This will continue to be the principal activity for the foreseeable future.

Result and dividends
The result of the Company for the year is shown in the statement of comprehensive income on page 6. The total comprehensive income was £30.5m (2010: £29.1m).

Position as at 31 December 2011
The net assets of the Company at 31 December 2011 were £1,122.7m (2010: £1,092.2m). The increase in the period reflects total comprehensive income arising in the period of £30.5m (2010: £29.1m).

Dividends totalling £nil were paid during the year (2010: £nil).

Principal risks and uncertainties
The Phoenix Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit.

The principal risks and uncertainties facing the Company are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable by the Company;
- liquidity risk, exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements and this is monitored on an ongoing basis; and
- credit risk, arising from the default of the counterparty to a particular financial asset and is significantly reduced as assets are primarily intercompany receivables from other group entities.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

Key Performance Indicators ('KPIs')
Given the straightforward nature of the 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.

Going concern
Having reviewed the position in light of the Financial Reporting Council Guidance issued in October 2009, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors and their interests
The names of those individuals who served as Directors of the Company during the year or who held office as at the date of signature of this report are as follows;

P Miles	Appointed 1 January 2011	
J Yates	Appointed 1 January 2011	Resigned 21 December 2011
D Richardson	Appointed 12 December 2011	
D Cummins	Resigned 1 January 2011	
J Moss	Resigned 7 February 2011	

Secretary
Pearl Group Secretariat Services Limited acted as Secretary throughout the year.

Disclosure of indemnity
Qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report.

Disclosure of information to auditors
So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditors
In accordance with section 487 of the Companies Act 2006, the Company's auditors, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these accounts relate.

On behalf of the Board

D Richardson
Director
24 April 2012

Statement of Directors' responsibilities

The Directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union ('IFRS'), and which present fairly the financial performance, financial position and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy at any time the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of Impala Loan Company 1 Limited

We have audited the financial statements of Impala Loan Company 1 Limited for the year ended 31 December 2011 which comprise the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the related notes 1 to 16. 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.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

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.

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 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 financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit 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 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.

Ernst & Young LLP.

George M Reid (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 April 2012

Statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Revenue			
Net investment income	3	30.5	29.1
Profit for the year before tax		30.5	29.1
Tax charge	7	-	-
Total comprehensive income for the year		30.5	29.1

Statement of financial position
as at 31 December 2011

	Notes	As at 31 December 2011 £m	As at 31 December 2010 £m
Equity attributable to owners			
Share capital	8	-	-
Retained earnings		1,122.7	1,092.2
Total equity		1,122.7	1,092.2
Total equity and liabilities		1,122.7	1,092.2
Non-current assets			
Investments in subsidiaries	9	-	-
Loans to Group entities	10	1,098.4	1,073.1
Total non-current assets		1,098.4	1,073.1
Current assets			
Amounts due from Group entities		0.6	-
Prepayments and accrued interest	11	23.1	18.5
Financial assets	12	0.6	0.6
Total current assets		24.3	19.1
Total assets		1,122.7	1,092.2

On behalf of the Board

D Richardson
Director
24 April 2012

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated by operations	13	-	-
Net cash flows from operating activities		-	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

Statement of changes in equity
for the year ended 31 December 2011

	Share capital (note 8) £m	Retained earnings £m	Total £m
At 1 January 2011	-	1,092.2	1,092.2
Total comprehensive income for the year	-	30.5	30.5
At 31 December 2011	-	1,122.7	1,122.7

	Share capital (note 8) £m	Retained earnings £m	Total £m
At 1 January 2010	-	1,063.1	1,063.1
Total comprehensive income for the year	-	29.1	29.1
At 31 December 2010	-	1,092.2	1,092.2

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation
The financial statements have been prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The financial statements are separate financial statements and the exemptions in paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements* and section 401 of the Companies Act 2006 have been used not to present consolidated financial statements.

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

The financial statements are presented in sterling (£) rounded to the nearest £0.1m except where otherwise stated.

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 assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(b) Critical accounting estimates and judgements
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of the fair value of financial assets and liabilities and impairment tests for loans and receivables.

Fair value of financial assets and liabilities
The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policy (e). Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

Impairment of investments in subsidiaries and loans to Group entities
Investments in subsidiaries and loans to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its estimated recoverable amount. Impairments in loans to Group entities are measured at the difference between the carrying value and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loans original effective interest rate. Impairments are recognised in the statement of comprehensive income in the period in which they occur. The Company's policies in relation to impairment testing of investments in subsidiaries and loans to Group entities are detailed in accounting policies (d) and (e) respectively.

(c) Income tax
Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in that statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years.

1. Accounting policies (continued)

(c) Income tax (continued)

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(d) Investment in subsidiaries

Investments in shares in subsidiaries held for strategic purposes are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment in a subsidiary or group of investments in subsidiaries held at cost is impaired. The Company first assesses whether objective evidence of impairment exists. If objective evidence of impairment exists the Company calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount as an expense in the statement of comprehensive income.

(e) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Equities, fixed and variable rate income securities and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies. These instruments are recognised initially at fair value (transaction costs are expensed) and subsequently are re-measured to fair value.

Impairment of financial assets

The Company assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement.

1. Accounting policies (continued)

(g) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(h) Income recognition

Net investment income

Net investment income comprises interest and fair value gains and losses on financial assets.

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method.

Fair value gains and losses on financial assets at fair value through profit or loss are recognised in the income statement. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

(i) Share capital and capital contributions

Ordinary share capital

The Company has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in the statement of changes in equity, net of tax.

Capital contributions

Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the statement of changes in equity as a distributable reserve.

(j) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

2. Financial information

The financial statements for the year ended 31 December 2011, set out on pages 6 to 17, were authorised by the Board of Directors for issue on 24 April 2012.

In preparing the financial statements the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU. None of these have a material effect on the results of the Company.

- IAS 32 *Financial Instruments: Presentation* (Amendment). The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments.
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment). The amendment permits a prepayment of future service costs in accordance with a minimum funding requirement to be recognised as a pension asset.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments.* Addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in its equity instruments being issued to extinguish all or part of the financial liability.
- Annual improvements 2010. This makes a number of minor improvements to existing standards and interpretations.

2. Financial information (continued)

The IASB has issued the following standards, interpretations and amendments which, subject to adoption for use by the EU, apply from the dates shown. The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact on the Company of adopting them is subject to evaluation:

- IFRS 9 *Financial Instruments* (2015). These are the first two parts of a replacement standard for IAS 39 *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities, including some hybrid contracts.
- Disclosure – Transfer of Financial Assets (Amendments to IFRS 7) (2012). This revises the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.
- IFRS 13 *Fair Value Measurement* (2013) defines fair value and sets out in a single IFRS a framework for measuring fair value.
- IAS 27 *Separate Financial Statements (*Revised). IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.

In addition, the following standards, interpretations and amendments have been issued but are not currently relevant to the Company:

- IFRS 10 *Consolidated Financial Statements* (2013).
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) (2012).
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (2013).
- Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12) (2012).
- IFRS 11 *Joint Arrangements* (2013).
- IFRS 12 *Disclosure of Interests in Other Entities* (2013).
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (2013).
- IAS 19 *Employee Benefits* (Amendment) (2013).
- IAS 28 *Investments in Associates and Joint Ventures (*Revised).
- Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (2013).
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (2014).

3. Net investment income

	2011	2010
	£m	£m
Investment income		
Interest income on loans and receivables	30.7	29.1
	30.7	29.1
Fair value losses		
Financial assets at fair value through profit or loss		
Designated upon initial recognition	(0.2)	-
Net investment income	30.5	29.1

Interest income on loans and receivables includes interest of £30.7m (2010: £29.1m) on loans to Group entities.

4. Employee information

The Company has no employees. Services are provided by Pearl Group Services Limited and Pearl Group Management Services Limited.

5. Directors' remuneration

The Directors receive no remuneration for their services as Directors of the Company (2010: £nil).

6. Auditor's remuneration

The remuneration of the auditors of the Company, including their associates, in respect of the audit of the financial statements was £nil (2010: £nil).

7. Tax charge

Current year tax charge

	2011 £m	2010 £m
Current tax:		
UK Corporation tax	-	-

Reconciliation of tax charge

	2011 £m	2010 £m
Profit before tax	30.5	29.1
Tax at standard UK rate of 26.5% (2010: 28%)	8.1	8.1
Group relief for nil payment	(8.1)	(8.1)
Total tax charge for the year	-	-

8. Share capital

	2011 £	2010 £
Authorised: 1 (2010: 1) ordinary share of £1 each	1	1
Issued and fully paid: 1 (2010: 1) ordinary share of £1 each	1	1

The holders of the ordinary shares are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits.

The Company's Articles of Association contain a restriction on the number of shares that may be allotted.

9. Investment in subsidiaries

	2011 £	2010 £
Cost		
At 1 January	-	-
Additions	1	-
At 31 December	1	-
Impairment		
At 1 January and 31 December 2011	-	-
Carrying amount		
At 31 December	1	-

On 4 November 2011, the Company subscribed for 100% of the ordinary share capital of ILC1 (Jersey) Limited, a company incorporated and with its principal place of operation in Jersey.

10. Loans to Group entities

	Carrying value 2011 £m	Carrying value 2010 £m	Fair value 2011 £m	Fair value 2010 £m
Loans to Group companies:				
i) Pearl Life Holdings Limited	896.0	878.6	716.8	878.6
ii) Pearl Life Holdings Limited	202.4	194.5	202.4	194.5
Total long-term borrowings	1,098.4	1,073.1	919.2	1,073.1
Amount recoverable after 12 months	1,098.4	1,073.1	919.2	1,634.0

i) On 10 December 2008 the Company entered into a £800.0m interest bearing intragroup loan agreement with its parent entity, Pearl Life Holdings Limited ('PLHL'). Interest on the loan accrues at twelve month LIBOR plus a margin of 1.0% and it has a maturity date of 31 December 2016.

On 20 December 2011 the Company entered into an Assignment Agreement relating to this loan with ILC1 (Jersey) Limited ('ILC1J') to grant them an equitable assignment of the right to receive 0.1% of the proceeds received by the Company from PLHL pursuant to the Loan Agreement, in exchange for consideration to be left on inter-company account. None of the rights of the Company under the Loan Agreement are transferred to ILC1J. ILC1J's rights are limited to receiving the specified portion of the proceeds received by the Company and ILC1J does not have recourse against PLHL.

The Assignment Agreement provides that the Company would be obliged to pay such proceeds to ILC1J promptly after receipt and to hold such amounts on trust for the benefit of ILC1J pending payment to ILC1J. The trust arrangements set out in the Assignment Agreement result in any proceeds being held on trust by the Company being excluded from its assets if it were to go into insolvency; making such proceeds the property of ILC1J

ii) On 14 May 2008 the Company entered into a £169.0m interest bearing intragroup loan agreement with Pearl Life Holdings Limited ('PLHL'). Interest on the loan accrues at six month LIBOR plus a margin of 2.94% and it has a maturity date of 31 December 2016.

The carrying value of the loans approximates to their fair value.

Included within loans to Group entities are loans of £1,098.4m (2010: £1,073.1m) with related parties (note 15).

11. Prepayments and accrued income

	2011 £m	2010 £m
Accrued interest on loans to parent	23.1	18.5

12. Financial assets and financial instrument fair value hierarchy

	2011 £m	2010 £m
Financial assets at fair value through profit or loss		
Designated upon initial recognition – collective investment schemes	0.6	0.6
	0.6	0.6

The collective investment scheme financial assets are categorised as Level 1 financial instruments. The fair value of Level 1 financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values.

There were no transfers of financial instruments between levels 1 and 2, or between levels 2 and 3 in 2011 or 2010.

There were no gains on losses recognised in other comprehensive income.

13. Cash flows from operating activities

	2011 £m	2010 £m
Profit for the year before tax	30.5	29.1
Non-cash movements in profit for the year before tax in respect of :		
Interest income on loans	(30.7)	(29.1)
Loss on financial asset at fair value through profit or loss	0.2	-
Cash generated by operations	-	-

14. Capital and risk management

The Company's capital comprises share capital and all reserves. At 31 December 2011 total capital was £1,122.7m (2010: £1,092.2m). The movement in capital in the year comprises the total comprehensive income for the year of £30.5m.

There are no externally imposed capital requirements on the Company. The Company's capital is monitored by the Directors and managed on an on-going basis via a monthly close process to ensure that it remains positive at all times.

The principal risks and uncertainties facing the Company are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable by the Company;
- liquidity risk, exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements and this is monitored on an ongoing basis; and
- credit risk, arising from the default of the counterparty to a particular financial asset and is significantly reduced as assets are primarily intercompany receivables from other group entities.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

15. Related party transactions

The Company enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms.

In the year ended 31 December 2011 the Company received interest on loans to its parent of £30.7m (2010: £29.1m).

On 20 December 2011 the Company entered into an Assignment Agreement with its subsidiary to grant them an equitable assignment of the right to receive 0.1% of the proceeds received by the Company from its parent on the £800.0m loan disclosed in note 10 (i).

Amounts due from related parties

	2011 £m	2010 £m
Loans due from parent	1,098.4	1,073.1
Amounts due from subsidiary	0.6	-

Key management compensation
The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 5.

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 16.

16. Other information

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Pearl Life Holdings Limited and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1st Floor, 32 Commercial Street, St. Helier, Jersey, JE2 3RU.