Ageas Protect Limited

(Formerly Fortis Life UK Limited)

Directors' Report and Financial Statements

For the year ended 31 December 2011

Registered Number: 6367921

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Ageas Protect Limited

Directors' Report and Financial Statements

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Ageas Protect Limited

Directors and Advisors

Directors

Barry Smith
Matthew Thomas
Julian Harvey
Michael Urmston

Darren Spriggs - appointed on 28 March 2011
Julian Hance - appointed on 5 May 2011
Jane Dale – appointed on 28 March 2012

Shanti Duggal – resignation effective on 28 March 2011
Paul Langton – resignation effective on 30 April 2011
Martin Werth – resignation effective on 31 December 2011

Secretary

Rosemary Smith

Head Office and Registered Address

Ageas House, Tollgate
Eastleigh Hampshire, SO53 3YA

Registered Number: 6367921

Independent Auditor

KPMG Audit Plc
Chartered Accountants
Registered Auditors
15 Canada Square
London
E14 5GL

Ageas Protect Limited

Report of the Directors

The Directors submit their report, together with the audited financial statements for the year ended 31 December 2011

Share capital

At 31 December 2011 the authorised share capital comprised 160,110,000 ordinary shares of £1 each, fully paid up, (2010 160,110,000 ordinary shares of £1 each, fully paid up)

Change of Name

On 4 January 2011 the company changed its name from Fortis Life UK Limited to Ageas Protect Limited

Activities

During the year the company's principal activity has been the transaction of long term insurance protection products

Business Review

Full details of the company's results are contained in the accounts on pages 7 to 29 The Directors intend to continue the development of the company's long term life protection business

The company has continued trading throughout 2011 with the overall objective to grow Ageas Group's presence in the UK insurance market by developing a company with a presence in the UK protection market in order to widen access for customers and better support distribution partners The company's vision is to be the new protection standard against which others will be measured To meet this objective, the company's five year plan includes

- E-business to be the best e-business protection insurer with market leading technology that lowers cost and makes purchasing easy
- Multi-channel develop multi-channel partner distribution so that customers can purchase however they choose
- Innovation deliver TCF solutions designed for distinct target markets
- Customer engagement to provide a highly effective after sales relationship with distributors and customers that delivers best persistency and maximises value add.

During 2011 the Board considers the key indicators of the financial performance of the company to be the annual premium equivalent, (APE), which represents the annual premiums on policies sold during the year, and the profitability of new business written in terms of value added by new business These are seen as the key measures as the business competes with existing companies in the market to establish itself as a volume competitor

During the year to 31 December 2011, the company wrote 86,819 policies which generated £30 9 million APE, (2010 66,015 policies and £22 6 million APE) At 31st December 2011 the company was distributing its products through the Independent Financial Adviser (IFA) sector and a small number of strategic partners At the year end it had rolled out to 79% of the IFA market and secured 8 1% of total new IFA premiums (based on ABI sales data)

In terms of new business profitability based on the company's long term expense and tax assumptions, the value added by new business generated a loss of £1 1 million in 2011 compared to a loss in 2010 of £1 4 million embedded It is expected that the value added by new business will continue to be negative in the short term whilst the company continues to mature to the appropriate scale

During 2011 Ageas Protect reviewed its DAC amortisation profile and revised it in light of experience This has had a further impact of £4 7 million on the company's trading results for the year ended 31 December 2011

Going Concern

The financial statements have been prepared on a going concern basis Due to the revised DAC amortisation profile, the loss before tax for 2011 of £5 2 million is higher than originally planned for 2011, but the company has sufficient capital funding available to support its ongoing development and growth for the next 12 months

Shareholder's equity

The company did not pay a dividend in the year to 31 December 2011, (2010 £nil), and had a loss after tax for the year of £1 2 million, (2010 loss of £9 0 million) which was recorded in shareholder's equity At 31 December 2011, the shareholders' equity stood at £137 6 million, (2010 £138 1 million)

Assets

The primary assets held by the company at the 31 December 2011 are cash, short term deposits and Supranational investments These assets represent the company's expected working capital requirements

Also included within the company's assets is an amount of £4 1 million capitalised under IAS 38, Intangible Assets, which represents the costs of developing the IT systems and processes which underpin the operating activities of the company

Liabilities

The liabilities at the 31 December 2011 represent creditors in respect of the company's day to day trading activities

Cash Flow

Cash and investments available to the company have decreased by £14 3 million as a result of the ongoing growth in new business activity

Regulatory Changes

The company continues to make good progress with implementing the requirements of Solvency II Overall the move to Solvency II is expected to have a beneficial impact on the company's capital position as it will be able to take credit for assets which are currently not allowed for solvency purposes

Risks and uncertainties

The company's principal risks and uncertainties and the way in which these risks are managed are detailed in note 22 to the financial statements

Results and dividends

The result for the year is a loss after taxation of £1 2 million, (2010 loss of £9 0 million), and no dividend was paid or proposed during the year, (2010 £nil)

Information provided to the auditors

The members of the Board, and the dates of their appointment or resignation as applicable, are shown on page 3 The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Directors' shareholdings

None of the directors or their families had any disclosable interest in either the shares of the company, or of any other group company, or of the ultimate holding company at 31 December 2011

Auditors

KPMG Audit Plc were appointed as Independent Auditors of the company on the 27 November 2007 and pursuant to the shareholders' resolution the company is not obliged to reappoint auditors annually and KPMG Audit Plc will therefore continue in office

Creditor payment policy

The company agrees terms and conditions under which business transactions with suppliers are conducted It is the company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions

Employees

The average number of employees in the United Kingdom was 178, (2010 144), during the year and the aggregate remuneration is shown in note 5

Employee involvement

Employees are kept up to date about a wide range of Company developments through a programme of engagement activities, delivered through a variety of channels This includes formal Director briefings for all employees and management on the Company's performance and strategy, as well as regular bulletins and employee newsletters In addition, informal discussions take place with senior management In 2011 Ageas ran its third UK-wide engagement survey and started development of an intranet to further promote a two-way dialogue between employees and the organisation, and to connect people across different businesses

Disabled persons

Following the Equality Act 2010 coming into force on 1 October 2010 we have taken a number of actions in response The Act consolidates the range of discrimination legislation that has previously been in place and, as a result, the Company's policy and procedures have been reviewed The new requirements have been built into our management training and an e-learning module has been created to further embed our approach to a diverse working environment

Charitable donations

Charitable donations in the year amounted to £950 (2010 £2,550)

This report was approved by the Board of Directors on 28 March 2012 and signed on its behalf by



RA Smith
Company Secretary

Ageas Protect Limited

Statement of Comprehensive Income for the year ended 31 December 2011

		2011	2010
Revenues			
		£'000	**£'000**
Gross earned premiums	2	44,599	23,554
Outward Reinsurance premiums		(11,669)	(4,581)
Net earned premiums		**32,930**	**18,973**
Investment Income	3	2,637	1,187
Total revenues		**35,567**	**20,160**
Policyholder benefits and claims			
Claims paid, before reinsurance	7	(8,183)	(3,491)
Reinsurer's share of claims paid	7	6,577	3,142
Claims paid, after reinsurance		(1,606)	(349)
Increase in insurance contract liabilities, before reinsurance	13	(6,793)	(2,741)
Increase in reinsurance share of insurance contract liabilities	13	6,790	2,343
Increase in insurance contract liabilities, after reinsurance	13	**(3)**	**(398)**
Total policyholder benefits and claims		**(1,609)**	**(747)**
Operating expenses			
Acquisition expenses	4	(33,034)	(24,143)
Administrative expenses	4	(3,036)	(2,620)
Depreciation and Amortisation expenses	4	(3,095)	(2,840)
Total operating expenses		**(39,165)**	**(29,603)**
Loss for the year before tax and interest		**(5,207)**	**(10,190)**
Finance costs		-	-
Loss for the year before tax		**(5,207)**	**(10,190)**
Tax income /(expense)	6	3,953	1,166
Loss for the year after tax		**(1,254)**	**(9,024)**
Other comprehensive income			
Net change in fair value of available for sale financial assets		937	596
Income tax on other comprehensive income		(220)	(167)
Other comprehensive income for the period, net of income tax		717	429
Total comprehensive income for the period		**(537)**	**(8,595)**

All of the above results relate to continuing operations

The notes on pages 11 to 29 form an integral part of these financial statements

Ageas Protect Limited

Statement of Changes in Equity for the year ended 31 December 2011

	Share capital	Retained Earnings	Fair Value Reserve *	Total
	£'000	£'000	£'000	£'000
Opening Balance 01 01 10	126,310	(13,393)	36	112,953
Shares issued during the year	33,800	-	-	33,800
Gain/(loss) on AFS reserve	-	-	393	393
Profit for the year	-	(9,024)	-	(9,024)
At the end of the year 31 12 2010	**160,110**	**(22,417)**	**429**	**138,122**
Shares issued during the year	-	-	-	-
Gain/(loss) on AFS reserve	-	-	717	717
Profit for the year	-	(1,254)	-	(1,254)
At the end of the year 31 12 2011	**160,110**	**(23,671)**	**1,146**	**137,585**

* The Fair Value Reserve includes the cumulative net change in the fair value of available for sale investments, net of tax, until the investment is derecognised

The notes on pages 11 to 29 form an integral part of these financial statements

Ageas Protect Limited

Statement of Financial Position as at 31 December 2011

		2011	2010
ASSETS		**£'000**	**£'000**
Deferred acquisition costs	8	81,849	53,754
Development expenditure	9	4,131	6,026
Intangible Assets		**85,980**	**59,780**
Property, plant and equipment	11	930	1,395
Reinsurers' share of insurance contract liabilities	13	11,485	4,702
Current tax asset	18	4,646	2,705
Financial Assets			
Loans and receivables, including insurance receivables	10	5,213	2,733
Financial Investments	12	44,156	52,507
Cash and cash equivalents	12	25,700	40,049
Total Financial Assets		**75,069**	**95,289**
Total Assets		**178,110**	**163,871**
Liabilities			
Insurance contract liabilities	13	12,157	5,364
Payables and other financial liabilities	15	6,444	4,021
Deferred tax liability	16	21,924	16,364
Total Liabilities		**40,525**	**25,749**
Shareholders' Equity			
Share capital	20	160,110	160,110
Retained reserves		(22,525)	(21,988)
Total Shareholders' Equity		**137,585**	**138,122**
Total Liabilities and Shareholders' Equity		**178,110**	**163,871**

These financial statements were approved by the Board of Directors on 28 March 2012 and signed on its behalf by

Darren Spriggs

Managing Director

Julian Harvey

Director

The notes on pages 11 to 29 form an integral part of these financial statements

Ageas Protect Limited

Statement of Cashflows for the year ended 31 December 2011

	2011	2010
	£'000	£'000
Cashflows from operating activities		
Loss before tax	(5,207)	(10,190)
Adjustments for cash and non cash items		
Depreciation	666	533
Deferred acquisition costs	(28,095)	(24,885)
Interest income	(2,637)	(2,090)
Finance costs	-	-
Amortisation of intangible assets	2,428	2,307
Operating loss before working capital changes	**(32,845)**	**(34,325)**
Changes in operating assets and liabilities		
Changes in operating receivables	(9,264)	(3,454)
Changes in operating payables	9,344	4,148
Net cash from operating activities before tax	**(32,765)**	**(33,632)**
Tax paid		
Group tax relief cash received	7,225	8,837
Net cash flows from operating activities	**(25,540)**	**(24,795)**
Cashflows from investing activities		
Acquisition of property, plants and equipments	(200)	(660)
Financial Investment	9,287	(37,201)
Development expenditure	(533)	(394)
Net cash flows from investing activities	**8,554**	**(38,255)**
Cashflows from financing activities		
Interest charges	-	-
Interest income	2,637	2,090
Share capital injections	-	33,800
Net cashflows from financing activities	**2,637**	**35,890**
Net decrease in cash and cash equivalents	**(14,349)**	**(27,159)**
Cash and cash equivalents as at 1 January	**40,049**	**67,209**
Cash and cash equivalents at 31 December	**25,700**	**40,049**

The notes on pages 11 to 30 form an integral part of these financial statements

Ageas Protect Limited

Notes to the financial statements for the year ended 31 December 2011

Ageas Protect Limited ("the Company") is a private company, limited by shares, domiciled and incorporated in England and Wales The Company is primarily involved in long term protection insurance

The financial Statements were approved for issue by the Board of Directors on 28 March 2012

1. Accounting Policies

a Basis of presentation

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

All new stands and interpretations released by the International Accounting Standards Board (IASB) have been considered and of these the following new and amended standards have been adopted by the Company during the period -

IFRS 7 (amended), 'Financial instruments Disclosures' The amendments require an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments

IAS 1 (amended), 'Presentation of financial statements' IAS 1 is amended to clarify that reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity IAS 1 is also amended to allow the analysis of the individual other comprehensive income line items by component of equity to be presented in the notes

There are no accounting pronouncements from the European Union or IFRIC that have been issued and endorsed in respect of the 31 December 2011 year end that have an impact on the company

The company has not applied IFRS 8 Operating Segments In accordance with IFRS 8, the company is not required to present segmental information as the equity of the company is not publicly traded

The financial statements have been prepared on a going concern and historical cost basis as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by IFRS The company is satisfied that the going concern basis is appropriate as it believes it has sufficient solvency capital funding available to enable it to continue writing new business in the foreseeable future

The Company presents its statement of financial position in order of liquidity in accordance with IAS 1 Presentation of Financial Statements For each asset and liability line item in the statement of financial position that details amounts expected to be recovered or settled within twelve months, or more than twelve months after the statement of financial position date, a classification at the statement of financial position date is included within the notes The disclosures in the notes for these classifications are distinguished as follows

- Amounts expected to be recovered in less than one year are referred to as current
- Amounts expected to be received in more than one year are referred as non current

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 making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years

The accounting policies are set out below and have been applied consistently to the year presented in these financial statements

All amounts shown in the financial statements are shown in thousands of pounds sterling which is the company's functional currency All financial information presented in Pounds Sterling has been rounded to the nearest thousand

b. Classification of contracts

The company classifies its products for accounting purposes as insurance contracts and include whole of life, term assurance, critical illness and income protection They are non linked, non profit long term insurance contracts

c. Revenue

i) Premiums
Premiums received and reinsurance premiums paid relate to insurance contracts and are accounted for on an accruals basis and presented in the statement of comprehensive income on a gross basis

ii) Investment Income
Investment income comprises interest income and net realised gains and losses from available for sale financial assets earned in the period Interest income is recognised as it accrued in the statement of comprehensive income, using the effective interest method

d Claims

Claims paid and reinsurance recoveries relate to insurance contracts and are accounted for when due for payment Death and other claims are accounted for when reported

e. Income tax

Income tax expense in the statement of comprehensive income for the year comprises current and deferred tax, except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity Both current and deferred tax are calculated using tax rates enacted at the statement of financial position date

i) Current tax
Current tax is the tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous years

ii) Deferred tax
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes as well as revaluation on deferred tax assets The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities 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

f. Property, plant and equipment

Plant and equipment consisting of computer equipment and office equipment are stated at cost less accumulated depreciation Cost comprises the fair value of the consideration paid to acquire the asset and includes directly related expenditure These assets are depreciated on a straight line basis over their estimated useful lives Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term

The estimated useful lives are as follows

i) Leasehold improvement 5 years

ii) Furniture & Fixture 3 years

iii) IT Equipment 3 years

g. Intangible assets

i) Development expenditure

An intangible asset is an identifiable non-monetary asset and is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably Intangible assets with definitive lives are amortised over the estimated useful life

The company capitalises internally generated intangible assets when the following can be demonstrated

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the intangible asset and use or sell it
- Its ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development

The company's only intangible asset is in respect of internally generated computer systems which are being amortised using the straight line method over 5 years

ii) Deferred acquisition costs

The method of calculating the deferred acquisition costs assumes that acquisition costs, comprising all direct and indirect costs, will be recovered from future premiums payable The balance of acquisition costs to be recovered from the margins in future premiums is shown as deferred acquisition costs in these accounts When a deferred acquisition cost asset is created, the rate of amortisation of the asset is consistent with a prudent assessment of the expected pattern of receipt of the relevant future margins over the year in which the contracts are expected to be in force Any balances not considered recoverable are written off

h. Commission

Commission payable to agents are incurred for acquiring new and renewal insurance business The initial commission payable and receivable are recognised as acquisition costs in the statement of comprehensive income The initial commission deferred is capitalised at the point of sale

i. Reinsurance

The company seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies Reinsurance contracts that meet the requirements to be classified as insurance contracts are classified as reinsurance contracts held

Premiums ceded and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis

Reinsurance assets represent short term amounts due from reinsurers and longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts Reinsurance liabilities represent premiums payable for reinsurance

j. Financial assets

Financial assets on the statement of financial position, all of which are non-derivative financial assets, are held as available for sale or are loans and receivables

Available for sale investments are recognised initially at fair value without any deduction for transaction costs the company may incur on disposal Purchases of available for sale financial assets are recognised on the trade date, which is when the company commits to purchase the assets

Realised gains and losses are included in the statement of comprehensive income in the period in which they arise Unrealised gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity, except for foreign exchange gains and losses on monetary items such as debt securities, which are recognised in the statement of comprehensive income When available for sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the statement of comprehensive income Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the statement of comprehensive income

The company classifies insurance and other receivables, as loans and receivables The directors have determined that their carrying amounts reasonably approximate their fair values as they are short term in nature

k. Financial liabilities

Financial liabilities include payables to related parties and other payables Financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled

l. Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value

All impairment losses are recognised in the statement of comprehensive income Any cumulative loss in respect of an available for sale financial asset recognised previously in equity is transferred to the statement of comprehensive income

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss recognised For financial assets measured at amortised cost and available for

sale financial assets that are debt securities, the reversal is recognised in the statement of comprehensive income The company does not hold available for sale financial assets that are equity securities

m. Insurance contracts

The insurance contract liabilities are determined annually in accordance with regulatory requirements. A gross premium valuation method is used which brings into account the full premiums receivable under the contracts written, estimated renewal and maintenance expenses and contractually guaranteed benefits Contracts are permitted to have negative reserves where there are no contractual surrender guarantees and these negative reserves can be offset against positive reserves to a minimum of £nil The estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the statement of comprehensive income as they occur

n. Liability Adequacy Testing

The adequacy of insurance liabilities, reinsurance assets and associated deferred acquisition costs are tested based on the best estimates assumptions of the cash flows for insurance policies and related investments using a risk free discount rate with an adjustment for the illiquid nature of liabilities

The key measurement estimates at the reporting date are shown in the table below

	Estimation uncertainly
• Liabilities for Life Insurance contracts	- Actuarial assumptions on mortality, morbidity lapse rates and expenses - Interest rate used in liability adequacy test

o. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits

p. Operating leases

Rentals payable under operating leases are charged to the statement of comprehensive income over the term of the lease

q. Employee benefits

A defined contribution plan is a post employment benefit plan under which a company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expenses in the statement of comprehensive income when they are due

r. Non-Insurance provisions

A provision is recognised in the Statement of financial position where there is a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability No provision is established where a reliable estimate cannot be made

s. Share capital

Ordinary shares are classified as equity Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects

t. Dividends

Dividends payable on ordinary shares are recognised when they are paid

2 Analysis of premiums

It is the opinion of the Board that the company operates in a single business segment, which is the provision of life assurance products All business is written in the United Kingdom Gross earned premiums written relate to direct business from continuing operations

	2011	2010
	£'000	£'000
Gross earned premiums		
Regular premiums	44,599	23,554

3. Investment returns

	2011	2010
	£'000	£'000
Investment income		
Income from investments	1,414	936
Realised Gain/(Loss)	1,070	-
Interest on cash and cash deposits	153	251
	2,637	**1,187**

4. Operating expenses by type

	2011	2010
	£'000	£'000
Acquisition costs		
Operational expenses	17,760	15,088
Commission *	43,369	30,791
Change in deferred acquisition costs	(28,095)	(21,735)
Sub total	**33,034**	**24,143**
Administrative expenses		
Maintenance expenses	3,036	2,620
Other operational expenses		
Sub total	**3,036**	**2,620**

	2011	2010
	£'000	£'000
Depreciation of property, plant and equipment	666	533
Amortisation of intangible assets	2,428	2,307

- Net of Commission payable and Bad Debts Provisions

	2011 £'000	2010 £'000
Auditor's remuneration (net of VAT)		
Fees payable to the company's Auditor for the audit of the company's annual accounts	91	91
Fees payable to the company's Auditor for other services Other services supplied pursuant to legislation	-	18
Total	**91**	**109**

5 Staff costs

The average number of persons (including executive directors) employed by the Group during the year was

	2011 Number	2010 Number
Sales and sales support	129	91
Administration	49	53
	178	**144**

The aggregate remuneration payable in respect of the above employees was

	2011 £'000	2010 £'000
Wages and salaries	7,782	5,933
Social security costs	788	652
Other pension costs	559	465
	9,129	**7,051**

6. Tax income / (expense)

Tax has been provided as follows

	Notes	2011 £'000	2010 £'000
Tax has been provided as follows			
UK Corporation tax charge			
Current / prior year		9,166	7,377
Deferred tax	16	(5,213)	(6,211)
Tax income / (expense)		3,953	1,166

Finance Act 2011 enacted the reduction in corporation tax rate to 26% with effect from April 2011 and 25% from April 2012 Accordingly, this rate reduction to 25 25% has been reflected in the deferred tax liability which forms part of the statement of financial position

The UK Government announced at the Budget 2012 on 21 March 2012 that the corporation tax rate would instead reduce to 24% from April 2012 with two further annual 1% cuts to 22% by April 2014 Other than the enacted changes to 26% and 25%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2011 as they were not enacted at the balance sheet date

Tax on the company's result before tax differs from the theoretical amount that would arise using the weighted average tax rate of 26 5% (2010: 28%) applicable to profits as follows

	2011 £'000	2010 £'000
Loss before tax	(5,207)	(10,190)
Tax calculated at the standard rate of corporate tax in the UK at 26 5%	1,380	2,854
Under/(Over) Provided in Prior years	778	(1,415)
Changes in Current year	1,796	(273)
	3,953	**1,166**

7. Claims

	2011 £'000 Claims	2011 £'000 Reinsured	2010 £'000 Claims	2010 £'000 Reinsured
Paid	8,183	6,577	3,491	3,142

8. Deferred acquisition costs

	2011 £'000	2010 £'000
Cost		
At 1 January	90,610	39,072
Additions	63,774	51,538
At 31 December	154,384	90,610
Amortisation		
At 1 January	36,856	10,203
Charge for the year	35,679	26,653
At 31 December	72,535	36,856
Net Book Value at 31 December	**81,849**	**53,754**

9. Development Expenditure

	Internal Software £'000	Purchased Software £'000	Other £'000	Total £'000
Cost				
At 1 January 2011	10,244	1,208	282	11,733
Additions	534	-	-	534
At 31 December 2011	10,777	1,208	282	12,267
Amortisation				
At 1 January 2011	4,963	604	141	5,707
Amortisation for the year	2,131	242	56	2,428
At 31 December 2011	7,093	845	197	8,136
Net Book Value at 31 December 2011	**3,684**	**362**	**85**	**4,131**

	Internal Software	Purchased Software	Other	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2010	9,850	1,208	282	11,339
Additions	394	-	-	394
At 31 December 2010	10,244	1,208	282	11,733
Amortisation				
At 1 January 2010	2,954	362	85	3,400
Amortisation for the year	2,009	242	56	2,307
At 31 December 2010	4,963	604	141	5,707
Net Book Value at 31 December 2010	**5,281**	**604**	**141**	**6,026**

10. Loans and receivables, including insurance receivables

	2011	2010
	£'000	£'000
Amounts due from customers	3,829	1,953
Amounts due from brokers	662	42
Amounts due from reinsurers	255	207
Other receivables	467	531
	5,213	**2,733**

11. Property, plant and equipment

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2011	362	567	1336	2,265
Additions	21	49	130	201
At 31 December 2011	383	617	1466	2,466
Depreciation				
At 1 January 2011	80	171	619	870
Charge for the year	75	154	437	666
At 31 December 2011	154	325	1056	1536
Net book value at 31 December 2011	**228**	**291**	**410**	**930**

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2010	272	343	990	1,605
Additions	90	225	346	660
At 31 December 2010	362	567	1336	2,265
Depreciation				
At 1 January 2010	37	56	244	337
Charge for the year	43	115	375	533
At 31 December 2010	80	171	619	870
Net book value at 31 December 2010	**282**	**396**	**717**	**1,395**

12 Investments, cash and cash equivalents

a) Cash and Cash equivalents

	2011	2010
	£'000	£'000
Bank balances	158	542
Short term deposits	25,541	39,507
	25,700	**40,049**

b) Investments

Debt securities-Fixed Rate

	2011	2010
	£'000	£'000
Gilts	14,116	10,847
Agencies	15,954	17,616
Corporate Bonds	8,349	18,204
Supranationals	5,737	5,840
	44,156	**52,507**

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value

- 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)

31 December 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Supranationals, Agents, Financial Institutions & Other	-	30,040	-	30,040
UK Treasury	14,116	-	-	14,116
Available for sale financial assets	**14,116**	**30,040**	**-**	**44,156**

31 December 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Supranationals, Agents, Financial Institutions & Other	-	41,660	-	41,660
UK Treasury	10,847	-	-	10,847
Available for sale financial assets	**10,847**	**41,660**	**-**	**52,507**

13 Insurance contract liabilities and reinsurance assets

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
At 1 January 2011	5,364	4,695	669
New business	-	-	-
Experience variations	-	-	-
Changes in assumptions	-	-	-
Claims paid	(8,183)	(6,577)	(1,606)
Claims incurred	14,976	13,367	1,609
At 31 December 2011	12,157	11,485	672

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
At 1 January 2010	2,630	2,359	271
New business	-	-	-
Experience variations	-	-	-
Changes in assumptions	-	-	-
Claims paid	(3,498)	(3,149)	(349)
Claims incurred	6,232	5,485	747
At 31 December 2010	5,364	4,695	669

14. Insurance contract liabilities and reinsurance assets – valuation assumptions

The assumptions used to determine insurance contract liabilities are set by the Board of Directors based on advice given by the Actuarial Function Holder These assumptions are updated at least at each reporting date to reflect latest estimates The assumptions used are as follows

a. Mortality and morbidity

Mortality and morbidity assumptions are set for each product based on the anticipated future experience of the business The rates are based on published industry tables adjusted to take account of the distribution channels and socio-economic profile Future trends in mortality experience are only allowed for where they would increase the liability The assumptions include margins for adverse deviations as required by FSA rules The company's principal mortality rates are based on TM00/F00 and the morbidity rates are based on CIBT93 for Critical Illness and CMIR12 for income protection

b. Persistency

Persistency assumptions vary principally by duration of policy and type of contract to reflect the anticipated experience of the business The assumptions have been set based on a combination of the company's own and other IFA offices experience and include margins for adverse deviations as required by FSA rules

c. Expenses

The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the company Future expense inflation of 4 5% per annum is assumed to reflect

the mix of salary based inflation and inflation on goods At 31 December 2011 the renewal expense assumption for the primary contracts is £13.42, (2010 £14 40), per policy

d. Economic

Discount rates used to value insurance contract liabilities and reinsurance assets are based on risk free yields as at 31 December 2011 from the government liability yield curve published by the Bank of England

15 Payables and other financial liabilities

	2011	2010
	£'000	£'000
Amounts due to customers	6	-
Amounts due to brokers	761	465
Trade creditors	224	499
Amounts due to Group companies	818	660
Other creditors	3,096	1,013
Other payables	1,539	1,384
Total	**6,444**	**4,021**

16. Deferred tax liabilities

Deferred tax liabilities are revalued using tax rate of 25 25% at 31 December 2011

	1 January 2010	Recognised in Statement of Comprehensive Income	31 December 2010
	£'000	£'000	£'000
Deferred acquisition expenses	7,858	6,852	14,711
Closure reserve	2,281	166	2,447
Deferred tax on unrealised investment income	14	153	167
Transfer to Current Tax	-	(221)	(221)
Adjustments in respect of bad debts	-	(826)	(826)
Adjustments in respect of prior years	-	87	87
	10,153	**6,211**	**16,364**

	1 January 2011	Recognised in Statement of Comprehensive Income	31 December 2011
	£'000	£'000	£'000
Deferred acquisition expenses	14,711	5,438	20,149
Closure reserve	2,447	(1,058)	1,389
Deferred tax on unrealised investment income	167	220	387
Transfer to Current Tax	(221)	221	-
Adjustments in respect of bad debts	(826)	826	-
Adjustments in respect of prior years	87	(87)	-
	16,364	**5,560**	**21,924**
Deferred tax not recognised in statement of Financial Positions			
Revaluation of Unrealised gain on investments	-	(347)	-
	16,364	**5,213**	**21,924**

17. Operating leases

The total value of non-cancellable operating lease rentals payable are as follows

	2011	2010
	£'000	£'000
Less than one year	598	207
Between one and five years	1,097	1,324
More than five years	-	-

The Company leases an office building under an operating lease, which has an initial lease period of five years During the year £280,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2010 £280,000)

18. Current Tax Assets

The current tax assets of £4 6Million (2010 assets £2 7Million) represents the amount of Group Relief Receivable in respect of the current year plus an adjustment in respect of prior years

19. Parent company

The company's results are consolidated into the accounts of the immediate parent company, Ageas Insurance International N V , a company incorporated in The Netherlands

The joint ultimate holding companies of the company are Ageas N.V , incorporated in the Netherlands, and Ageas SA/NV, incorporated in Belgium

Copies of the above accounts can be obtained from the Company Secretary, Ageas Protect Limited, Ageas House, Tollgate, Eastleigh, Hampshire, SO53 5YA

20 Share Capital

	Ordinary Shares £'000
In issue at 31 December 2010	160,110
In issue at 31 December 2011	160,110

At 31 December 2011, the authorised share capital comprised 160,110,000 ordinary shares The ordinary shares have a par value of £1 and were fully paid up at the end of the year

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company All shares rank equally with regard to the Company's residual assets

21. Related party transactions

The company has a related party relationship with its key management personnel who are all Executive Directors of the company

In addition to their salaries, the company also provides non-cash benefits to the Executive Directors and contributes to a post-employment defined contribution plan on their behalf The Executive Directors compensation is as follows

	2011	2010
	£'000	£'000
Short-term employee benefits	501	621
Post-employment benefits	89	80
Total	**590**	**701**

In respect of the highest paid Executive Director	**289**	**304**
Short-term employee benefits	241	256
Post-employment benefits	48	48

In the ordinary course of business the company carries out transactions with related parties as defined in IAS 24, Related Party Disclosures

	2011	2010
	£'000	£'000
Fellow subsidiary company transactions	874	808

A fellow subsidiary company, Ageas (UK) Limited, provides the company with administration and management services The Company also charge rent to a fellow subsidiary company, Tesco Underwriting Limited and pay commissions to a fellow subsidiary company RIAS Plc for Guaranteed Whole Of Life Products At 31 December 2011 the amount included within Payables and financial liabilities in respect of these transactions was £720K (2010 £43K)

As at 31 December 2011, the amount of £220K was included within Payables and financial liabilities in respect of termination benefit for an executive director which was paid in January 2012 (2010 Nil)

22. Risk management

The Risk Committee's role is to oversee the risk management processes of Ageas Protect Limited on behalf of the Board, ensuring that all risks are formally evaluated and categorised, that plans for the management of such risks are effective, and that the Board and Audit Committee are informed of the results of this analysis and monitoring work

Risk management framework

The company's risk management is built around three principal elements

- The Corporate Governance structure,
- Risk management framework, and
- Risk policies

The company's risk management framework sets out the amount of risk that the company is willing to accept

The company's risk policies are the high level standards and requirements which determine the way in which risks are to be managed and controlled The Board of Directors ensures that the policies are regularly reviewed to reflect the changing commercial and regulatory environment and organisational structure

Risk Committee

The company has established a formal governance structure to manage risk

The major risks faced by the company can be categorised as insurance risk, market risk, credit risk, liquidity risk, operational risk and group risk These categories and the risk mitigation undertaken by the company in order to manage them are outlined below

a. Insurance risk

Insurance risk arises from the uncertainty over the occurrence, amount and timing of claims payments arising under insurance contracts The exposure of the company depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of the claim The amount of such future obligations is assessed by reference to assumptions with regard to future mortality and morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates

The main insurance risks can be summarised as follows.

- Mortality – the risk that policyholder death experience is different from that expected For life assurance the risk is that policyholders die earlier than expected The impact of a 10% change in the year would have affected the result before tax by £1,442K
- Morbidity – the risk that policyholder health experience is different from that expected For life assurance the risk is that policyholders have a greater frequency of illness The impact of a 15% change in the year would have affected the result before tax by £1,261K
- Persistency – the risk that policies do not remain in force and are for any reason lapsed, prior to maturity from that expected For life assurance the risk is that policyholders lapse earlier than expected The impact of a 18% change in lapse rate would have affected the result before tax by £5,579K
- Expenses – the risk that actual expenses are different from those expected For life assurance the risk is that expenses are greater than expected The impact of a 5 5% change in the year would affect result before tax by £1,863K

Insurance risks are managed through the following mechanisms

- The use of guidelines, limits and authority levels for concluding insurance contracts, assuming insurance risks and handling insurance claims
- Regular monitoring of actual exposure compared to the agreed limits to ensure that the insurance risk accepted remains within the appetite
- The use of reinsurance to mitigate exposures in excess of risk appetite, to limit the company's exposure to large single claims and to alleviate the impact of new business strain
- Control over product and pricing

These techniques are supported by the use of actuarial models, to calculate premiums and monitor claims patterns Past experience and statistical methods are also used to determine appropriate assumptions for those models

Concentration risk

The company writes its business in the United Kingdom and so the results are sensitive to demographic and economic changes arising in the United Kingdom Concentrations of insurance risk are considered by the Risk Committee

b. Market risk

Market risk arises from the possibility that the fair value of cash flows from the company's financial investments change as a result of interest rates and other market movements The company manages its market risk using techniques consistent with its risk appetite and asset liability matching This balances the risks relating to the liabilities within its insurance contracts against the risks inherent in its assets and capital available

i) Interest rate risk
Interest rate risk is the risk that the fair value or cash flows will vary as market rates on interest vary For the company this risk arises from the holding of assets and liabilities with differing maturities, creating an exposure to changes in the level of interest rates Exposure to interest rate risk is monitored by scenario testing and stress testing A 1% decrease in interest rates would prospectively reduce the profit/loss of the company by £696K (2010 £800K)

ii) Currency risk
Currency risk is defined as the risk that the fair value or future cash flows of an asset or liability will change due to a change in foreign exchange rates As the company operates in the UK its assets and liabilities are denominated in sterling pounds At 31 December 2011 the company had no exposure to currency fluctuations

c. Credit risk

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion Exposure to credit risk may arise in connection with a single transaction or to an aggregation of transactions, not necessarily of the same type, with a single counterparty

The company's primary exposure to credit risk is in respect of its investments with third parties, commission payments made to brokers and reinsurance agreements Investment and commission exposures to individual counterparties are monitored on a regular basis At 31 December 2011 there are assets past their due date in respect of commission recoveries from a broker which have been provided for The company does not have any exposure to Sovereign debts issued by Portugal, Italy, Ireland, Greece and Spain

At the 31 December 2011 the credit ratings of the investment institutions are as follows

Credit rating – Standard & Poor	2011 £'000	2010 £'000
AAA	55,663	39,472
AA+	2,189	2,211
AA	7,945	11,612
A+	2,259	8,315
A	1,800	30,946
Total	**69,856**	**92,556**

Credit exposures for reinsurance contracts are monitored as part of the overall credit risk policy, taking into account external rating information and collateral that is available The company manages this risk through a combination of using only A-or better grade reinsurers based on S&P ratings, or a group company with the benefit of a parent company guarantee, coupled with measures that will protect the company if these ratings are downgraded These ratings are regularly monitored by the company

With respect to credit risk arising from the other financial assets of the company, which comprise cash and cash equivalents and other receivables, the company's exposure to credit risk arises from default of the counterparty, with a maximum exposure to the carrying amount of these assets All receivables on the balance sheet at 31 December 2011 are within terms and no amounts are overdue

d Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due This is managed by maintaining forecasts of cash requirements and by adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term In most instances, liquidity risk is avoided by holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due

The future estimated undiscounted payment profile for insurance contracts, gross of reinsurance recoverable, is as follows Volatility in the claim payments are mitigated by reinsurance shown under sub note (h), page 29 Customers are required to continue paying premiums for the policies to stay in-force

Payment period	2011 £'000	2011 %	2010 £'000	2010 %
0 – 1 year	23,963	4	12,552	4
2 – 10 years	211,423	37	113,707	38
10 years +	335,384	59	171,057	58
Total	**570,770**	**100**	**297,316**	**100**

e. Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events Operational risks include, but are not limited to, information technology, human resources, project management, tax, legal, fraud and compliance Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the activities, processes and systems under their control and for the allocation of responsibilities

Each function within the company is responsible for implementing and maintaining controls within its remit and for achieving its business objectives within the company's operational risk methodology This methodology assesses the operational risks the company faces, analyses the likelihood and impact of each risk, and the strength of the mitigating controls and any actions proposed Details of risks on an inherent, (before controls), and residual, (after controls), basis are maintained on the company's Risk Register This is used for review and challenge by the Risk Committee Management attention is focussed upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weaknesses are identified

f Capital management

a) Aims of capital management policy

The Company has established standards for the efficient management of capital, to meet the needs of the business and return on capital requirements of shareholders This includes the capital required to support the new business and the risk appetite identified in the Company's Risk Policies, in full compliance with the requirements of the FSA

b) Definitions of capital management (and supporting terms)

Capital Management is the collection of processes and activities undertaken to ensure that sufficient capital is maintained to ensure the organisation's ability to meet its liabilities and ultimately ensure its survival, particularly in case of losses arising from adverse events

Capital Management includes the assessment of capital required to support the Company's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital and the ongoing monitoring of capital against business requirements, as well as the assessments required by the FSA, minimum capital requirement (MCR), Individual capital assessment (ICA) and individual capital guidance (ICG)

c) Approach to capital management

The Company develops an Operating Business Plan, which is a component part of the Ageas UK Strategic Plan, and is reviewed and revised each year and then formally approved by the Company's Board

A key factor in the formulation of the Strategic Plan is the assessment of the capital required to support the business objectives (i e growth and profit targets) and the appropriateness of the supporting capital structure

Overall capital requirements and structure are assessed taking account of the following

- Capital required to support the planned growth in new business and renewal premiums and profit targets
- The required rate of return on capital employed
- FSA capital requirements based on MCR formulae and ICA methodologies
- As of 31 December 2011, the company has capital resources of £63 1 million which is 202% of MCR

In the event of failure to meet the capital requirements, the Company would revert to its parent company (or other Ageas group companies) for an injection of funds to ensure compliance

g. Group risk

Group risk is defined as the potential impact on the firm of risks arising in other parts of the company's group as well as the company's impact on the group This is managed and controlled through the Board of Directors which currently includes three representatives from a fellow subsidiary in the United Kingdom, Ageas (UK) Limited

The company's Statement of financial position at 31 December 2011 has net assets of £137 6 million, (2010 £138 1 million), which provides the working capital required for the company to write new business As part of the company's authorisation review by the FSA in 2011, the company is required to maintain sufficient capital to meet its capital requirements at the balance sheet date and also to have sufficient capital to fund the projected new business growth for the 6 months from the balance sheet date This requirement has been fully met by the company during 2011 The 2012 business plans for Ageas Protect Limited include quarterly injections of subordinated loan from Ageas (UK) Limited to enable it to continue expanding its distribution beyond the current levels In the event that Ageas Protect Limited does not receive the anticipated injections of the loan, the directors have taken steps, including considering the capital requirements under a revised business plan, to satisfy themselves that the company has sufficient solvency capital to continue writing new business for the foreseeable future

h. Reinsurance

Where appropriate, the Company also enters into reinsurance contracts to limit their exposure to underwriting losses This reinsurance may be on a policy-by-policy basis (per risk)

Reinsurance companies are selected based primarily on pricing and counterparty risk considerations The management of counterparty risk is integrated into the overall management of credit risk

The major uses of external reinsurance include the mitigation of the large single claims from policies with high limits as well as multiple claims on income protection

The table below provides details of reinsurance recovery rate by product line

% Reinsurance	Product line
90%	Critical Illness cover / Life Decreasing terms / Life benefit under a Real Life Cover
75%	Guaranteed Whole of Life / Guaranteed Accepted Terms
60%	Income Protection / non-Life benefits under Real Life Cover

i. Sensitivity to key business drivers

The main business driver that would impact the 2011 financial statements would be the impact of higher operating expenses than expected in the year The impact of a 5% increase in the operating expenses of the company in the year would have been to reduce profit before tax by £1,207k (2010 £1,191k)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

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

- select suitable accounting policies and then apply them consistently,

- make judgments and estimates that are reasonable and prudent,

- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Independent Auditor's Report to the Members of Ageas Protect Limited

We have audited the financial statements of Ageas Protect Limited for the year ended 31 December 2011 set out on pages 7 to 29 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 30, 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 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

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 loss for the year then ended,

- have been properly prepared in accordance with IFRSs as adopted by the EU, 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



Philip Smart (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

28 March 2012