



SL 86832

Standard Life plc

Annual Report and Accounts 2008



Group financial highlights for 2008

Standard Life plc is an asset managing business with around 1.5 million shareholders in over 50 countries and £156.8bn of assets under administration for over 6.5 million customers. Inspired by life, we provide meaningful solutions, flexibility and support to build our customers' confidence in their future wealth and well-being.

Our aim is to keep adding value for our shareholders and grow our customers' wealth with strong investment performance and market-leading products that are also capital efficient from a business perspective. Our financial results for 2008 show how we are achieving this.

£156.8bn

£156.8bn Group assets under administration – 7% decrease

10.9%

10.9% Group return on embedded value – 0.6% points decrease

£15,679m

£15,679m worldwide PVNBP new business sales – 5% decrease

£933m

£933m Group EEV operating profit before tax – 6% increase

£423m

£423m EEV operating profit capital and cash generation – 25% decrease

£6,245m

£6,245m Net assets on an EEV basis – 1% increase

£100m

£100m Group IFRS profit after tax attributable to equity holders – 78% decrease

7.70p

7.70p Recommended final dividend payment per share. Total of 11.77p per share for 2008 – 2.3% growth

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UK financial services

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[image removed]

- UK life and pensions is one of the largest pension, long-term savings and investment providers in the UK, with £96bn of assets under administration
- Our UK life and pensions business offers a broad range of insurance and investment wrappers, with particular strength in the accumulation market
- Our savings and mortgages business offers retail savings and mortgage products in the UK
- Healthcare is the fourth largest private medical insurance provider in the UK offering health and well-being solutions to individuals and businesses

Canada

Page 38

[image removed]

- Standard Life Canada is Standard Life plc's largest operation outside the UK, with 2,000 employees across Canada and more than 1.3 million customers
- Standard Life Canada currently has £18bn of assets under administration
- Our Canadian business offers a range of savings, retirement and insurance products
- Last year, Standard Life Canada commemorated its 175th anniversary

Europe

Page 42

[image removed]

- European operations consist of Standard Life Ireland and Standard Life Germany, which operates in both Germany and Austria
- Our businesses in Europe offer a range of investment and pension solutions and currently have £7bn of assets under administration
- Standard Life Ireland currently employs over 200 staff and Standard Life Germany employs around 400 people

Building valuable customer relationships with leading service and compelling propositions

Asia Pacific

Page 44

[image removed]

- Standard Life has a presence in the Asia Pacific life and pensions market place in India, China and Hong Kong
- In India, our joint venture company HDFC Standard Life sells a range of individual savings, pensions and protection products, as well as a number of group term assurance and savings products
- Heng An Standard Life, our joint venture company in China, distributes a range of individual savings, investment and protection products, as well as group protection and savings products
- Standard Life Asia in Hong Kong, a wholly-owned subsidiary of Standard Life plc, offers a combination of investment-linked and protection products

Investment management

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[image removed]

- Based in Edinburgh, Standard Life Investments has a number of offices worldwide including Boston, Dublin, London, Montreal, Hong Kong and Sydney, as well as representatives in our joint venture companies
- Standard Life Investments has £123.8bn of assets under management
- Standard Life Investments operates as a global team and manages a range of asset classes, including equities, bonds, property, private equity and cash

Corporate responsibility

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[image removed]

- Our strategic objective of being recognised as an outstanding corporate citizen in each of our communities reflects our values of thinking holistically, being flexible, delivering performance and acting with integrity
- Our corporate responsibility approach concentrates on five main areas: trust, responsible investment, wealth and health, managing our people, our community and environmental impacts

Chairman's statement

Stability in difficult times

[Image removed]

Gerry Grimstone
Chairman

Economic conditions in 2008 were extremely tough and remain so. The impact of the financial crisis spread far beyond the banking industry to affect the whole of the corporate world and has shaken people's everyday lives. It has been a deeply unsettling time for all investors, including our own shareholders. But Standard Life's performance in this unpredictable market has been solid and – crucially – we continue to maintain a strong capital base that is resilient to market conditions. Our share price held up well relative to our competitors in 2008, and we continue to generate value for our shareholders.

While volatile financial conditions undermined the stability of businesses around the world, Standard Life's performance was solid and we are recommending a final dividend of 7.70p per share, making a total dividend of 11.77p for 2008, an increase of 2.3%. Looking forward the Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

You can read more about our financial results in the Group Chief Executive's statement and Business review from page 6 onwards.

In a tough year, we believe we continued to deliver long-term value for our shareholders, largely as a result of our commitment to responsible growth. This includes financial management and extends throughout the way we run our business, encompassing fundamentals such as how we look after our customers, develop and challenge our people, support our communities, and reduce our environmental impact.

From a financial perspective, our responsible approach centres on cash generation, capital efficiency and the conservative investment management policy that has given us a strong balance sheet even in a falling market. Our Group capital surplus remained stable at £3.3bn, after allowing for the payment of the final dividend,

despite the adverse market conditions and is largely unchanged since last year. We will continue to focus on capital strength as one of our key priorities.

We are also reducing risk in our business wherever we see opportunities to do so. For example, one of our most significant transactions in 2008 was the reinsurance of £6.7bn of UK immediate annuity liabilities to Canada Life International Re. By releasing cash from reserves and reducing our capital requirements, this transaction had the dual benefit of cutting risk for shareholders and increasing returns for policyholders in our Heritage With Profits Fund.

Another keystone of our strategy is to drive for operational excellence and we stepped up efforts to streamline our business in 2008, making the most of synergies across the Group to help us achieve our cost-efficiency targets. We have more to do in this area – in particular, by moving to ensure that all our operations worldwide form an integrated asset managing business with a distinctive competence in both investment management and customer propositions.

The Group Chief Executive's statement provides more detail about cost efficiencies and integrated thinking within our businesses.

7.70p

Recommended final
dividend payment
per share

"In the difficult times that we are all facing, it is important for the financial services industry to begin the process of rebuilding the trust of its shareholders and its customers"

In the difficult times that we are all facing, it is important for the financial services industry to begin the process of rebuilding the trust of its shareholders and its customers. Confidence has been severely damaged and we all need to find new ways to engage with our stakeholders, including shareholders, customers, intermediaries and the media. Our industry has to work harder to promote financial awareness and help people develop practical money skills. Standard Life intends to be an active participant in this and our commitment is reflected in a range of financial education initiatives, including *On the Money* – an exciting programme that helps primary school children to grasp simple financial concepts.

In a wider drive to spread knowledge and skills, we encourage our people to support their local communities through voluntary activities, and the Standard Life Chairman's Awards provide a focus for recognising outstanding work in this area. In difficult times many businesses become inward looking, but we intend to put even greater emphasis on corporate responsibility and on living up to the goals we have set ourselves.

Likewise in governance, Standard Life Investments is a leader in this field and I want our Group practices and procedures to be amongst the best in class. There must be a debate in the UK about improving the way boards exercise their responsibilities on behalf of shareholders, particularly in the financial services sector. We intend to contribute fully to these discussions.

I'm delighted to congratulate our Group Chief Executive, Sir Sandy Crombie, on his knighthood in the 2009 New Year Honours List and to thank him for his dedication to Standard Life for more than 40 years. Sir Sandy and the Board have agreed that the process of identifying his successor should start in 2009. There is no fixed timetable and the Board do not envisage making any further statements about this matter until a successor has been confirmed and a timetable for the transition has been set. Sir Sandy will remain as the Group Chief Executive until his successor has been appointed and an orderly handover process has been conducted. As announced, Jocelyn Proteau will retire from the Board at the conclusion of the 2009 AGM. We will miss Jocelyn greatly for his significant contributions, which included bringing a valuable transatlantic perspective to our deliberations, and chairing the board of The Standard Life Assurance Company of Canada with distinction and commitment.

Our customers remain at the heart of our business. For us, treating customers fairly must be more than a regulatory requirement, it must be a deep-rooted attitude. So where things go wrong – and, regrettably, in a complex business like ours they sometimes do – we take rapid remedial action to show our commitment to doing the right thing. When the value of our Pension Sterling Fund fell earlier this year in a way that customers would not have anticipated, we listened to their feedback and acted. We restored the value of the fund and put each customer back into the position they would have been before the fund's fall in value on 14 January 2009, reflecting price movement towards the end of 2008.

Savers and investors face major challenges over the coming years and we aim to help them address these with products that meet their needs and with clear guidance that supports good decisions. As part of this, we have strongly backed our industry's Retail Distribution Review, which marks a move towards greater clarity, professionalism and transparency for customers – and will continue to support it as it moves towards implementation. Last year also saw the Pensions Act 2008 come into force. We applaud its intention to improve levels of long-term savings in the UK through workplace schemes and hope this will give rise to opportunities for Standard Life. However, we are still concerned that it may affect existing high quality schemes, and will continue to engage with the government to help minimise any such side-effects.

The impact of the present economic crisis on all of us is going to be felt for many years to come. It will take concerted international action by governments and radical solutions to help put things right, and we will all have to play a part in this if the opportunities for future generations are to be as great as those we ourselves have had.

More immediately, as we confront the uncertainties of 2009, we will continue to pursue the strategy of responsible growth that has become our hallmark in the last five years. I believe that we remain in good shape to weather these difficult times and that when things improve, as they are bound to do in due course, we will be well placed to take advantage of the opportunities that arise in the UK and internationally.



Gerry Grimstone
Chairman

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Group Chief Executive's statement

A solid performance in a challenging market

[image removed]

Sir Sandy Crombie
Group Chief Executive

Standard Life delivered a solid performance in 2008. We have announced good profits, healthy capital and cash generation, and have achieved efficiency improvements a year ahead of target. Our capital position is among the strongest in the industry and is relatively resilient in the event of further deterioration in market conditions.

2008 was an extraordinary year. In the 43 years I have worked in financial services I have experienced nothing like it. The ramifications of the global financial crisis have been felt far and wide, from the biggest financial institutions, down to individual savers and investors. Standard Life has not been immune from these global forces. We have had to respond by making some tough business decisions. However, in the face of these conditions we delivered what I regard as a solid performance during 2008. As explained in more detail below, our business remains in good financial shape and well positioned to withstand further turbulence if that is what lies ahead.

Capital strength

We have maintained a sound capital position in the current tough climate by following strategies that focus on careful management of capital and put emphasis on cash generation. Our Group regulatory capital surplus is robust – it remained largely unchanged at £3.3bn, after allowing for the payment of the final dividend, compared to £3.4bn in 2007 – a major achievement given the volatility of stock markets over the same period. Our increasing emphasis on 'capital-lite' products is key because it generates profitable new business without committing high levels of capital or cash. The reinsurance of our UK immediate annuity liabilities to Canada Life International Re. in February 2008 has also freed up cash from reserves whilst reducing our shareholders' exposure to risk.

To help maintain our capital position, we intend to propose the introduction of a Scrip dividend scheme at our Annual General Meeting in May. The Scrip dividend scheme is intended to replace the current dividend reinvestment plan.

Performance in 2008

Against the background of economic difficulty and uncertainty, our Group delivered a resilient financial performance:

Our operating profit was resilient in difficult markets

- European Embedded Value (EEV) operating profit before tax up 6% to £933m (2007: £881m), generating a return on embedded value of 10.9% (2007: 11.5%) after making provision for customer payments to the Pension Sterling Fund

Our cash flow was robust with strong coverage of new business strain

- Core capital and cash generation after tax £303m (2007: £334m)
- Full year dividend of 11.77p, representing 2.3% growth
- New business strain comfortably covered by capital and cash generation from existing business

2009 priorities

- Treating customers fairly and continuing to put our customers at the heart of our business as part of our culture and practices
- Helping our people to give their best and realising their full potential by playing to their strengths and giving focus to delivering our strategic business goals
- Operating conservatively and positioning our business to emerge strongly from the current economic crisis
- Driving for operational excellence and delivering further efficiency savings through our culture of continuous improvement
- Continuing to generate value for our shareholders by working to our strengths

We maintained our balance sheet strength

- Group Embedded Value per share of 286p (2007: 285p) – stable in the face of challenging markets
- International Financial Reporting Standards (IFRS) equity per share excluding intangible assets and minority interests of 151p (2007: 148p), with IFRS profit after tax attributable to equity holders of £100m (2007: £465m)
- Financial Groups Directive surplus of £3.3bn (2007: £3.4bn) after allowing for the payment of the final dividend

We achieved our efficiency target

- Annual efficiency target of £100m cost savings achieved one year early, and a further target of £75m set

In our **UK life and pensions business**, EEV operating profit before tax increased by 2% during the year to £636m (2007: £624m) despite the difficult market conditions in which sales fell by 11% to £11,928m (2007: £13,440m).

In response to a much tighter credit environment, our **banking business** took steps to manage liquidity – a move that was in line with many of our competitors. As a result, gross lending was reduced to £1.1bn (2007: £3.7bn). IFRS underlying profit before tax decreased by 19% to £26m (2007: £32m). The business remains well capitalised, with access to a range of funding sources, and has a high quality mortgage book.

In our **healthcare business**, sales rose by 14% to £25m (2007: £22m), while annualised premium income increased to £295m (2007: £284m). We launched a new product for Small and Medium Enterprises (SMEs). This allowed sales to our SMEs and corporate customers to grow by 28% compared to 2007, offsetting lower individual new business sales.

As our business celebrated its 175th year in **Canada**, EEV operating profit before tax was £215m, up 10% in constant currency from 2007. New business sales increased by

23% in constant currency to £2,240m (2007: £1,654m). This notable result reflected the successful repositioning of Canada's life and pensions business.

Europe had a tough year. Our business in **Ireland** was affected by volatile equity and property markets; in **Germany**, weak market sentiment along with changes in insurance contract law reduced new business volumes. Although it has been a difficult time, our back book efficiencies have significantly improved EEV operating profit, which increased by 127% to £69m in constant currency. In terms of new business, PVNBP sales for Europe were down by 26% in constant currency to £1,016m (2007: £1,179m) and we expect this area of business to remain challenging until consumer confidence is restored in the investment markets.

Asia continued to experience strong growth despite volatile market conditions. APE sales increased by 49% in constant currency to £118m as our joint ventures in **China and India** expanded their branch networks and recruited new agents to maximise the potential of their markets. We expect that the global economic recession will have an impact on these Asian businesses, but we believe there is still attractive growth potential in these markets.

Investment management delivered a strong underlying performance in 2008 against a background of extremely volatile and dislocated markets. It achieved strong sales through institutional channels and earnings before interest and tax (EBIT) increased by 9% to £82m, while IFRS normalised underlying profit before tax increased by 12% to £93m (2007: £83m).

For more details about our financial performance, see our Business review on pages 10 to 66.

Mitigating risk

Standard Life is in a good position and we are working hard to remain this way. An important part of this is anticipating what can threaten our business and planning carefully to minimise risk to our Group – both financially and from a wider perspective. Over the past year, our focus has continued to be on financial risk management, with the whole industry facing significant challenges. Standard Life has not been immune to the market falls and difficulties that have affected others, however, our limited appetite for putting our capital at risk has meant the impact has been more limited. Whilst managing financial risk remains high on our agenda, we are also focusing on enhancing our operational and regulatory risk management capabilities, as well as protecting and readying our business for changes in demographics, competition, and the legislative and the regulatory environment. You can find out more about how we manage risk on page 58.

Integrated thinking

Our aim is to develop and share core strengths and expertise across Standard Life. To do this, we've been sharing knowledge, technology, products and vision in a way that brings our teams around the world closer together and makes them more effective, as the latest results from Canada and Asia show. An example of this integrated thinking is our global IT change plan, which helps us to identify potential synergies and implement change faster. We also continued with our Group-wide approach to key processes and developing products which are relevant to customers around the world. For example, some of our healthcare and IT experts worked closely with colleagues in our Indian joint venture, HDFC Standard Life, to launch a new healthcare line, and the first product has been well received by the market. We have also been establishing Centres of Excellence – such as our Design Studio in Canada – that can provide consistent, successful and cost-effective solutions to the whole Group.

Our people

We have built a great team to take our business forward. We have been working hard to engage and inspire all of our people – taking talent seriously and nurturing it, so that individuals can achieve their full potential. To support this, we introduced a process to help our people understand how their talents and interests contribute to their performance. We also ran a Group-wide event series called *Shaping our Future* to share our vision of the business, helping our people to put this into practice in their daily work. It's important to measure the results of initiatives like this and I'm pleased to report a very positive trend through Gallup's Q12* employee engagement survey. Our latest overall score puts us in the top half of Gallup's database and moves us closer to our target of the top quarter by 2012.

Our customers

Understanding our customers' needs has become even more important during a year that has been worrying for anyone with investments, savings or mortgages. We are able to reassure our investors that Standard Life funds are secure, but the fact remains that markets have fallen sharply. As a result our with profits customers have seen changes to their bonus rates. However, in the UK, the broad mix of assets in the with profits fund and the impact of any smoothing and guarantees that apply have helped shield customers from the extreme investment conditions.

No organisation can protect its customers from the full extent of such extreme market falls, but we take our responsibility towards our customers very seriously. That is why we took the decision in February 2009, at a cost of around £100m to reverse the 4.8% fall in value of our Pension Sterling Fund which occurred a month earlier. This cost is reflected in our 2008 results. It became clear to us that some of the literature we provided to support this fund had fallen short of our own high standards. This meant that many customers did not understand the nature of the fund and would not have anticipated such a large drop in its value.

Taking this action reflects the importance we attach to developing long-term relationships with our customers and demonstrates our commitment to integrity and fairness in the way we run our business.

Corporate responsibility

Looking after our stakeholders, our environment and our communities has never been more important – and Standard Life aims to show just how much of a difference businesses can make. I have a personal commitment to this issue, having recently completed my year as The Prince's Ambassador for Corporate Social Responsibility in Scotland. This was a great opportunity for me to become more involved in the issues I feel strongly about – one of which is the education to employment agenda. This initiative is a key opportunity for people to develop their skills for the workplace. My ambition is for Standard Life to be recognised as an outstanding corporate citizen in the communities in which we are active. This is something we are continuing to work towards with initiatives that benefit local areas. Employee placements with charities and community groups are a good example of this – we help these organisations complete key projects at no cost to them, while giving our people the opportunity to develop their skills. We are also investing in the future of young people with a range of initiatives, including workshops that help school leavers in Scotland get off to a flying start in their employment.

See pages 68 to 71 to find out more about our corporate responsibility approach.

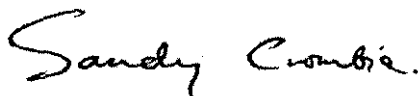
2009 and beyond

I started off by saying that 2008 was an extraordinary year – and so far 2009 has been similarly astonishing as the profound effects of the financial crisis and wider economic downturn become more apparent.

Retail investors are likely to remain cautious, preferring to allocate their funds to lower risk assets. Likewise, the retail savings environment is likely to remain subdued but we continue to see opportunities in the profitable markets in which we operate, including group pensions and fixed income investment mandates. On the institutional side, we expect our mandates to keep growing but at a slower rate than we have seen over the past five years.

As an asset managing business our revenues will inevitably be impacted by lower financial market levels. Our ongoing focus on efficiency will help mitigate the impact of this on profitability. In 2009 the Group will benefit from expense efficiencies achieved during the last year and will pursue the next phase of delivering operational excellence, targeting a total of £75m of annual efficiency savings by 2010.

With the outlook for world financial markets remaining uncertain, we will continue to follow our proven conservative strategy, with a focus on driving efficiencies while pursuing growth to an extent consistent with the prevailing conditions and our limited appetite for capital exposure. We remain determined to produce the best possible outcomes for our customers, our shareholders and our people.



Sir Sandy Crombie
Group Chief Executive

Business review

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Key differences between the EEV and IFRS bases

EEV

For new business, all profits expected to arise on the contract are recognised at the point of sale. Future profits are discounted to a present value using an appropriate discount rate over the lifetime of the contract.

Profit on in-force business is recognised with the unwind of the risk discount rate as future cash flows move one year nearer to realisation. Adjustments are also made to profit in order to reflect changes to current best estimate assumptions.

IFRS

For new business, profits expected to arise on the contract in future years are not recognised. Not all acquisition costs are deferred and therefore the IFRS results recognise the initial cost or strain associated with writing long-term business.

Profit on in-force business is the statutory surplus for the year adjusted for the amortisation of deferred acquisition costs.

1.1 Group overview

Key performance indicators

Financial highlights	2008	2007	Movement
Life and pensions net flows ¹	£2,440m	£2,769m	(12%)
New business PVNBP ^{1,2,3}	£15,679m	£16,539m	(5%)
New business contribution	£264m	£345m	(23%)
EEV operating profit before tax	£933m	£881m	6%
Return on embedded value ⁴	10.9%	11.5%	(0.6% points)
Diluted EEV operating EPS ⁴	29.8p	28.3p	5%
IFRS underlying profit before tax	£154m	£714m	(78%)
IFRS profit after tax attributable to equity holders	£100m	£465m	(78%)
EEV	£6,245m	£6,211m	1%
Group assets under administration	£156.8bn	£169.0bn	(7%)
Group capital surplus ⁵	£3.5bn	£3.6bn	(3%)
EEV operating profit capital and cash generation ⁴	£423m	£563m	(25%)
Full year dividend per share	11.77p	11.50p	2.3%

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

Standard Life has produced a solid performance during 2008 despite the unprecedented market turbulence which has impacted the global financial services industry. We also witnessed unparalleled intervention by governments around the world to help support the global banking system and to protect savers and investors. These conditions have resulted in both a significant reduction in asset values and reduced consumer confidence. Our strategy and capital structure have resulted in a balance sheet that is both strong and resilient.

Financial performance

Present value of new business premiums (PVNBP) decreased by 5% to £15,679m (2007: £16,539m). Despite lower sales and associated new business contribution (NBC), we achieved increased European Embedded Value (EEV) operating profits of £933m (2007: £881m) and a return on embedded value (RoEV) of 10.9% (2007: 11.5%). The increase in operating profit was due to strong gains from our management of the back book.

Worldwide life and pensions net flows for 2008 were £2,440m (2007: £2,769m), with the strong growth in our international operations partly offsetting the impact of continued difficult market conditions in the UK. Total Group assets under administration (AUA) reduced by 7% to £156.8bn (2007: £169.0bn). This reduction compares favourably with the fall in financial markets over the same period.

International Financial Reporting Standards (IFRS) underlying profit before tax fell by 78% to £154m (2007: £714m). Excluding significant one-off transactions in both years, IFRS normalised underlying profit before tax fell by 57% to £206m (2007: £476m). The reduction is primarily due to the weakness and volatility of investment markets during 2008. The impact of this volatility has been significant within our Canadian operations due to the way that Canadian life companies typically structure non-segregated funds, with assets backing both policyholder liabilities and the shareholder surplus. IFRS profit after tax attributable to equity holders fell by 78% to £100m (2007: £465m).

Our recently announced cash injection to the Pension Sterling Fund of approximately £100m has impacted profits in 2008. We strongly believe that the action we have taken was the right thing to do, and it reflects the importance that we attach to the long-term relationships we have with customers and business partners.

The Group capital surplus remained broadly unchanged at £3.5bn, compared to £3.6bn at 31 December 2007, despite the adverse market conditions. This demonstrates the robustness of our capital position and its relatively low sensitivity to market volatility. The insensitivity of the capital surplus reflects the structure of the Group post-demutualisation and the strategy for managing the risks of the Heritage With Profits Fund (HWPF). The strength of our capital position is further highlighted by Standard & Poor's upgrading the credit rating for Standard Life Assurance Limited to A/Positive from A/Stable in May 2008 and then raising it again in February 2009 to A+/Stable.

Cash generation has remained strong in volatile markets and although there was a reduction in operating profit capital and cash generation from £563m to £423m, this included the impact of the cash injection to the Pension Sterling Fund. Core capital and cash generation of £303m fell only £31m from 2007 levels, despite the volatile markets. New business strain (NBS) continued to be comfortably covered more than two times by capital and cash generation from existing business. We have continued our focus on selling capital-lite products, to generate profitable new business without committing high levels of capital. This strategy aims to deliver high returns on investment to support business growth.

¹ 2007 net flows and present value of new business premiums (PVNBP) have been restated to reflect the inclusion of Sigma mutual funds. The 2008 net outflow impact is £217m (2007: £250m outflow). The 2008 PVNBP impact is £88m (2007: £116m).

² The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009, as they incorporate year end non-economic assumption changes.

³ The Group PVNBP percentage change figures include percentage change figures for India, which are computed based on the movement in the new business of HDFC Standard Life Insurance Company Limited as a whole to avoid distortion due to changes in the Group's shareholding in the joint venture during 2007 and 2008.

⁴ Net of tax.

⁵ Based on draft regulatory returns.

1.1 Group overview continued

We have remained focused on achieving operational excellence and efficiency during a time of economic uncertainty. We announced our Continuous Improvement Programme in 2007 and promised to deliver £100m of efficiencies by the end of 2009. In 2008 we met the £100m target one year earlier than planned, and exceeded it by £3m. Following the successful completion of this programme we have now launched the next phase of efficiency savings. This has a target of achieving a further £75m of efficiency savings over the next two years. In addition, in 2008 we achieved a further £7m reduction in Group Corporate Centre costs.

The Board proposes a final dividend of 7.70p per share, making a total of 11.77p for 2008, an increase of 2.3%. This reflects the solid progress made during the year. Looking forward the Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance. Dividend cover in 2008 of 1.0 times compares to 2.9 times for total dividend paid in respect of 2007.

Acquisition of Vebnet (Holdings) plc

On 10 October 2008, Standard Life made an unconditional offer to acquire 100% of the issued share capital of Vebnet (Holdings) plc (Vebnet) for a cash consideration of £26m. Vebnet has a well established position in the UK employee benefits and online reward market and has developed business activities in Europe and Asia. At 31 December 2008, Vebnet had 182 corporate clients and 340,393 employee users of its flexible benefits proposition. The transaction is consistent with Standard Life's strategy to accelerate the development of its corporate business through strengthening its customer base, opening up new routes to market and developing its existing product range.

Outlook

The economic environment continues to be very challenging and the outlook for markets remains uncertain.

While market conditions mean that the outlook for retail savings is likely to remain subdued, we continue to see opportunities in the profitable markets in which we operate, including group pensions and fixed income investment mandates.

As an asset managing business our revenues will inevitably be impacted by lower financial market levels. Our ongoing focus on efficiency will help mitigate the impact of this on profitability. In 2009 the Group will benefit from expense efficiencies achieved during the last year and will make a start on the next phase of delivering operational excellence, targeting a total of £75m of annual efficiency savings by 2010.

In these conditions, Standard Life will continue to pursue a capital-lite strategy and to operate conservatively, ensuring that balance sheet strength and cash generation remain priorities.

General industry matters

Our results are affected by general industry factors which could influence the Group's future development or performance. The principal risks facing the Group are discussed in Section 1.8 – Risk management. Below is a summary of some of the key uncertainties that may affect the Group.

	Description	Our response
Economic and market conditions	The unprecedented volatility of global stock markets during 2008, and the financial difficulty experienced by some major financial institutions, have attracted extensive media attention and heightened investors concerns about the safety of their investments. Although all industry sectors have been affected, the spotlight has primarily been on financial services.	• Resilient balance sheet with a strong regulatory solvency position that is relatively insensitive to stock market movements • Robust controls in place and active management to ensure that we have access to sufficient liquidity to meet operating requirements during the current market uncertainty • Embedded risk framework ensuring wide diversification of assets, application of strictly controlled credit exposure limits and active mitigation of credit risk exposures to large counterparties
Changes in demographics	The demographics of the market continue to have important ramifications in our key markets and are defined by: an ageing society; a society which appears to live in debt longer; diminishing state and employer pension provision; an increasingly polarised distribution of wealth; lower long-term birth rates.	• Our vision is to help customers around the world feel confident about their future wealth and well-being. Our expertise in the provision of long-term savings and investments products puts us in a good position to develop valuable long-term customer relationships
Treating customers fairly (TCF)	In July 2006, the FSA published a paper, <i>Treating customers fairly – towards fair outcomes for consumers</i> and outlined a framework to help us (and the senior management in firms) to understand some of the root causes of unfair consumer outcomes, and therefore reduce the risk that customers are treated unfairly.	• Our approach with customers is compatible with the TCF principles and associated FSA guidance • TCF oversight is provided through 2 levels: Level 1: Business chief executive officers and executive teams are responsible for ensuring that management information, processes, controls and governance structures are implemented to deliver the Group Board's key TCF objectives and the fair treatment of customers. Level 2: Oversight provided by compliance and audit activity to ensure that all relevant policy, processes and measures are applied
Government legislation and regulatory changes	The Financial Services Authority (FSA) has published its full feedback statement on the retail distribution review, and is expected to publish its detailed proposals in the summer of 2009. The objective of this review is to change the way in which financial products are sold to encourage higher levels of saving and ensure the needs of more consumers are met. The changes will be phased in from 2010.	• We have participated in this exercise, along with others from the investment industry and customer representatives • We will continue to be involved in all future stages of this exercise • We are actively considering the strategic effect on our business
	Currently a significant number of employees in the UK will retire with insufficient private pension provision. To counter this, the Pensions Act 2008 requires that employees are to be automatically enrolled into a pension scheme. This must be either a good quality private pension scheme or a new national savings scheme known as Personal accounts. This legislation also provides for the abolition of the option to build up an alternative to additional state pension within private money purchase pensions and will remove restrictions on the shape of such benefit already accrued. The government intends to commence these changes in 2012.	• We will continue to monitor developments and participate in discussions so that we are able to make the most of any opportunities that may arise. We believe that our business is in a strong position to respond to such changes and that regulatory changes of this nature have the potential to add momentum to our strategy
	The European Commission, with its member states, is currently conducting a review of the regulatory capital regime of the insurance industry, known as Solvency II. Once implemented, as is planned by year end 2012, it will change the way in which the European insurance industry manages its risk and capital and how it is regulated. In particular, Solvency II proposes: a realistic, economic value balance sheet approach; the adoption of modern risk management techniques; and the setting of regulatory capital requirements aligned with the risks firms are running.	• We strongly support the Solvency II initiative and have participated in all Quantitative Impact Studies (QIS) to date, most recently QIS4. We are also active in supporting and influencing the FSA's Insurance Standing Groups and Association of British Insurers (ABI) and HM Treasury working groups • Within the Group, Solvency II applies to Standard Life Assurance Limited (SLAL), including its insurance subsidiaries, and Standard Life Healthcare
Market Consistent Embedded Value (MCEV)	On 4 June 2008, the Chief Financial Officers (CFO) Forum of European Insurance Companies announced that MCEV reporting will be mandatory from year end 2009, and will replace the current EEV Principles and Additional Guidance which provide the basis of reporting for the EEV supplementary information included in this report. The European Insurance CFO Forum Market Consistent Embedded Value Principles ©* were designed to improve the transparency and comparability of embedded value. However, the MCEV Principles were designed during a period of relative economic stability and on 19 December 2008, the CFO Forum announced that it would conduct a review of the MCEV Principles in light of current economic conditions. * © Stichting CFO Forum Foundation 2008.	• As a member of the CFO Forum, the Group will participate in this review ahead of implementation of the MCEV Principles
Corporate responsibility	The financial services industry as a whole provides a valuable service to society and there is an increasing belief and expectation that companies have a duty to do this in a responsible way.	• Corporate responsibility (CR) is very important to us at Standard Life, from our organisational ambitions right through to individual roles and responsibilities • We aim to make CR an integral part of how we do business and become a leader in the financial services sector for our approach • More detail can be found in the CR section, the dedicated CR pages on our Group website or within our stand-alone CR report

1.1 Group overview continued

Objectives and strategy

Our aim is to create a leading asset managing business which builds valuable relationships with our customers around the world and generates progressive and sustainable returns for our shareholders. Our strategic objectives and how we performed against them are illustrated below. Further detail on how our businesses performed can be found in Section 1.5 – Business segment performance. Our strategic objectives and ultimately our ability to generate value for our shareholders may be subject to financial risks. Principal risks and our risk management approach are discussed in more detail in Section 1.8 – Risk management.

Our corporate purpose:

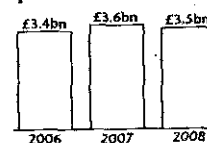
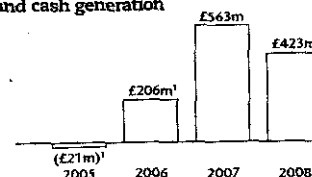
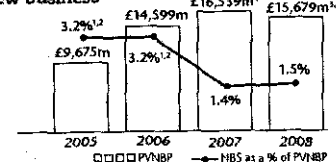
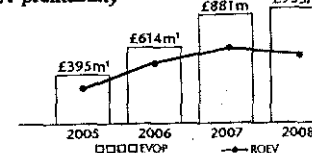
To generate sustainable, high-quality returns for our shareholders

Strategy**Create capital efficient innovative solutions**

Manage our existing book of business effectively, write profitable new business in a capital efficient manner, reduce unit costs and implement operational efficiencies through the effective use of technology.

Performance**Our mission:**

To build valuable customer relationships by helping customers grow and protect their assets

Group capital surplus**EEV operating profit capital and cash generation****New business****EEV profitability****Our vision:**

We will help customers around the world feel confident about their future wealth and well-being

Looking ahead

Deliver capital efficiency through the sale of capital-lite products, increase cash generation and grow RoEV.

¹ 2005 and 2006 results are shown on a pro forma basis.

² NBS margin for 2005 and 2006 and PVNBP sales for 2005 have not been restated to include mutual fund sales as covered business. 2007 new business strain margin has not been restated to include Sigma mutual funds. NBS margin for all years is calculated excluding Asia Pacific.

³ The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009, as they incorporate year end non-economic assumption changes.

⁴ 2007 PVNBP has been restated to reflect the inclusion of Sigma mutual funds. The 2008 impact is £88m (2007: £116m).

Open new routes to markets

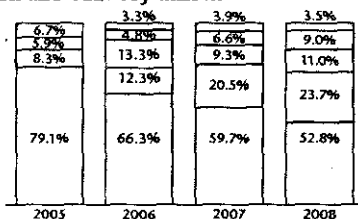
Develop and diversify distribution through enhancing relationships in existing channels, developing new relationships and exploring new markets.

Leverage investment management expertise and performance

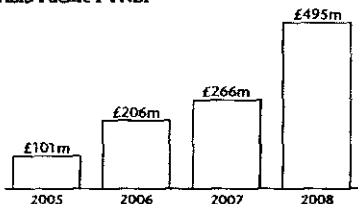
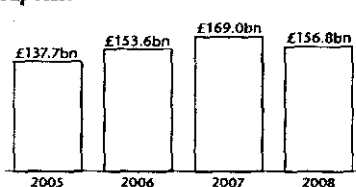
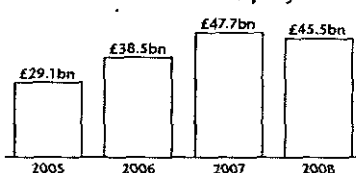
Grow assets under management (AUM) and administration (AUA) through our active investment approach and strong investment record.

Drive for operational excellence

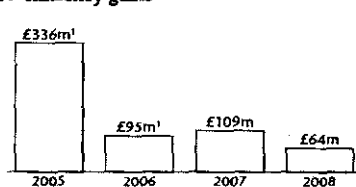
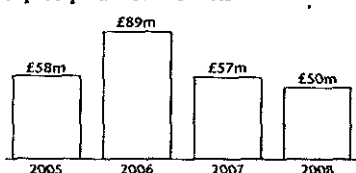
Continue to streamline our operational processes and enhance efficiency to reduce costs and keep improving the services we provide.

UK distribution by channel

- ☐ IFA
- ☐ Direct
- ☐ Fidelity
- ☐ Consultant Actuaries
- ☐ Banks/New Channels

Asia Pacific PVNBP**Group AUA****Standard Life Investments third party AUM**

Standard Life Investments:
Multi-Asset Manager of the
Year – 2008

EEV efficiency gains**Group Corporate Centre costs**

We announced our Continuous Improvement Programme in 2007 and promised to deliver £100m of efficiencies by the end of 2009. In 2008 we met the £100m target one year earlier than planned and exceeded it by £3m.

Broaden and deepen customer relationships through partners and direct routes.

Build further on our diverse sources of investment performance.

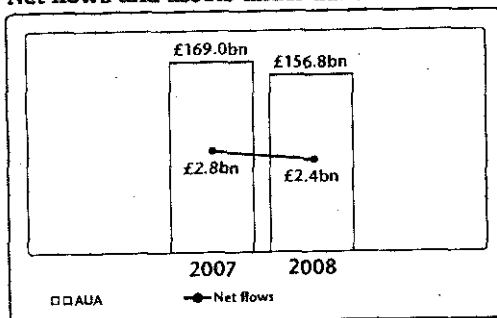
Following completion of our Continuous Improvement Programme, we have launched the next phase of efficiency savings which aims to generate a further £75m of savings over the next two years.

1.1 Group overview continued

Key performance indicators

In 2008, the Group's strategy was underpinned by focusing on a number of key performance measures. The key measures that are used to assess performance at a Group level are set out below.

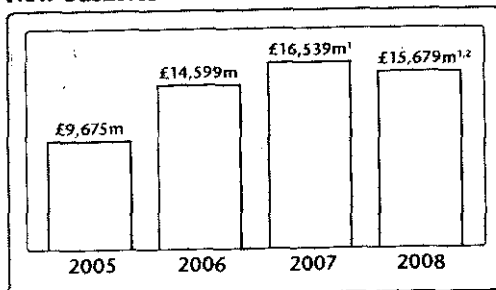
Net flows and assets under administration



As an asset managing business, net flows and assets under administration (AUA) are key drivers of shareholder wealth.

Total Group AUA reduced by 7% from £169.0bn to £156.8bn as a result of downward pressure on financial markets during the year. Despite the instability in financial markets, total life and pensions net flows, excluding Asia Pacific, decreased by only 12% to £2,440m (2007: £2,769m) and third party investment management net new business amounted to £3,395m (2007: £7,944m).

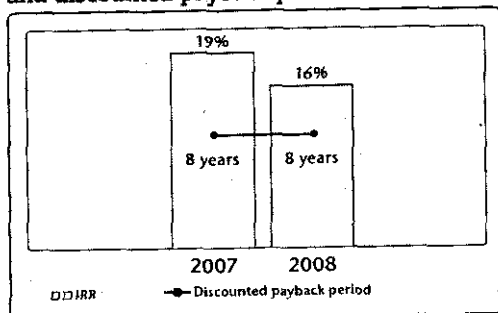
New business PVNBP



By developing and diversifying distribution through enhancing relationships in existing channels, developing new relationships and exploring new markets, we can increase the volume of new business and grow PVNBP.

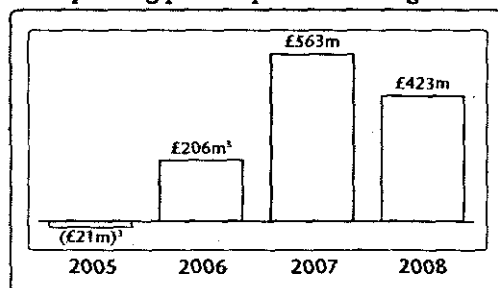
The Group's new business performance has delivered a 5% decrease in life and pensions PVNBP sales to £15,679m (2007: £16,539m). The new business results reflect solid performance against a backdrop of economic uncertainty and volatile markets and a strong comparative period. A fall in UK sales levels was partially offset by strong growth in Canada and Asia Pacific.

Internal rate of return (IRR) and discounted payback period



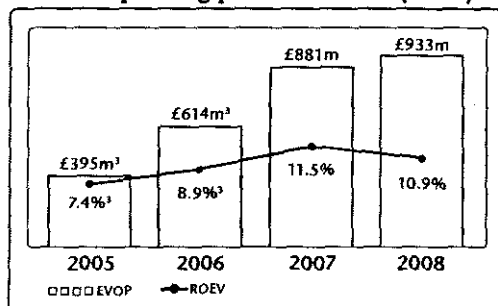
By measuring the rate of return on new business investment and how long it takes to recover the capital outlay, we demonstrate our success in writing capital efficient new business.

IRR decreased by 3% points to 16% (2007: 19%). At the same time, the payback period for new business remained stable at 8 years (2007: 8 years). Both measures have remained resilient in the current economic climate, demonstrating the benefit of our capital-lite approach.

EEV operating profit capital and cash generation

This is a measure of our ability to generate capital and cash from our business. This allows for further investment in the business and the payment of dividends to our shareholders.

EEV operating profit capital and cash generation decreased by 25% to £423m (2007: £563m). The reduction is primarily due to lower cash released from the back book in 2008, including the negative impact in respect of the Pension Sterling Fund cash injection.

Return on embedded value (RoEV) and EEV operating profit before tax (EVOP)

This is a measure of our ability to manage our existing book of business effectively and write profitable new business.

EEV operating profit before tax increased by 6% to £933m (2007: £881m) and RoEV fell by 0.6% points to 10.9% (2007: 11.5%). A reduction in core profits from lower new business contribution was offset by an increase in profits from back book management.

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report for details of the basis of calculation.

¹ 2007 PVNBP has been restated to reflect the inclusion of Sigma mutual funds. The 2008 impact is £88m (2007: £116m).

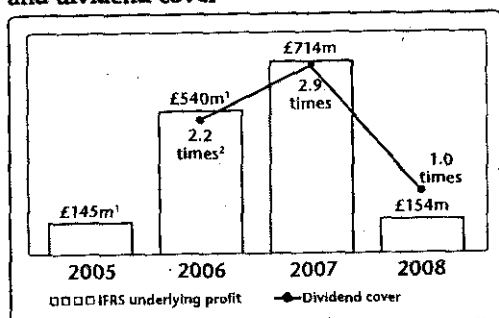
² The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009, as they incorporate year end non-economic assumption changes.

³ 2005 and 2006 results are shown on a pro forma basis.

1.1 Group overview *continued*

Key performance indicators *continued*

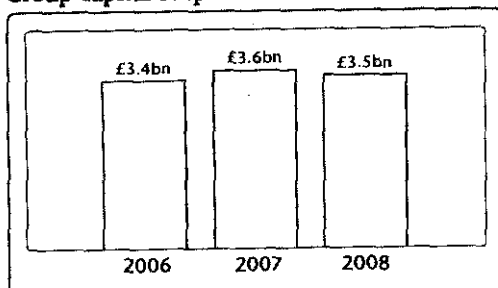
IFRS underlying profit before tax and dividend cover



Underlying profit, in association with distributable reserves, demonstrates our ability to deliver high quality returns for our shareholders and provides a measure of our dividend paying capability.

Underlying profit before tax fell by 78% to £154m (2007: £714m) and dividend cover reduced to 1.0 times (2007: 2.9 times). Excluding significant one-off transactions in both years, IFRS normalised underlying profit before tax fell by 57% to £206m (2007: £476m). This decrease was primarily caused by the impact of adverse market conditions in 2008. The Board proposes a final dividend of 7.70p per share, making a total of 11.77p for 2008, an increase of 2.3%. This reflects the solid progress made during the year. Looking forward the Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

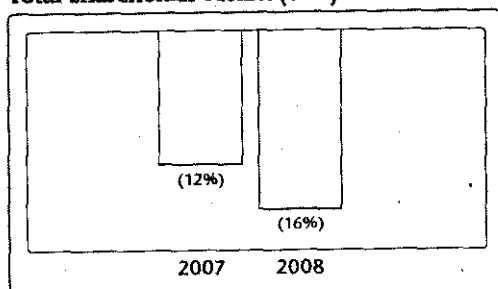
Group capital surplus



This reflects the surplus capital within the Group and is a measure of the strength of the business.

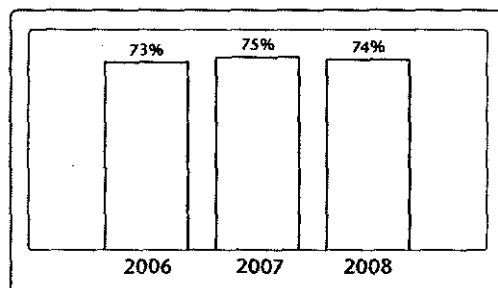
The Financial Groups Directive (FGD) capital surplus of £3.5bn at 31 December 2008 (31 December 2007: £3.6bn) has remained largely insensitive to volatile market movements, with a period end solvency cover of 218% (31 December 2007: 166%). The insensitivity of the FGD surplus reflects the structure of the Group post-demutualisation and the strategy for managing the risks of the HWPF. Our FGD surplus remains strong in the event of further market weakness.

Total shareholder return (TSR)



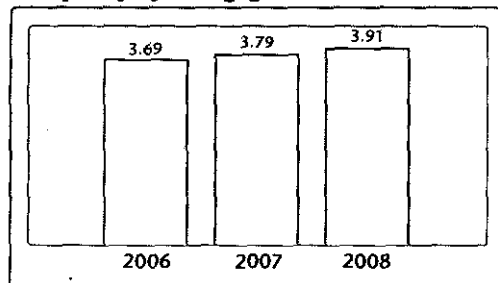
This is a measure of the overall return for shareholders, taking account of both share price movements and dividends during the year.

The TSR of negative 16% (2007: negative 12%) reflects difficult market conditions during the year but represents a significant outperformance compared to the FTSE 100 Index which recorded a TSR of negative 28% in 2008.

UK customer satisfaction

We strive to create exceptional customer experiences by always acting in the customers' best interests. To do this, it is important that we understand their needs and respond to them in a way which builds loyalty and helps our business to grow.

The UK tracking study is carried out quarterly with customers being asked how satisfied they are overall with Standard Life as a company. In 2008, overall satisfaction scores were 74% (2007: 75%), reflecting consistency with the scores from recent years. We aim to continue building on these positive scores in the future.

Group employee engagement

We believe that highly engaged people are more productive and have a positive effect on profit and shareholder value.

Global engagement scores measured in our annual employee surveys increased to 3.91 out of 5 (2007: 3.79). Between November 2007 and June 2008, all of our staff attended a one-day 'Shaping our Future' event on Group strategy. The feedback on this and other initiatives has been very encouraging, and has helped to enhance understanding amongst our people on how the Group strategy connects to individual and team objectives.

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report for details of the basis of calculation.

¹ 2005 and 2006 results are shown on a pro forma basis.

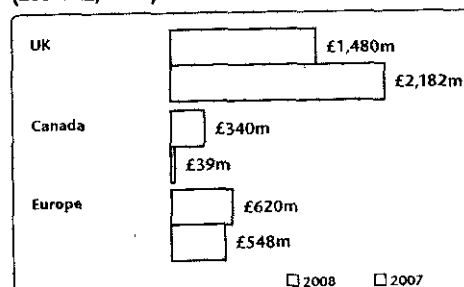
² In respect of the period from demutualisation on 10 July 2006 to 31 December 2006.

1.2 New business sales and profitability

Net flows

Group assets under administration as at 31 December 2008 were £156.8bn compared to £169.0bn at 31 December 2007. The reduction is mainly due to a fall in asset values following adverse market movements during the year. As a result of the challenging economic conditions in which we have been operating, total life and pensions net inflows (excluding Asia Pacific) decreased by 12% to £2,440m and third party investment management net new business amounted to £3,395m.

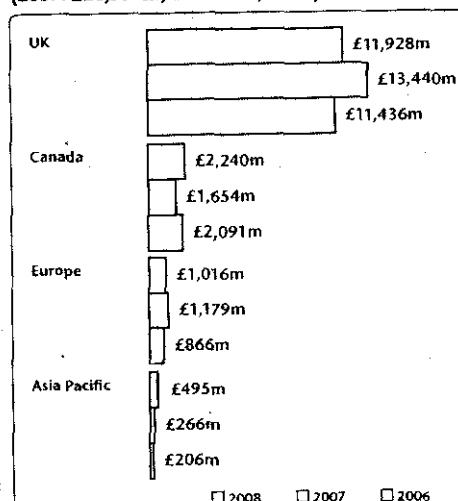
**Worldwide Group net flows £2,440m
(2007: £2,769m)**



New business sales

The Group's new business performance has delivered a 5% decrease in life and pensions PVNBP sales to £15,679m (2007: £16,539m).

**Worldwide Group PVNBP sales £15,679m
(2007: £16,539m, 2006: £14,599m)**



UK life and pensions sales at £11,928m were 11% lower than the prior year (2007: £13,440m) with sales impacted by negative market movements on incoming transfer values and lower consumer confidence. Gross lending in our banking business reduced to £1.1bn (2007: £3.7bn). This was driven by a number of strategic measures to manage liquidity and is in line with many of our competitors. Our healthcare sales rose by 14% to £25m (2007: £22m).

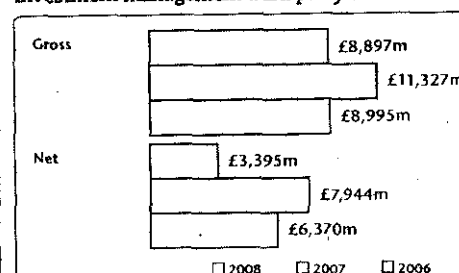
PVNBP sales in Canada increased by 23% in constant currency to £2,240m (2007: £1,654m) and reflect the continued repositioning of the business.

In Europe, PVNBP sales decreased by 26% in constant currency to £1,016m (2007: £1,179m). Our business in Ireland continues to be affected by the volatile Irish equity and property markets. In Germany, customer uncertainty in the face of market volatility negatively impacted sales. Conditions were further exacerbated by changes in German insurance contract law which reduced new business volumes.

Operations in Asia continued to have attractive growth potential. PVNBP sales increased by 17% in constant currency as branch expansion and agency recruitment continued in our joint ventures in China and India.

Against a backdrop of difficult markets, investment management sales of third party gross new business decreased by 21% and net new business by 57%. Excluding volatile flows into our money market funds, third party net inflows were £4,741m (2007: £6,853m). Third party assets under management (AUM) decreased by 5% to £45.5bn (2007: £47.7bn). Excluding the impact of the reinsurance of UK immediate annuities which resulted in £6.7bn of funds outflow, total AUM decreased by 9% during 2008. This reduction compares favourably with the fall in financial markets during the period.

Investment management third party sales



Key performance indicators

New business highlights	2008	2007	Movement
Net flows ¹	£2,440m	£2,769m	(12%)
New business PVNBP ^{1,2}	£15,679m	£16,539m	(5%)
New business APE ^{2,3}	£2,007m	£2,006m	(1%)
Investment – third party net new business	£3,395m	£7,944m	(57%)
New business contribution	£264m	£345m	(23%)
Internal rate of return	16%	19%	(3% points)
Discounted payback period	8 years	8 years	-

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

New business profitability

	NBC £m		PVNBP margin %		IRR %		Discounted payback (years)	
	2008	2007	2008	2007	2008	2007	2008	2007
UK	212	282	1.8	2.1	18	20	8	7
Canada	34	37	1.5	2.3	17	23	8	5
Europe	18	26	1.8	2.2	11	11	13	13
Total	264	345	1.7	2.1	16	19	8	8

New business profitability has been impacted by the adverse market conditions. New business contribution (NBC) decreased by 23% to £264m. The total internal rate of return (IRR) for the Group was 16% (2007: 19%) and the discounted payback period remained at eight years. We remain committed to our strategy of focusing on capital-lite products which deliver high capital returns and fast recovery of investment.

In the UK, NBC fell by 25% to £212m (2007: £282m) due to lower sales volumes and a reduction in margins resulting from sales mix including larger transactions secured at low margins. The UK IRR decreased from 20% to 18% for the full product range and the payback period has extended from seven to eight years.

In Canada, NBC decreased by 8% to £34m. PVNBP margin and IRR reduced from 2007 levels and payback period increased. These trends were mainly due to lower margin sales required in the current market and an increase in acquisition costs incurred as part of the strategy to reposition the business.

In Europe, NBC reflects lower sales due to the particularly difficult market conditions in Ireland and customer uncertainty in the face of market volatility in Germany, which was exacerbated by their recent contractual law changes. IRR and payback period were maintained at prior year levels.

Further analysis of the individual segment results can be found in Section 1.5 – Business segment performance.

¹ 2007 net flows and present value of new business premiums (PVNBP) have been restated to reflect the inclusion of Sigma mutual funds. The 2008 net outflow impact is £217m (2007: £250m outflow). The 2008 PVNBP impact is £88m (2007: £116m).

² The percentage change figures include percentage change figures for India, which are computed based on the movement in the new business of HDFC Standard Life Insurance Company Limited as a whole to avoid distortion due to changes in the Group's shareholding in the joint venture during 2007 and 2008.

³ 2007 APE has been restated to reflect the inclusion of Sigma mutual funds. The 2008 impact is £9m (2007: £12m).

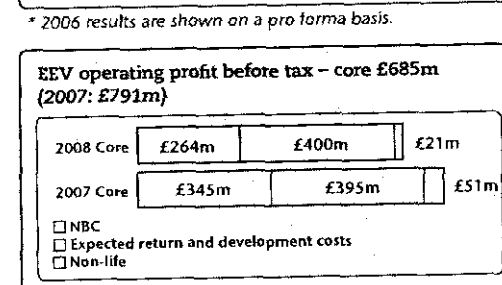
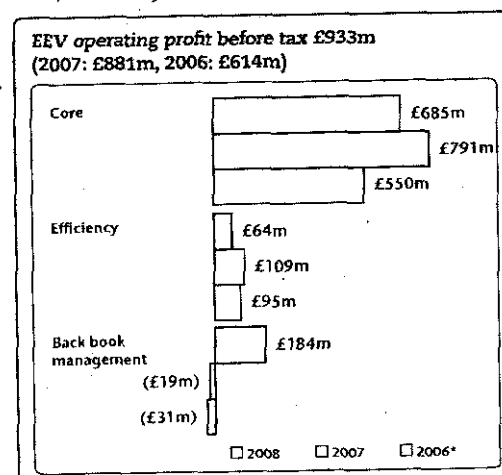
1.3 EEV – Group

EEV profit before tax

The EEV consolidated income statement, in the supplementary EEV financial statements section of this report, presents the total EEV result showing both operating and non-operating items. Total EEV loss before tax of £158m (2007: £838m profit) arose as a result of the reduction in non-operating profits. This fall was driven by the significant market volatility during the year and in particular lower than expected investment returns. We believe that EEV operating profit (before non-operating items) provides a more meaningful indication of the underlying performance of the Group. Non-operating profits and losses are mainly market driven and occur as a result of short-term investment performance being different from the long-term return anticipated in the opening EEV. Further details on the operating profit and non-operating loss are given below.

EEV operating profit before tax – core, efficiency and back book management

We analyse our EEV profits by three components that reflect the focus of our business effort – core, efficiency and back book management.



Core

Core elements comprise new business contribution (NBC), expected return, non-covered business profits and development costs for covered business other than those directly related to back book management.

The core element of our operating profit decreased by 13% to £685m (2007: £791m). The fall primarily reflected the adverse impact of market conditions on NBC which decreased by £81m. Expected return from the Group's in-force business increased by 7% to £431m (2007: £401m). £16m of this increase was due to favourable exchange rate movements.

There were losses in our Asia Pacific business of £35m (2007: £12m) on an IFRS basis reflecting the continuing increase in operational activity. The operating profits of our investment management and healthcare businesses remained resilient in the face of tough market conditions. However, banking profits were impacted and fell by £6m compared to 2007, predominantly due to lower interest margins.

NBC is covered in detail in Section 1.2 – New business sales and profitability, while non-covered business is analysed in the segmental analysis of EEV operating profit and is discussed in greater detail in the relevant business segment sections of this report.

Efficiency

These gains reflect our continued focus on cost control and have contributed towards the achievement of our 2008 expense targets.

Back book management

EEV operating profit before tax from back book management has increased significantly from a loss of £19m in 2007 to a profit of £184m for 2008.

Management of the back book focuses on reducing risks and enhancing the value of expected shareholder profits as well as capturing the impact of changes in insurance experience and assumptions. The two major insurance risks to which shareholders are exposed are lapses and mortality.

Total variances from lapse experience and assumption changes were negative £39m, an improvement of £210m compared to 2007, which reflected increased lapse activity following A-day. In our UK business, a £17m loss from lapses was primarily due to a strengthening of paid up assumptions across our UK pension business, as customers postponed payments into their pension scheme during the current volatile market conditions. Lapse experience for onshore bonds was in line with long-term

Key performance indicators

EEV highlights	2008	2007	Movement
EEV operating profit before tax	£933m	£881m	6%
Return on embedded value	10.9%	11.5%	(0.6% points)
Diluted EEV operating EPS	29.8p	28.3p	5%
EEV (loss)/profit before tax	(£158m)	£838m	(119%)
EEV	£6,245m	£6,211m	1%

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

Back book management

	UK £m	Canada £m	Europe £m	HWPF TVOG £m	2008 Total £m	2007 Total £m
Lapses	(17)	(25)	3	-	(39)	(249)
Mortality and morbidity	49	4	2	-	55	(95)
Tax	38	38	-	-	76	56
Deferred annuities	96	-	-	-	96	191
UK annuity reinsurance	96	-	12	11	119	-
Pension Sterling Fund	(108)	-	-	-	(108)	-
Other	(32)	21	(4)	-	(15)	78
Back book management	122	38	13	11	184	(19)

assumptions and was favourable compared to our short-term provision for unit linked onshore bonds established at the end of 2007. In Canada, assumptions were strengthened to reflect overall deteriorating economic conditions.

Positive mortality and morbidity experience variances and assumption changes of £55m represent an improvement of £150m on 2007 and primarily reflects the adoption of updated assumptions for UK assurance and annuity business.

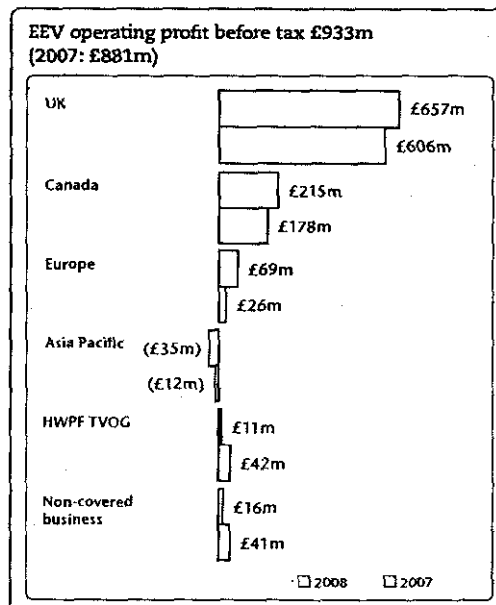
During the year, we made £96m of EEV profit from the release of provisions held in the UK deferred annuity business. This release was made possible following a further review of our annuity data in 2008. This compares with £191m of EEV profit from improved deferred UK annuity data modelling in 2007.

As reported in our 2008 *Interim results*, during the year we reinsured £6.7bn of pre-demutualisation UK immediate annuity liabilities. This represents a significant step in reducing shareholders' exposure to annuitant mortality risk and contributed £119m towards the EEV operating profit before tax. The additional profit arose mainly due to the impact of lower risk discount rates arising from the reduction in longevity risk.

On 11 February 2009, we announced that we would be making an immediate cash injection into the Pension Sterling Fund to reinstate the value of customers' units following an earlier decision to reduce the value of units to take account of market movements in the underlying assets. The cost of this on an EEV basis was £108m before tax and represents the £78m after tax charge included in the original announcement grossed up at a rate of 28%.

EEV operating profit before tax – by segment

Against volatile market conditions, EEV operating profit before tax increased by 6% to £933m (2007: £881m).



Our UK life and pensions business, excluding Heritage With Profits Fund time value of options and guarantees (HWPF TVOG), accounted for the majority of the £52m increase in total Group EEV operating profit. This was primarily due to back book management gains which included £96m of profits from the reinsurance of UK immediate annuities, a £260m improvement in lapse experience and assumption changes and £47m gains from mortality assumption changes (2007: negative £52m). These positive movements were partially offset by a £108m before tax charge for the Pension Sterling Fund payment and a £70m decrease in NBC. In addition, £96m of EEV

1.3 EEV – Group continued

profit resulted from the release of provisions in relation to UK deferred annuities during 2008, compared with £191m EEV profit in 2007 from improved deferred annuity data modelling.

Operating profit for Canada increased by £37m to £215m. This increase included higher than expected returns from in-force business, within which £13m of the £21m increase was due to favourable exchange rate movements. Positive tax experience gains of £38m compared to £25m in 2007 represent a benefit from previously unclaimed tax assets. Operating assumption changes were positive £24m (2007: £21m) and included efficiency gains and positive modelling changes offset by negative lapse assumptions of £25m to reflect overall deteriorating economic conditions. NBC was £3m less than 2007.

Europe EEV operating profit increased by 127% in constant currency, despite an £8m decrease in NBC. Lapse assumption changes of negative £1m in 2008, compared to negative £22m in 2007, when Irish lapse assumption changes were made to align to long-term assumptions. A £12m assumption change impact was as a result of improved risk margins following the reinsurance of UK immediate annuities. Expected return on existing business also increased by £7m, £3m of which was due to favourable exchange rates.

Losses in our Asia Pacific business on an IFRS basis reflect continued market expansion.

HWPF TVOG produced an £11m increase in back book operating profits, which was predominantly due to the benefit arising from reinsurance of UK immediate annuities.

The operating profit from our non-life and pensions operations was £16m (2007: £41m). This result reflects resilient operating results from our investment management and healthcare businesses despite the adverse market conditions. Operating profit for the investment management business excludes the non-operating loss related to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. Our banking business operating profits fell by £6m, which predominantly reflected lower interest margins. Other non-covered business includes operating losses which reflect lower investment returns in money market funds in Standard Life plc.

Further comments on the operating profits of each of the businesses noted above are provided in Section 1.5 – Business segment performance.

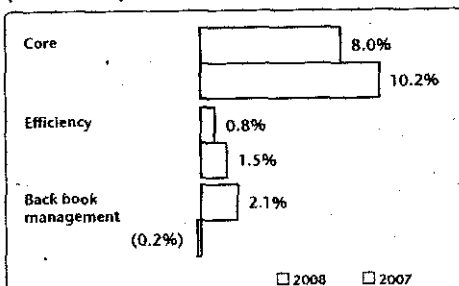
EEV operating profit after tax

EEV operating profit after tax increased by 5% to £649m (2007: £617m). The attributable tax rate was 30% in 2008 (2007: 30%).

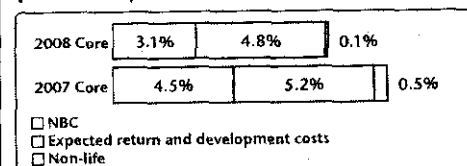
Return on embedded value (RoEV)

RoEV was 10.9% in 2008 compared to 11.5% in 2007. Back book management contributed 2.1% to total RoEV compared to negative 0.2% in 2007. This movement in back book management RoEV was primarily driven by an improvement in lapse variances and assumption changes which contributed 3.0%. In addition, the reinsurance of UK immediate annuities contributed 1.5% to the movement in back book management RoEV. These increases were partially offset by the charge to the Pension Sterling Fund which had a negative impact of 1.4%, and a smaller contribution from UK deferred annuities.

Return on embedded value 10.9%
(2007: 11.5%)



Return on embedded value – core 8.0%
(2007: 10.2%)



Diluted EEV operating earnings per share (EPS)

The diluted EEV operating EPS grew from 28.3p in 2007 to 29.8p in 2008. The basic EEV operating EPS also increased from 28.9p in 2007 to 29.8p in 2008. These positive movements were largely driven by the 5% improvement in operating profit after tax compared to 2007. EPS is based on operating profit after tax and on 2,176m shares for basic EPS (2007: 2,138m) and 2,180m shares for diluted EPS (2007: 2,177m).

EEV non-operating loss

Total non-operating loss was £1,091m in 2008 (2007: loss £43m), an increase of £1,048m from 2007, primarily reflecting lower than expected investment returns arising from the volatile markets during the year. Our life and pensions businesses produced a non-operating loss of £839m (2007: profit £4m). This included long-term investment variances of negative £849m (2007: negative £17m) and economic assumption changes of positive £48m (2007: positive £27m).

Non-life non-operating losses include £90m of total losses borne by our investment management business in relation to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. Total investment management losses in relation to this sub-fund include a £51m loss relating to the fair value movements of assets brought directly onto the balance sheet prior to 23 September 2008. On 23 September 2008, a contract was signed between Standard Life Investments and UK life and pensions which transferred future market risk on part of this sub-fund to UK life and pensions in exchange for a risk premium. Under this agreement a further loss of £73m is included within investment return and tax variances within covered business.

Included within restructuring and corporate transactions costs is £45m incurred under our Continuous Improvement Programme. Volatility arising on different asset and liability valuation bases includes unrealised fair value losses on derivatives of £94m (2007: loss £39m) in respect of non-qualifying economic hedges in our banking business.

Non-operating loss after tax

The non-operating loss after tax was £783m (2007: loss £30m). The attributed tax rate in 2008 was 28% compared to 30% in 2007.

EEV (loss)/profit after tax

Profit after tax fell from £587m in 2007 to a loss after tax of £134m in 2008.

Group embedded value

Overall, our Group embedded value remained broadly unchanged at £6,245m. Before taking into account dividends paid to shareholders, other non-trading movements and the adjustment to opening EEV, Group embedded value decreased by £134m, of which positive

£423m was from operating capital and cash generation and negative £87m was from non-operating capital and cash generation. Core capital and cash generation of £303m represents a £31m decrease from 2007 under tough market conditions. Efficiency capital and cash generation contributed £7m. Capital and cash generation from back book management of £113m was largely as a result of the reinsurance of UK immediate annuities and release of provisions in relation to UK deferred annuities, offset by a charge for the Pension Sterling Fund.

This is discussed in more detail in Section 1.7 – Capital and cash generation.

Before taking into account other non-trading movements, the present value of the in-force (PVIF) business net of cost of capital has decreased by £470m predominantly due to an expected return of negative £239m and adverse investment return and tax variances of £708m, offset by an increase from NBC written in the year of £413m.

Included within the PVIF net of cost of capital is the TVOG for the Group. This includes the UK and Europe HWPF TVOG which reflects the value of the shareholder exposure to the policyholder guarantees within the HWPF. This has increased significantly during 2008 to £220m from £41m for 2007, primarily due to adverse market movements. TVOG in Canada and Europe has also increased due to adverse market movements.

The HWPF is discussed in more detail in Section 1.7 – Capital and cash generation.

The net worth of our Group has increased from £2,884m to £3,192m due to resilient operating capital and cash generation. PVIF net of cost of capital has decreased from £3,327m to £3,053m, largely due to the impact of adverse market movements, giving a small increase in Group EEV from £6,211m to £6,245m.

Reconciliation of EEV

12 months to 31 December 2008	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Group EEV £m
Opening	2,204	680	2,884	3,327	6,211
Adjustment to opening EEV	-	-	-	32	32
Operating capital and cash generation	377	46	423	-	423
Non-operating capital and cash generation	(131)	44	(87)	-	(87)
PVIF income statement	-	-	-	(470)	(470)
(Loss)/profit after tax	246	90	336	(470)	(134)
Dividends	(257)	-	(257)	-	(257)
Other non-trading movements	155	74	229	164	393
Closing	2,348	844	3,192	3,053	6,245

1.4 IFRS – Group

IFRS profit

IFRS profit for the year was £17m (2007: £576m). This comprises profit after tax attributable to equity holders of £100m (2007: £465m) and losses attributable to minority interest of £83m (2007: profit £111m). The IFRS result included a 78% decrease in underlying profit before tax from £714m to £154m as well as the impact of a number of volatile items not included within the underlying profit. The decrease in underlying profit before tax was due to a lower value of one-off items benefiting the result in 2008 compared to 2007 and the impact of volatile markets in the period, and is explained in more detail below.

IFRS underlying profit before tax

Our IFRS statutory income statement, which shows IFRS profit after tax attributable to equity holders and the reconciliation to underlying profit is shown in the Group IFRS financial statements section of this report. We believe that the IFRS profit before tax adjusted for non-operating items provides a more meaningful analysis of the underlying business performance.

Movement in IFRS underlying profit

Underlying profit has been adversely impacted by the unprecedented market conditions and includes certain items which are one-off in nature. In 2007 these items increased underlying profit by £238m and included a reserving change on deferred annuities, additional mortality reserves on annuity business, a release of reserves relating to the adoption of the FSA's Policy Statement PS06/14 and other assumption/modelling changes.

For 2008, the one-off items totalled a charge of £52m. These included a £105m release of reserves following the reinsurance of £6.7bn of UK immediate annuities, as announced in February 2008, and a £98m release of reserves in relation to deferred annuity business. Offsetting these one-off benefits was a £102m cash injection into the Pension Sterling Fund and a charge of £29m recognised during the year relating to the reinsurance of certain contracts held by our business in Canada. In addition, as reported in April 2008, we also restructured a sub-fund of Standard Life Investments (Global Liquidity Funds) plc during the year. The total cost of this to the Group was £163m¹. Of the total costs, £124m related to the fair value movement on assets brought directly onto the balance sheet, and this is included in the underlying profit for the year.

Movement in IFRS underlying profit £m

FY 2007 underlying profit	714
Adoption of PS06/14	(138)
Additional mortality reserve on annuities	137
Reserving change on deferred annuities	(143)
Other assumption/modelling changes	(94)
Normalised FY 2007 underlying profit	476
Impact of market volatility on Canada surplus assets and reserves	(187)
Asset provisions	(32)
Decreased management charges	(38)
New business development	(23)
Reduction in corporate costs	7
Other	3
Normalised FY 2008 underlying profit	206
Reserving change on annuity reinsurance	105
Reserving change on deferred annuities	98
Restructure of global liquidity funds	(124)
Pension Sterling Fund	(102)
Change in accounting estimate of a reinsurance treaty	(29)
FY 2008 underlying profit	154

Prior to 23 September 2008, all fair value risk associated with the assets taken directly onto the balance sheet in connection with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc was borne by our investment management business. On 23 September 2008, a contract was signed between Standard Life Investments and UK life and pensions which transferred future market risk on part of this sub-fund to UK life and pensions in exchange for a risk premium. Losses of £51m prior to the contract being signed have been recognised in our investment management business and since then losses of £73m have been recognised in our UK life and pensions business.

Excluding the one-off transactions noted above, the normalised underlying profit decreased by 57% to £206m (2007: £476m) with profitability being significantly impacted by the weakness and volatility of investment markets during 2008. The impact of this volatility has been significant within our Canadian operations due to the way that Canadian life companies

typically structure non-segregated funds, with assets backing both policyholder liabilities and the shareholder surplus. Marked-to-market value adjustments in respect of surplus assets coupled with reserve increases in respect of tax and guarantees have reduced Canadian normalised underlying profit by £187m compared with the prior year. In the UK, bond impairments and defaults resulted in investment related losses of £32m. Management charges decreased by £38m due to a fall in asset values and profitability was further impacted by increased new business development costs of £23m. Operational efficiencies and strict control of expenditure in the Group Corporate Centre (GCC) had a positive impact on profitability of £7m.

Segmental analysis of IFRS underlying profit

Total life and pensions

Total life and pensions underlying profit before tax decreased by 82% to £112m (2007: £614m). UK life and pensions underlying profit before tax fell by 53% to £184m (2007: £395m). Excluding one-offs in both periods, profit increased by £34m to £156m (2007: £122m). Canada recorded an underlying loss of £102m driven by investment losses and reserve increases resulting from rising bond yields and equity market volatility. Europe underlying profit increased by 3% to £65m (2007: £63m). The life and pensions result also included a £35m underlying loss for the Asia Pacific business as we continue to invest in its development.

Non-life business

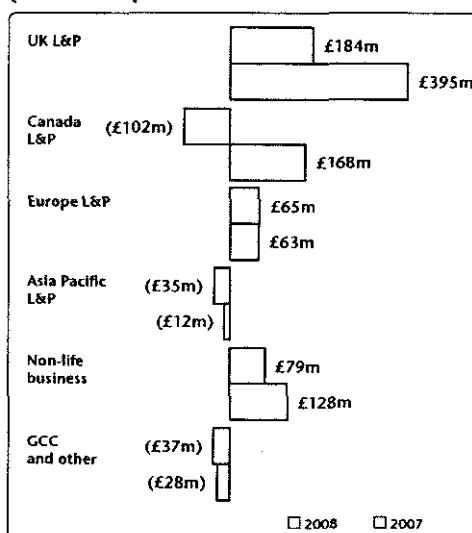
Profits from our non-life businesses fell by 38% to £79m (2007: £128m). The decrease was primarily due to the £51m fair value adjustment related to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, which impacted the results of the investment management business. Excluding this impact and despite the market turbulence, the normalised IFRS underlying result for the investment management business increased by 12% to £93m (2007: £83m) due to solid revenue growth and tight cost control.

Key performance indicators

IFRS highlights	2008	2007	Movement
IFRS underlying profit before tax	£154m	£714m	(78%)
IFRS profit after tax attributable to equity holders	£100m	£465m	(78%)
Diluted IFRS underlying EPS ²	11.7p	33.3p	(65%)
Dividend cover ³	1.0 times	2.9 times	(66%)

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

IFRS underlying profit before tax: £154m (2007: £714m)



Like many of our competitors, the profitability of our banking business was affected by the significant level of dislocation in financial markets. Underlying profit within our banking business reduced by 19% to £26m (2007: £32m). The underlying result excludes unrealised fair value losses on derivatives of £94m (2007: loss £39m) in respect of non-qualifying economic hedges.

Underlying profitability in our healthcare business decreased to £11m (2007: £13m) with an increase in earned premiums being offset by lower investment income.

Group Corporate Centre costs and other

GCC costs reduced by £7m to £50m (2007: £57m) reflecting continued operational efficiency and 'other' decreased by £16m to £13m (2007: £29m), primarily due to lower return on investments in money market funds held by Standard Life plc.

Please see Section 1.5 – Business segment performance for further detail on the IFRS underlying result for our businesses.

In our *Interim Management Statement* released on 30 April 2008, we reported that the expected net of tax impact of the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc would be £37m. This represented the after tax effect of £62m restructuring costs less the £10m guarantee already provided for by Standard Life plc as at 31 December 2007. Since 30 April 2008, an additional £101m cost has been recognised representing further fair value movements for the period to 31 December 2008. The total cost to the Group of £163m has been recognised in our investment management business (£90m) and in our UK life and pensions business (£73m). The cash cost to the Group was £24m before tax (£17m after tax) with the balance of the cost being due to marked-to-market movements.

² Diluted IFRS underlying EPS is based on 2,180m shares (2007: 2,177m shares) and the IFRS underlying profit after tax of Standard Life plc of £254m (2007: £725m).

³ Dividend cover is calculated as IFRS underlying profit after tax and minority interest for the year divided by the full year dividend.

1.5 Business segment performance

Business segment overview

Our performance across the Group demonstrates our commitment to meeting the objectives and delivering on our strategy highlighted in Section 1.1 – Group overview.

UK financial services

Life and pensions

Savings and mortgages

Healthcare

Overview

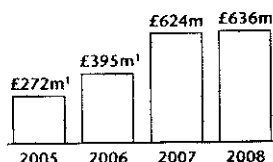
UK life and pensions is one of the largest pension, long-term savings and investment providers in the UK with £96bn of assets under administration. The UK business offers a broad range of insurance and investment wrappers, with particular strength in the accumulation market. In 2008, further developments were made to the existing Wrap platform and self invested personal pension (SIPP) product range, including increasing on-line functionality for customers. Further developments will continue to be made to the award-winning products and innovative propositions to ensure that they remain relevant to customers' lives and their changing financial needs.

The savings and mortgages business offers retail savings and mortgage products in the UK, via intermediaries and also direct to customers, all through telephone and internet-based platforms. The focus during 2008 has been on managing liquidity and the size of the mortgage book appropriately in response to ongoing volatile market conditions.

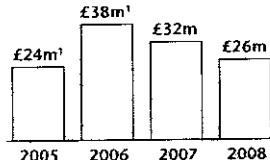
The healthcare business offers a range of private medical insurance (PMI) and other health and well-being solutions to individuals, families, small businesses and companies, and is the fourth largest PMI provider in the UK.

Performance

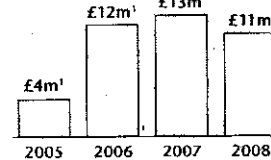
UK EEV operating profit before tax



Savings and mortgages IFRS underlying profit



Healthcare IFRS underlying profit



UK life and pensions EEV operating profit before tax increased by 2% to £636m (2007: £624m). Core elements contributed £487m, efficiency £26m and back book management £123m for the period. Internal rate of return (IRR) reduced to 18% (2007: 20%) and the discounted payback period extended to eight years (2007: seven years). Savings and mortgages put in place a number of measures to manage its exposure to mortgages during the difficult credit market conditions. As a result, gross lending reduced by 70% to £1.1bn (2007: £3.7bn). Although interest margins were squeezed, our savings and mortgages business generated a profit of £26m through exercising tight cost control. Overall new business sales in our healthcare business increased by 14% to £25m, however, profits reduced to £11m due to poor investment returns as a result of the abnormal market conditions.

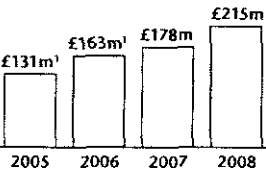
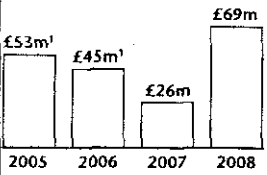
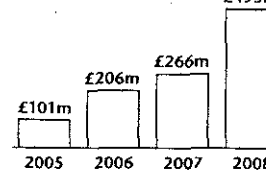
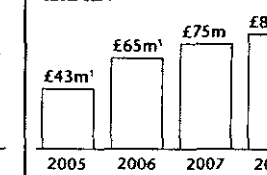
Looking ahead

In the year ahead our customers are likely to be affected by tough economic conditions, while financial market volatility will continue to impact transfer values for customers consolidating their existing assets into our individual SIPP and group pension schemes. We expect the UK savings and mortgages market to continue to be impacted by reduced mortgage funding liquidity, and the healthcare market to continue to be impacted by tough economic conditions.

However, our market leading proposition within the group pensions marketplace, and our award-winning individual SIPP, combined with our Wrap platform, will allow us to take advantage when markets and the wider economy recovers. We will continue to focus on writing profitable business across UKFS and provide first class customer service while maximising the opportunities from having a combined operating model. This will allow us to generate profitable returns in the markets in which we operate.

¹ 2005 and 2006 results are shown on a pro forma basis.

² The percentage change figures include percentage change figures for India, which are computed based on the movement in the new business of HDFC Standard Life Insurance Company Limited as a whole to avoid distortion due to changes in the Group's shareholding in the joint venture during 2007.

Canada	Europe	Asia Pacific	Investment management																																									
Standard Life Canada demonstrated a continued resilience in the face of challenging market conditions, keeping the emphasis on growth across its range of savings, retirement and insurance products. A commitment to operational and capital efficiency remained a key feature in achieving these results within the context of the distressed capital markets in the second half of 2008. Standard Life Canada currently has £18bn of assets under administration. In 2008, Canada held a series of events to commemorate the 175th anniversary of the business and to further strengthen the brand.	The operations in Europe consist of Standard Life Ireland and Standard Life Germany which operates in both Germany and Austria. The European businesses offer a range of investment and pension solutions and currently have £7bn of assets under administration. 2008 has been a difficult trading year for new business but back book efficiencies have significantly improved EEV operating profit.	Standard Life has a growing position in the Asia Pacific life and pensions market with joint venture companies in India and China and a wholly owned subsidiary in Hong Kong all showing good levels of sales growth.	The focus at Standard Life Investments is to deliver superior investment performance, supported by an exceptional client experience. Standard Life Investments operates as a global team, with its investment process underpinned by its 'focus on change' philosophy which has proved itself to be robust and repeatable in both good and bad market conditions. Over the past 10 years since its inception, Standard Life Investments has delivered a strong track record of profitable organic growth, a trend which continued in 2008 despite the very difficult market conditions.	Group strategy Create capital efficient innovative solutions																																								
Canada EEV operating profit before tax  <table border="1"><thead><tr><th>Year</th><th>Profit (£m)</th></tr></thead><tbody><tr><td>2005</td><td>131</td></tr><tr><td>2006</td><td>163</td></tr><tr><td>2007</td><td>178</td></tr><tr><td>2008</td><td>215</td></tr></tbody></table> EEV operating profit before tax increased by 10% in constant currency to £215m (2007: £178m), with increases in all operating profit elements. Although PVNBP increased, NBC, IRR and payback were adverse compared with 2007 due to lower margin sales required in the current markets and an increase in acquisition costs.	Year	Profit (£m)	2005	131	2006	163	2007	178	2008	215	Europe EEV operating profit before tax  <table border="1"><thead><tr><th>Year</th><th>Profit (£m)</th></tr></thead><tbody><tr><td>2005</td><td>53</td></tr><tr><td>2006</td><td>45</td></tr><tr><td>2007</td><td>26</td></tr><tr><td>2008</td><td>69</td></tr></tbody></table> Despite challenging market conditions, EEV operating profit before tax increased by 127% in constant currency. Both the payback period and IRR for Europe remained stable at 13 years and 11% respectively.	Year	Profit (£m)	2005	53	2006	45	2007	26	2008	69	Asia Pacific PVNBP sales  <table border="1"><thead><tr><th>Year</th><th>Sales (£m)</th></tr></thead><tbody><tr><td>2005</td><td>101</td></tr><tr><td>2006</td><td>206</td></tr><tr><td>2007</td><td>266</td></tr><tr><td>2008</td><td>495</td></tr></tbody></table> PVNBP sales increased 17%² in constant currency to £495m (2007: £266m) due to continued expansion of the distribution network and product development.	Year	Sales (£m)	2005	101	2006	206	2007	266	2008	495	Earnings before interest and tax  <table border="1"><thead><tr><th>Year</th><th>Earnings (£m)</th></tr></thead><tbody><tr><td>2005</td><td>43</td></tr><tr><td>2006</td><td>65</td></tr><tr><td>2007</td><td>75</td></tr><tr><td>2008</td><td>82</td></tr></tbody></table> Financial performance was robust, despite the difficult trading conditions. Earnings before interest and tax (EBIT) increased by 9% to £82m (2007: £75m). Costs were tightly managed, enabling investment in key areas of the business to sustain our longer term growth. IFRS normalised underlying profit before tax increased by 12% to £93m (2007: £83m).	Year	Earnings (£m)	2005	43	2006	65	2007	75	2008	82	Open new routes to markets Leverage investment management expertise and performance
Year	Profit (£m)																																											
2005	131																																											
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Year	Earnings (£m)																																											
2005	43																																											
2006	65																																											
2007	75																																											
2008	82																																											
While we expect all our product lines to be impacted by the weakening economy, our numerous product improvements in group savings and retirement and continued strong push into the disability segment in group insurance should provide for a continued positive trend in sales. Retail markets are expected to remain challenging for the foreseeable future.	Market and economic conditions in Europe continue to be challenging and we expect this will put pressure on sales during 2009. Until confidence is restored in investment markets, we expect sales to be low in both Germany and Ireland. Despite this, we believe assets under administration will continue to grow due to strong inflows from our in-force book in Germany.	We expect that the global economic recession will have an impact on markets in general and hence affect our Asian businesses. As the economies in India and China are still growing and insurance penetration is low, we believe there is still attractive growth potential for us.	We expect 2009 to be challenging for all players in the industry, including Standard Life Investments, but we remain confident in the solid underlying performance of the business.	Drive for operational excellence																																								

Business segment performance

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1.5.1 UK financial services

UK financial services (UKFS) investment and capital management policies have resulted in a balance sheet that is both strong and resilient despite the market turbulence experienced during the year. The combining of UK life and pensions, savings and mortgages, and healthcare businesses in 2007 has allowed the bringing together of capabilities across these lines of business to maximise efficiencies within the core UK market. Due to the innovative product set, reputation for customer service, and strong distribution relationships the UK business is well placed to benefit from the recovery in financial markets and the wider economy.

2008 highlights

- Maintained our position as one of the largest pension, long-term savings and investment providers in the UK with £96bn of assets under administration
- UK life and pensions EVOP increased by 2% to £636m despite lower sales
- Focused on managing liquidity and the size of our loan book within our savings and mortgages business
- Launched 'Corporate Healthcare' the new product for our large corporate clients
- Through our acquisition of Vebnet we strengthened our position within the rapidly evolving employee flexible benefits market

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Key performance indicators

UK life and pensions	2008	2007	Movement
Net flows ¹	£1,480m	£2,182m	(32%)
New business PVNBP ^{1,2}	£11,928m	£13,440m	(11%)
New business APE ¹	£1,588m	£1,675m	(5%)
New business contribution	£212m	£282m	(25%)
Internal rate of return	18%	20%	(2% points)
Discounted payback period	8 years	7 years	(1 year)
EEV covered business operating profit before tax ³	£668m	£648m	3%
EEV non-covered business operating loss before tax ⁴	(£32m)	(£24m)	(33%)
IFRS underlying profit before tax	£184m	£395m	(53%)

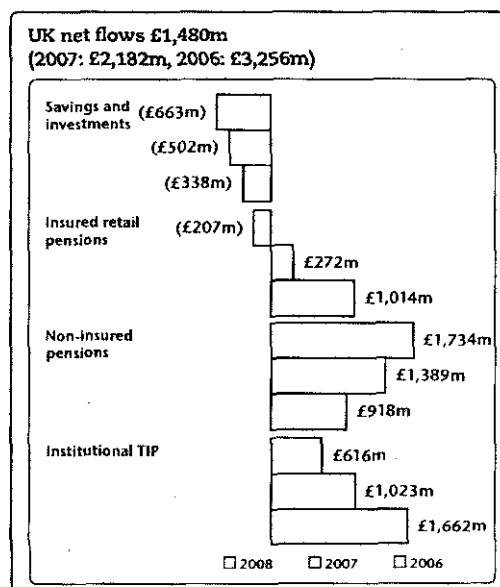
Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

Life and pensions

UK life and pensions is one of the largest pension, long-term savings and investment providers in the UK with £96bn of assets under administration. The UK business offers a broad range of insurance and investment wrappers, with particular strength in the accumulation market. In 2008, further developments were made to the existing Wrap platform and self invested personal pension (SIPP) product range, including increasing on-line functionality for customers. Further developments will continue to be made to the award-winning products and innovative propositions to ensure that they remain relevant to customers' lives and their changing financial needs.

Net flows

Net flows for the year were 32% lower at £1,480m (2007: £2,182m). Insured and non-insured pension flows were 8% lower. Institutional trustee investment plan (TIP) net inflows fell by £407m to £616m in 2008 (2007: £1,023m). Savings and investments net outflows of £663m were £161m higher than last year (2007: £502m), mainly due to lower investment bond inflows following the capital gains tax (CGT) changes introduced earlier in the year, and the impact of market uncertainty. This was partially offset by strong offshore bond inflows which increased by £345m to £632m compared to 2007.



New business sales

Total PVNBP sales were £11,928m (2007: £13,440m) a fall of 11%. Individual pensions, which includes SIPPs and increments to existing policies, decreased by 18% to £4,334m (2007: £5,302m). Within this, individual SIPP sales were £3,719m (2007: £4,536m), a fall of 18% driven by a strong comparative in 2007 and the impact of negative market movements on incoming transfer values, however, during the year we increased SIPP customer numbers by over 19,000 (2007: 21,000). Group pensions sales including retail TIP, fell by 8% to £2,600m (2007: £2,817m) reflecting lower asset values and increment levels, however, the number of scheme members increased by 20,000 during the year. Savings and investments sales decreased by 4% to £2,690m (2007: £2,788m). Within this, offshore bond sales increased by £377m to £661m (2007: £284m), due to the success of our International portfolio bond. This was offset by lower onshore bond sales, which fell by 29% to £1,298m (2007: £1,824m) due to CGT changes introduced earlier in the year, and ongoing market uncertainty. Mutual funds sales increased by 8% to £731m (2007: £680m). Protection was closed to new business at the end of 2007, with 2008 sales representing pipeline business in place at the end of 2007.

¹ The 2008 figures include Sigma mutual funds. The 2007 figures have been restated to reflect the inclusion of Sigma mutual funds. The 2008 impact is: PVNBP of £88m, APE of £9m and net outflows of £217m. The 2007 impact is: PVNBP of £116m, APE of £12m and net outflows of £252m.

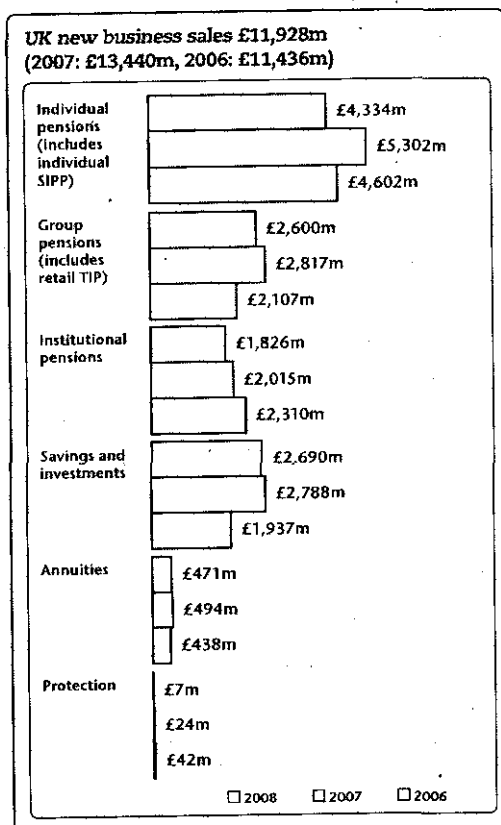
² The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009 as they incorporate year end non-economic assumption changes.

³ Includes Heritage With Profits Fund (HWPF) time value of options and guarantees (TVOG).

⁴ Includes UK defined benefit pension scheme charge and Wrap platform result.

Business segment performance

1.5.1 UK financial services continued



New business profitability

Throughout 2008, we continued to focus on profitable areas of the market where our brand and customer service give us sustainable competitive advantage. New business contribution (NBC) decreased to £212m (2007: £282m), with a new business margin of 1.8% (2007: 2.1%), which was mainly driven by lower sales during the year. Overall the internal rate of return (IRR) reduced to 18% (2007: 20%) and the discounted payback period was marginally extended to eight years (2007: seven years). New business profitability by product is analysed as follows:

Individual pensions (SIPPs and increments on existing policies): NBC fell to £56m (2007: £123m), while the PVNBP margin decreased from 2.3% to 1.3%. This was due to lower SIPP sales during the year particularly as a result of lower transfer values. The overall IRR on individual pensions reduced to 16% (2007: 29%), and the discounted payback period extended to eight years (2007: five years).

Group pensions: NBC fell to £55m (2007: £60m) while PVNBP margin remained stable at 2.1% (2007: 2.1%) with payback remaining in line with 2007 at 12 years and IRR falling marginally to 13% (2007: 14%).

Institutional pensions: NBC increased to £20m (2007: £17m) and the margin increased to 1.1% (2007: 0.8%). This was due to improved modelling of the margin, including looking through to the margins earned by our investment management business. As the capital requirements of this business are small, the IRR is very high at over 40% (2007: >40%) and the payback period is less than three years (2007: <three years).

New business profitability

	NBC £m		PVNBP margin %		IRR %		Discounted payback (years)	
	2008	2007	2008	2007 ¹	2008	2007	2008	2007
Individual pensions	56	123	1.3	2.3	16	29	8	5
Group pensions	55	60	2.1	2.1	13	14	12	12
Institutional pensions	20	17	1.1	0.8	>40	>40	<3	<3
Savings and investments	6	34	0.2	1.3	8	11	24	12
Annuities	74	54	15.8	11.0	Infinite	Infinite	Immediate	Immediate
Protection	1	(6)	8.2	(23.7)	*	*	*	*
UK Total	212	282	1.8	2.1	18	20	8	7

* Discontinued

Savings and investments: NBC was £6m (2007: £34m), with a reduced margin of 0.2% compared to 1.3% in 2007. Overall IRR on savings and investments was 8% in 2008 (2007: 11%), with a payback period of 24 years (2007: 12 years). The fall in margin, payback period and IRR was mainly due to lower onshore bond sales and lower margin bulk deals as previously reported. This was partially offset by an increase in offshore bond margin which benefited from an increase in the scale of our offshore bond operations. We have taken action to improve PVNBP margin on our onshore bond and will launch a new capital-lite onshore bond in 2009.

Annuities: NBC was £74m in 2008, significantly up on the 2007 figure of £54m, due to an improved margin of 15.8% in 2008 compared to 11.0% in 2007. The rise in bond yields has been the main contributor to the increase in PVNBP margin. We have not recognised any additional margin in respect of the further widening of bond spreads in the second half of 2008. On our EEV NBC assumptions our annuity business is cash generative.

Protection: Protection was closed to new business at the end of 2007. The NBC in 2008 reflects the contribution from existing pipeline business at the end of 2007.

Business development

One of our driving strengths in becoming a leading asset managing business has been our ability to react to changing UK market dynamics through our customer propositions. In the current market conditions consumers are seeking solutions that will provide financial security both before and after retirement.

During the year we have developed our e-commerce capabilities with SIPP online, which enables Independent Financial Advisers (IFAs) to submit SIPP applications online. We have also continued to invest in the development of our Wrap and Fundzone operations to ensure that we are able to continue capitalising on opportunities for growth and efficiency. At the same time, our current platforms have allowed our customers to make the most of market developments by making it easier for them to transfer monies from protected rights. We continue to work on developing a variable annuity proposition but are waiting for market conditions to improve before launching.

¹ 2007 PVNBP margin has not been restated to include Sigma mutual funds.

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Business segment performance

1.5.1 UK financial services continued

Our strength in the corporate pensions market is demonstrated by several recent large scheme wins. We recently announced that we were successful in securing the British Telecom plc scheme. This involves the transition of 20,000 employees currently in a trust based defined contribution scheme to a tailored Corporate self invested personal pension plan (CSIPP). We believe this scheme sets a new benchmark for group contract based schemes, and demonstrates the strength of our offering within the corporate pension marketplace.

Our offering will also be further enhanced through our acquisition of Vebnet, which has a well established position within the UK flexible employee benefits and online reward market. This acquisition is part of our strategic vision to strengthen our position within the rapidly evolving employee flexible benefits market. Vebnet brings an added layer of choice and flexibility to Standard Life's existing and future propositions, while enabling us to further develop our platform internationally.

Performance

Capital efficiency

As reported in our 2008 *Interim Results*, we reinsured £6.7bn of immediate annuity liabilities, more than half of the total annuity book of £12bn. The transaction substantially reduces longevity risk, while providing a significant increase to embedded value. It also generated a release of cash, creating a release of capital, which allows us to keep investing in profitable growth. We anticipate further improvement in our capital position in the medium term as we continue to move towards less capital-intensive products such as non-guaranteed unit linked business.

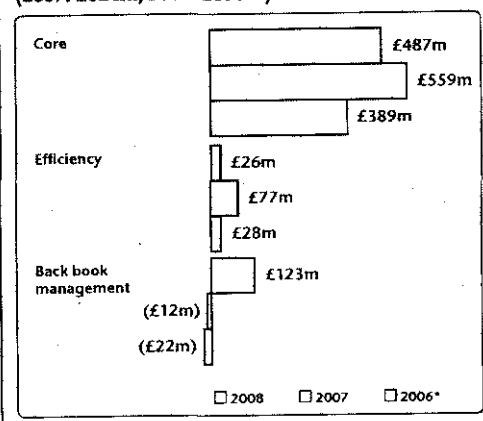
Wrap and Fundzone

As at 31 December 2008, we had 16,900 Wrap customers compared to 8,100 at 31 December 2007 and the number of IFA firms using the platform had grown to 409 compared to 209 at 31 December 2007. With total funds on the platform increasing to £1.8bn compared to £1.1bn as at 31 December 2007, we expect momentum in Wrap and Fundzone to continue building through 2009 and beyond.

EEV operating profit before tax

UK EEV operating profit including HWPV TVOG and non-covered business increased by 2% during the year to £636m (2007: £624m).

UK EEV operating profit before tax £636m
(2007: £624m, 2006: £395m)



* 2006 results are shown on a pro forma basis.

Core profit of £487m was the main contributor to operating profit in the year and comprised NBC, expected return on in-force business, non-covered business losses and new business development costs. The main driver of the £72m reduction in Core compared to 2007 was a fall in NBC of £70m. Efficiency contributed £26m (2007: £77m) to operating profit which was generated from ongoing cost control and efficiencies. Back book management of £123m (2007: negative £12m) was boosted by a £107m one-off positive impact as a result of the reduction in risk discount rate following the reinsurance of £6.7bn of UK immediate annuities. The £107m benefit is stated after sharing the benefits of the transaction with the with profits policyholders. An allowance has also been made for the loss of look-through margins in Standard Life Investments in respect of covered business. In addition, an EEV operating profit benefit of £96m (2007: £191m) arising from a review of our deferred annuity data in 2008, was offset by a charge of £108m on an EEV basis in relation to the recently announced cash injection into the Pension Sterling Fund.

Overall the result of persistency experience variance and assumption changes was negative £17m. The negative impact is primarily due to a strengthening of paid up assumptions across the pensions book, including the anticipated impact of lower levels of customer contributions into their pension during the current volatile market conditions. Lapse experience on onshore bonds was in line with long-term assumptions and was favourable compared to our short-term provision for unit linked onshore bonds established at the end of 2007.

In 2008, development costs were £33m compared to £11m in 2007. The increase in development costs is due to investments in pensions, bonds and Wrap, including technology enhancements to SIPP online, the development of our variable annuity proposition and implementing legislation changes.

IFRS underlying profit before tax

UK life and pensions IFRS underlying profit before tax was £184m (2007: £395m). As outlined in Section 1.4 – IFRS – Group, included in the result is a £73m adverse impact following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. In addition, the result also includes a £102m charge for the recently announced cash injection into the Pension Sterling Fund. The result in 2008 also includes two positive one-off items, being a £98m (2007: £143m) release of reserves in relation to deferred annuity business and a £105m reserve release following the £6.7bn reinsurance of UK immediate annuities. The 2007 result also benefited from a reserve release of £136m due to the one-off impact of adopting the FSA's Policy Statement PS06/14, and was reduced by other reserve changes of £6m. Excluding one-off operating items, the normalised underlying IFRS profit was £156m (2007: £122m), an increase of £34m.

The results exclude the impact of volatility, which arises due to the accounting mismatch of subordinated liabilities being measured at amortised cost, while the associated assets are measured at fair value, and restructuring costs relating to the Continuous Improvement Programme.

Business segment performance

1.5.1 UK financial services continued

Savings and mortgages

The savings and mortgages business offers retail savings and mortgage products in the UK, via intermediaries and also direct to customers, all through telephone and internet-based platforms.

The focus during 2008 has been on managing liquidity and the size of the mortgage book appropriately in response to ongoing volatile market conditions.

Key performance indicators

Savings and mortgages	2008	2007	Movement
Mortgages under management	£9.7bn	£11.3bn	(14%)
Gross lending	£1.1bn	£3.7bn	(70%)
Savings and deposits	£5.0bn	£4.6bn	9%
IFRS underlying profit before tax	£26m	£32m	(19%)
Return on equity after tax	6.1%	6.6%	(0.5% points)
Interest margin	54bps	60bps	(6bps)
Cost income ratio ¹	58%	60%	2% points

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

¹ Cost income ratio calculated as total operating expenses (excluding impairment provisions) divided by total underlying income.

New business

Savings balances increased by 9% to £5.0bn (2007: £4.6bn) with SIPP and Wrap balances growing to £1.5bn (2007: £0.6bn). Our savings business benefited from the uncertain stock markets, as customers choosing to hold cash over other assets took advantage of our competitive products.

Competition in the UK mortgage market declined during 2008 due to the continuing effects of the global credit crisis, which has driven up costs of funding, resulting in reduced availability of mortgage products as lenders look to control their level of mortgage exposure. The market also came under pressure from falling house prices and rising unemployment as the economy began to slow down. As a result, gross lending reduced to £1.1bn (2007: £3.7bn) as we focused on strategic measures to reduce liquidity risk and manage profitability in response to market conditions. This strategy was in line with many mortgage lenders, with gross lending across the entire industry reducing by 30% to £256bn in 2008 (2007: £364bn), according to the Council of Mortgage Lenders (CML).

Funding

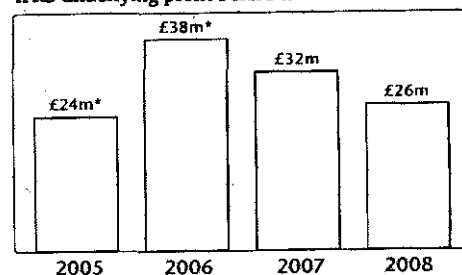
We remain well capitalised with a high quality mortgage book and have access to a range of funding sources. We have actively reduced our funding requirements during 2008 and did not draw down on any committed facilities. All regulatory liquidity and capital ratios remained within target ranges during the year. £1.8bn of maturities within the Lothian securitisation programme were successfully refinanced during 2008 with no further securitisation maturities until 2011.

We continue to look to diversify our funding base, launching a 5bn Euro covered bond programme on 9 July 2008. To date £2.1bn of covered bonds have been issued, all bonds being retained on the balance sheet for use as collateral in funding operations. Subsequent to the year end we received approval as an eligible institution under the UK Government 2008 Credit Guarantee Scheme which provides for HM Treasury to guarantee specific debt instruments issued by banks and building societies. In February 2009, we launched our Euro Medium Term Note programme and issued £500m of AAA rated debt covered by the Credit Guarantee Scheme.

Performance

Our savings and mortgage business produced a resilient performance in a year of adverse market conditions, with the priority being to manage profitability whilst ensuring liquidity requirements were met. IFRS underlying profit before tax (excluding volatility in respect of non-qualifying economic hedges) decreased by 19% to £26m (2007: £32m).

IFRS underlying profit before tax



* 2005 and 2006 results are shown on a pro forma basis.

Return on equity in 2008 was 6.1% (2007: 6.6%), with our ability to achieve our 15% target continuing to be impacted by the effects of the credit crisis. In line with many of our competitors, adverse funding conditions have reduced interest margins, which fell to 54 basis points in 2008 (2007: 60 basis points), although careful balance sheet management helped mitigate this impact.

Cost income ratio improved in 2008 to 58% (2007: 60%) due to efficiency gains which led to reductions in operational expenses.

Despite deteriorating economic conditions, characterised by reduced consumer confidence, rising unemployment and falling house prices, we continue to maintain a high quality mortgage portfolio, with arrears figures low in comparison to the CML average. Only 0.40% of total mortgages were three or more months in arrears or in repossession at the end of 2008, less than a fifth of the CML industry average of 2.09%. Although impairment charges increased to £4.5m in 2008 (2007: £0.1m credit), net write-offs for 2008 were only £0.7m (2007: £0.2m), further testament to the high quality of our mortgage portfolio.

Healthcare

The healthcare business offers a range of private medical insurance (PMI) and other health and well-being solutions to individuals, families, small businesses and companies, and is the fourth largest PMI provider in the UK.

New business

Our overall new business sales increased by 14% to £25m (2007: £22m), while in-force premium income increased to £295m (2007: £284m) despite the impact of adverse economic conditions. This was achieved whilst adhering to our strategy of writing only profitable business. Building on our developments in 2007 we launched a new modular product for Small and Medium Enterprises (SMEs). This allowed sales to our SME and corporate customers to grow by 28% compared to 2007, offsetting lower individual new business sales.

Performance

IFRS underlying profit before tax was £11m (2007: £13m), before taking into account one-off costs relating to integration of the PMI business acquired from FirstAssist in 2006, and project costs associated with the development of a new computer system. The £2m fall in IFRS underlying profit for the year was due to poor investment returns, where abnormal market conditions in the second half of the year led to reductions in the market value of investments in money market funds.

The significant increase in underwriting profit compared to 2007 was due to improvements in the claims ratio and an increase in earned premium. Return on equity for 2008 was 8.6% (2007: 7.7%).

Key performance indicators

Healthcare	2008	2007	Movement
New business	£25m	£22m	14%
In-force premium income	£295m	£284m	4%
IFRS underlying profit before tax	£11m	£13m	(15%)
Underwriting profit	£12m	£2m	500%
Return on equity after tax	8.6%	7.7%	0.9% points
Claims ratio	68.8%	70.8%	2.0% points

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

UK financial services

Operational efficiencies

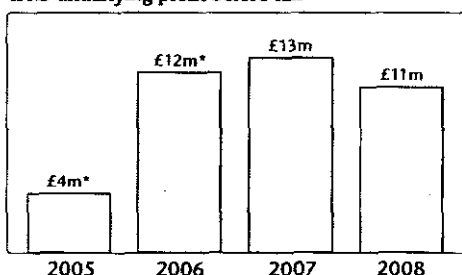
We have worked hard through our Continuous Improvement Programme to grow our business and control costs across UKFS. This has made us more efficient, generated additional productivity savings in 2008 and allowed us to reduce headcount during the year. We will continue to focus on realising productivity gains across UKFS in 2009.

Looking ahead

In the year ahead our customers are likely to be affected by tough economic conditions, while financial market volatility will continue to impact transfer values for customers consolidating their existing assets into our individual SIPP and group pension schemes. We expect the UK savings and mortgages market to continue to be impacted by reduced mortgage funding liquidity, and the healthcare market to continue to be impacted by tough economic conditions.

However, our market leading proposition within the group pensions marketplace, and our award-winning individual SIPP, combined with our Wrap platform, will allow us to take advantage when markets and the wider economy recovers. We will continue to focus on writing profitable business across UKFS and on providing first class customer service while maximising the opportunities from having a combined operating model. This will allow us to generate profitable returns in the markets in which we operate.

IFRS underlying profit before tax



* 2005 and 2006 results are shown on a pro forma basis.

Business segment performance

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1.5.2 Canada

Standard Life Canada demonstrated a continued resilience in the face of challenging market conditions, keeping the emphasis on growth across its range of savings, retirement and insurance products. A commitment to operational and capital efficiency remained a key feature in achieving these results within the context of the distressed capital markets in the second half of 2008. Standard Life Canada currently has £18bn of assets under administration. In 2008, Canada held a series of events to commemorate the 175th anniversary of the business and to further strengthen the brand.

2008 highlights

- EVOP growth of 10% in constant currency from strong operational efficiency
- New business up 23% in constant currency to £2,240m
- Strong growth in core target markets of defined contribution and disability management
- Enhanced corporate visibility, sales force and product development
- Increased focus on operational synergies within Canada and within the Group

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Key performance indicators

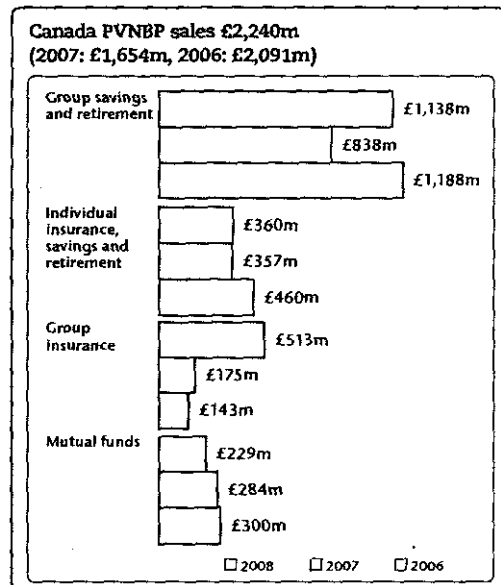
Canada	2008	2007	Movement
Net flows	£340m	£39m	772%
New business PVNBP ¹	£2,240m	£1,654m	35%
New business APE	£195m	£157m	24%
New business contribution	£34m	£37m	(8%)
Internal rate of return	17%	23%	(6% points)
Discounted payback period	8 years	5 years	(3 years)
EEV operating profit before tax	£215m	£178m	21%
IFRS underlying (loss)/profit before tax	(£102m)	£168m	(161%)

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

Net flows and new business sales

Net flows have increased eightfold in constant currency to £340m (2007: £39m). This was underpinned by strong sales growth following the successful repositioning of the business, and higher inflows across group savings and retirement products, which exceeded scheduled annuity payments.

PVNBP sales increased by 23% in constant currency to £2,240m (2007: £1,654m).

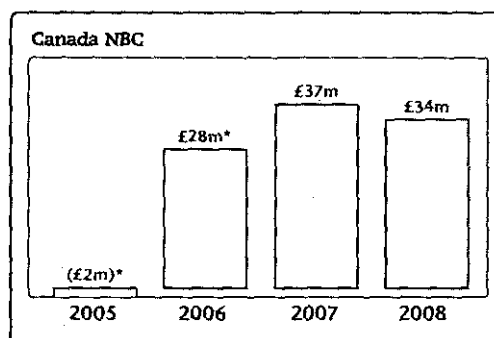


Group savings and retirement sales increased by 24% in constant currency to £1,138m, despite aggressive competition within the market. We strengthened our leadership in our core target market segment of mid-to-large defined contribution business with various enhancements to our offering, highlighting our investment programme, servicing capabilities and operating platform. Sales of mid-to-large defined contribution business represented more than half of total group savings and retirement sales, and were up 62% in constant currency to £612m. Members in our defined contribution plans increased by 6% to more than 587,000. This includes our successful retention of policyholders who have transferred out of a group scheme into our roll-over programme, Standard Life Advantage, with an increase of 16% to 71,000 members. The

increase in PVNBP sales was also driven by a large defined benefit administration mandate secured in the second quarter. The constant currency reduction in individual insurance, savings and retirement sales reflects the difficult market conditions for retail investment funds. Sales of mutual funds were severely impacted by the volatile equity markets, and decreased 27% in constant currency. In group insurance, sales volumes increased by 168% in constant currency, largely due to modelling changes regarding renewal assumptions. Excluding these changes, sales increased by 29% in constant currency, reflecting the continued success of our differentiated value proposition in the disability insurance segment. Sales in this core segment of long-term disability insurance increased by 164%² in constant currency, including £26m in sales of ConsultAction, our innovative capital-free disability and absence management consulting product.

New business profitability

New business contribution (NBC) decreased to £34m (2007: £37m) and PVNBP margins were 1.5%, down from 2.3% in 2007.



* 2005 and 2006 results are shown on a pro forma basis.

This is consistent with our strategy to price products more competitively where we are still able to attain an attractive internal rate of return (IRR). The large defined benefit mandate mentioned previously was secured at a low margin with an IRR of 23%. Overall IRR reduced to 17% (2007: 23%) and the payback period extended to eight years (2007: five years), due largely to higher acquisition expenses incurred as a result of our efforts to improve market visibility and re-start growth.

¹ The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009 as they incorporate year end non-economic assumption changes.

² APE basis.

Business segment performance

1.5.2 Canada continued

Business development

We have set out to increase our distribution and sales capabilities, most notably in our retail line, and strengthen our corporate visibility in Canada, while maintaining our commitment to product innovation and profitability. We have made investments in staff and training and increased our sales force since the end of 2007. Most of the impact of this enhanced capability in our retail line was counteracted by the adverse market conditions. Our visibility campaign was successful, with enhanced presence in media across Canada. Our global design studio again delivered top quality and innovative material, highlighted by three Insurance and Financial Communicators Association awards for the quality of our media and print campaigns.

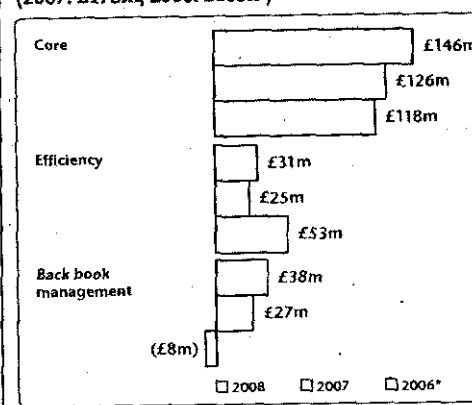
We continued to enhance our group savings and retirement offering with new product features, better customer service and improved transactional capabilities, including electronic solutions. We refined our client strategy and approach and were able to maintain a good retention rate of assets and clients, despite the volatile market conditions. Our new leading-edge website, which helps members manage their retirement assets and gives sponsors one-stop access to information and self-service, was another strong enabler of growth and client retention. We have entered into an alliance with a distributor to offer creditor insurance, reinforcing our traditional group insurance products. We actively pursue cross-selling initiatives within our group lines and delivered further sales during the year. We expanded our retail offering with new funds, and further leveraged our global fund management expertise by introducing new international funds in the Canadian marketplace. We also leveraged our recognised institutional fund management expertise by positioning it within our retail market proposition, introducing marketing tools that enhance the interaction between our fund management experts and our sales force and distributors. This increased collaboration will enable us to bolster the positioning of our funds in a crowded marketplace. Investment management performance was solid in 2008, with close to 70% of our retail funds ranking in the top two quartiles for one year returns¹.

Performance

EEV operating profit before tax

EEV operating profit before tax amounted to £215m (2007: £178m). In constant currency, EEV operating profit before tax increased by 10%, with increases in all operating profit elements.

Canada EEV operating profit before tax £215m (2007: £178m, 2006: £163m)



* 2006 results are shown on a pro forma basis.

The core element accounted for £146m compared to £126m in 2007, an increase of 6% in constant currency. This was driven by an improvement in total expected return of £22m to £113m (2007: £91m). This increase was offset by a £3m decrease in NBC to £34m (2007: £37m). The efficiency result amounted to a gain of £31m (2007: £25m). The back book management operating result was a gain of £38m (2007: £27m). Positive changes from tax management of £38m and modelling and assumption changes in group insurance of £27m were offset by a £25m charge to operating assumptions to prudently safeguard against overall deteriorating economic conditions.

IFRS underlying profit before tax

IFRS underlying profit before tax decreased by 161% to a loss of £102m (2007: profit £168m), largely driven by investment losses resulting from unfavourable bond returns in line with rising bond yields and equity market volatility. Whereas most losses from assets supporting policyholder liabilities are offset by corresponding changes to those liabilities, volatility on assets supporting shareholder capital directly impacts earnings, and such losses totalled £43m (2007: gains of £44m). We have and will continue to take action to reduce volatility from our balance sheet. Equity and interest related charges due to policy guarantees and a strengthening of policyholder liabilities because of lower asset values, amounting to £42m and £58m respectively, were also recognised as a result of the challenging financial conditions. IFRS underlying profit before tax was further impacted by a one-off increase in policyholder liabilities of £29m in relation to a reinsurance treaty. Other movements included a fall in fee income related to lower asset values, increased investment in relation to re-starting growth and other reserving increases in 2008. The business had no material exposure to troubled US financial institutions and faced no asset-backed commercial paper or sub-prime issues.

Looking ahead

Investment was made in 2008 to enhance our corporate visibility and position ourselves as a leader in the retirement market. While we expect all our product lines to be impacted by the weakening economy, our numerous product improvements in group savings and retirement and continued strong push into the disability segment in group insurance provides a stronger position for growth. We maintain an active pipeline and the business recently secured a large defined contribution mandate expected to transition in the second quarter of 2009. In group insurance, our disability risk management differentiated value proposition is recognised by the industry and will position us favourably to win market share with plan sponsors as they seek to contain employee costs in the current economic context. Retail markets are expected to remain challenging for the foreseeable future.

¹ Comparatives based on Morningstar Canada database.

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Business segment performance

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1.5.3 Europe

The operations in Europe consist of Standard Life Ireland and Standard Life Germany, which operates in both Germany and Austria. The European businesses offer a range of investment and pension solutions and currently have £7bn of assets under administration. 2008 has been a difficult trading year for new business but back book efficiencies have significantly improved EEV operating profit. Looking forward, the European businesses intend to strengthen operations by repositioning distribution in existing markets and then expanding into new markets, exploiting the opportunities presented by changing regulations and the growing demand for wealth management solutions across Europe.

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2008 highlights

- New business IRRs and payback periods have remained in line with 2007 despite the challenging market conditions
- New business PVNBP decreased 26% in constant currency to £1,016m
- Increased EVOP by 127% in constant currency due to active back book management, with notable efficiency and persistency improvements
- Continued development of our businesses in Ireland and Germany including development of innovative new propositions and repositioning distribution

Net flows and new business sales

Total net flows for 2008 in Europe have fallen slightly in constant currency with the strength of German gross inflows offsetting the weakness in the Irish market during the first three quarters of the year. Total new business sales in Europe decreased by 26% in constant currency to £1,016m (2007: £1,179m).

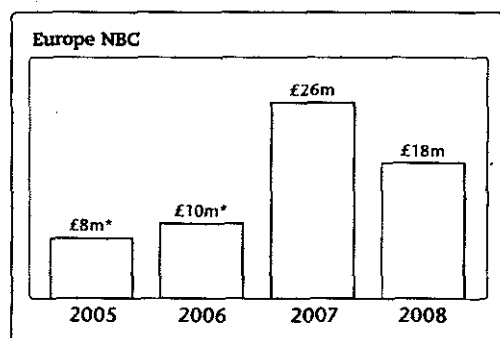
In Germany, PVNBP sales of £602m (2007: £722m) were 28% lower than 2007 in constant currency. The German market was adversely impacted by customer uncertainty in the face of market volatility and exacerbated by changes in insurance contract regulations at the beginning of 2008 and the mid-year introduction of transparency rules. This has resulted in poor market sentiment and a lower than normal peak in sales volumes at year end.

PVNBP sales in Ireland fell 22% in constant currency to £414m (2007: £457m). The Irish market had an extremely difficult year with total market sales down 30% including trustee investment plan (TIP) business and single premium sales down 48%. Based on a number of new product launches, we reversed the trend

in the market in the last quarter by achieving an increase of 38% (excluding TIP business) relative to Q4 2007. We also strengthened our position in the single premium pensions market.

New business profitability

New business contribution in Europe fell in 2008. However, overall internal rate of return (IRR) and discounted payback period remained in line with 2007. In Germany, the IRR remained stable with stronger underlying profitability compensating for reduced sales volumes. The IRR in Ireland has increased reflecting improved capital efficiency.



* 2005 and 2006 results are shown on a pro forma basis.

Business development

Across Europe we are focused on strengthening our existing operations and improving efficiency while also responding to the difficult market conditions with innovative solutions for customers and distributors.

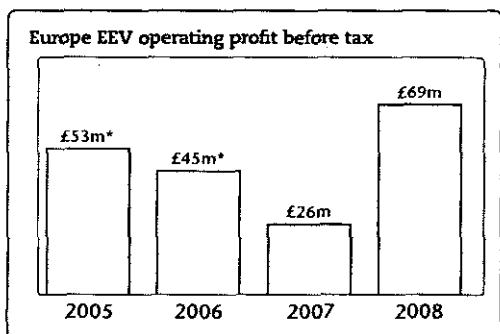
In Germany, we have a pipeline of planned product enhancements that will increase the capital efficiency of the business while also strengthening our position in the corporate and wealth management markets.

In Ireland, the continued development of our self investment Synergy product range, particularly our extensive deposit options, has now positioned our platform as the most comprehensive in this space.

Performance

EEV operating profit before tax

EEV operating profit before tax increased by 127% in constant currency to £69m (2007: £26m), despite the impact of lower new business levels.



* 2005 and 2006 results are shown on a pro forma basis.

Key performance indicators

Europe	2008	2007	Movement
Net flows	£620m	£548m	13%
New business PVNBP	£1,016m	£1,179m	(14%)
New business APE	£106m	£125m	(15%)
New business contribution	£18m	£26m	(31%)
Internal rate of return	11%	11%	-
Discounted payback period	13 years	13 years	-
EEV operating profit before tax	£69m	£26m	165%
IFRS underlying profit before tax	£65m	£63m	3%

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

This was mainly due to active back book management in both Germany and Ireland, with notable efficiency and persistency improvements.

IFRS underlying profit before tax

IFRS underlying profit before tax decreased by 11% in constant currency to £65m (2007: £63m) with Germany contributing £62m (2007: £56m) and Ireland contributing £3m (2007: £7m). The small constant currency reduction in Germany was primarily due to the pre-determined decreasing transfer of profit to shareholders from the Heritage With Profits Fund being largely offset by increased profits emerging from the post-demutualisation business. In Ireland, the IFRS result benefited from lower strain as a result of lower new business sales but was also impacted by reduced revenue due to investment market performance.

Looking ahead

Market and economic conditions in Europe continue to be challenging and we expect this will put pressure on sales during 2009. Until confidence is restored in investment markets we expect sales to be lower in both Germany and Ireland. Despite this, we believe assets under administration will continue to grow due to strong inflows from our in-force book in Germany.

In the short term, we are transforming our European operations into an asset managing business. This means launching new products, re-engineering our current product range to improve capital efficiency, aggressively managing our cost base and continuing to offer innovative solutions to the individual wealth management and corporate markets. We expect growth to be delayed while the business is transformed and new propositions are established.

In the medium and longer term, prospects for Europe are good. We are well positioned to build on our strength in distribution, market leading platform propositions and range of investment solutions to grow in both existing and new markets.

Business segment performance

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1.5.4 Asia Pacific

Standard Life has a growing position in the Asia Pacific life and pensions market with joint venture companies in India and China and a wholly owned subsidiary in Hong Kong all showing good levels of sales growth.

2008 highlights

- Attractive growth potential in Asia
- New business PVNBP increased 17% in constant currency to £495m
- Continued development in the region
- Continued expansion and diversification of distribution channels

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Key performance indicators

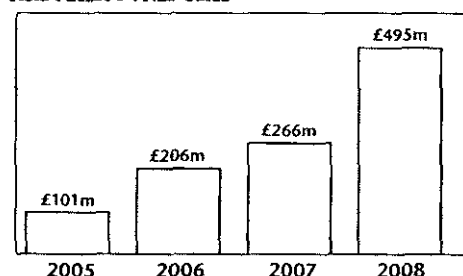
Asia Pacific	2008	2007	Movement
New business PVNBP ¹	£495m	£266m	24%
New business APE ¹	£118m	£49m	57%
IFRS underlying loss before tax	(£35m)	(£12m)	(192%)

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

New business

Despite difficult trading conditions towards the end of the year, Asia continued to achieve good growth, with total PVNBP sales up 17%¹ in constant currency terms to £495m (2007: £266m). APE sales were up 49%¹ in constant currency to £118m (2007: £49m).

Asia Pacific PVNBP sales



In India, HDFC Standard Life Insurance Company Limited (HDFC SL) delivered good results with PVNBP of £345m (2007: £187m), growth of 4%¹ in constant currency terms. APE sales were up 40%¹ in constant currency to £93m (2007: £38m). The number of financial consultants appointed by the joint venture has increased by approximately 70,000 during the year to 202,000 (31 December 2007: 132,000) and the number of branches increased by 70 to 606 (31 December 2007: 536).

In China, Heng An Standard Life Insurance Company Limited (HASL) performed well with PVNBP up by 69% in constant currency terms compared to 2007. This reflects strong growth in group products, bank distribution and continued business expansion in major cities within existing provinces. HASL is now in 25 cities, across 7 provinces, after establishing a presence in a further 11 cities during the year.

Performance

Asia Pacific IFRS underlying loss at £35m (2007: £12m) was higher than the prior year as we continued to invest in developing and expanding operations in this region. We expect our investment in strategic growth to have a continued impact on the IFRS underlying result.

Looking ahead

We expect that the global economic recession will have an impact on markets in general and hence affect our Asian businesses. As the economies in India and China are still growing and insurance penetration is low, we believe there is still attractive growth potential for us.

In India, we will continue to drive growth through the individual sales channel and also aim to penetrate other channels. However, we expect alternative channel volumes to decrease as banks set up their own insurance companies. We will also continue to drive efficiencies as products and processes become more established.

In China, HASL plans to increase the strength and scale of its business by continuing to expand into new cities. We expect to diversify distribution channels further and to continue to penetrate the group pensions market.

Growth in our Hong Kong business will be driven by strong relationships with key brokers and strong product and marketing support.

¹ The percentage change figures include percentage change figures for India which are computed based on the movement in the new business of HDFC Standard Life Insurance Company Limited as a whole to avoid distortion due to changes in the Group's shareholding in the joint venture during 2007.

Business segment performance

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1.5.5 Investment management

The focus at Standard Life Investments is to deliver superior investment performance, supported by an exceptional client experience. Standard Life Investments operates as a global team, with its investment process underpinned by its 'focus on change' philosophy which has proved itself to be robust and repeatable in both good and bad market conditions. Over the past 10 years since its inception, Standard Life Investments has delivered a strong track record of profitable organic growth, a trend which continued in 2008 despite the very difficult market conditions.

2008 highlights

- Solid net third party sales in very difficult circumstances
- EBIT up 9% to a record £82m, with revenues up 7% and costs held flat year on year
- Continued to develop and expand innovative new products, like Global Absolute Return Strategies (GARS)
- Restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc completed at a cost of £90m
- Well positioned for a difficult year ahead

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Key performance indicators

Investment management	2008	2007	Movement
Third party assets under management (AUM)	£45.5bn	£47.7bn	(5%)
Total assets under management	£123.8bn	£143.4bn	(14%)
Third party gross new business	£8,897m	£11,327m	(21%)
Third party net new business	£3,395m	£7,944m	(57%)
Earnings before interest and tax (EBIT)	£82m	£75m	9%
IFRS normalised underlying profit before tax ¹	£93m	£83m	12%
IFRS profit before tax	-	£100m	(100%)
EBIT margin	30%	30%	-

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

Standard Life Investments delivered a strong underlying performance in 2008, against a background of extremely volatile and dislocated markets. The sales momentum of past years continued in 2008 with solid net sales of third party business largely offsetting the very substantial fall in market values. Revenue grew by 7%, the average revenue yield continued to strengthen and costs were held flat against 2007. EBIT grew by 9% to £82m and a strong EBIT margin of 30% was maintained. We have focused throughout the year on maintaining high levels of customer service and protecting existing relationships while managing our current revenue streams and cost base very tightly. We have also continued to invest in building our capabilities, particularly in global equities, global fixed income, global property and global absolute return strategies, in order to build future revenue streams and emerge stronger from the current downturn. Our IFRS profit before tax was impacted by a one-off decision to restructure a sub-fund of Standard Life Investments (Global Liquidity Funds) plc at a total cost of £90m. The business broke even at the pre-tax level after this charge.

Financial market overview

During 2008, the UK industry experienced substantial net outflows of funds. As in previous market downturns, this was particularly felt at the retail end of the market. Standard Life Investments' business model, with around 80% of our third party AUM coming from institutional clients, has provided substantial protection against the worst impacts of the current market conditions. Outflows across the business were broadly comparable to 2007 and no major institutional clients were lost. Revenue levels were therefore maintained and strengthened at a time when others are expected to have experienced substantial falls.

Investment performance

Despite a dip in short-term UK equity performance due to market volatility, we continued to deliver good investment performance over the longer term. The money-weighted average investment performance over three, five and ten year periods continues to be comfortably above median and remains a key driver of our strong institutional sales and pipeline of new business. The strength of our investment process across a range of open-ended investment companies (OEICs) and unit trusts is demonstrated by the high proportion of eligible and actively managed funds (19 out of 25) rated 'A' or above by Standard & Poor's, including the complete range of eligible fixed income OEIC funds.

Net flows and new business

Standard Life Investments has performed well during 2008 despite the economic uncertainty, with third party net new business sales of £3,395m (2007: £7,944m). Excluding volatile flows into our money market funds, third party net inflows were £4,741m (2007: £6,853m), representing 11% of opening third party AUM excluding money market funds. Strong sales were recorded for segregated business and private equity through institutional channels. Retail sales were relatively flat for the year, a considerable achievement when the market as a whole has experienced substantial net outflows.

Third party AUM remained resilient in the face of extremely volatile markets, decreasing by just 5% to £45.5bn (2007: £47.7bn). In-house AUM fell by 18% to £78.3bn (2007: £95.7bn) due to a combination of adverse market movements, continuing outflows from with profits business and the reinsurance of £6.7bn of UK immediate annuities by the Group in order to reduce the long-term risk borne by shareholders.

As a result, total assets managed by Standard Life Investments decreased by 14% to £123.8bn (2007: £143.4bn).

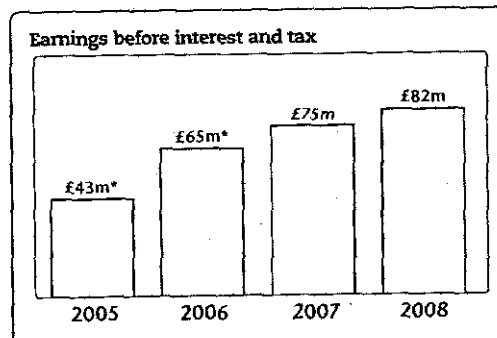
¹ IFRS normalised underlying profit before tax excludes all costs associated with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, including £51m within the Group's IFRS underlying profit statement in the Group IFRS financial statements section of this report.

Business segment performance

1.5.5 Investment management continued

Performance

Financial performance was robust in 2008, despite the difficult trading conditions with EBIT up 9% to £82m (2007: £75m).



* 2005 and 2006 results are shown on a pro forma basis.

Revenue growth remained solid despite the impact of reduced AUM from lower markets, the reinsurance of UK immediate annuity liabilities and the challenging economic environment. Total revenue rose 7% (£17m) to £270m driven by new business sales, increased penetration of high margin products such as global absolute return strategies and a revision to certain management fees applied to in-house assets. Costs were tightly managed throughout the year and were held flat compared to the prior year at £184m (2007: £184m). We were, however, still able to continue to invest in key areas of the business to sustain our longer term growth.

IFRS normalised underlying profit before tax increased by 12% to £93m (2007: £83m). This excludes all restructuring costs, principally those associated with the one-off restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. The total impact of the restructuring on Standard Life Investments' IFRS profit before tax in 2008 was a charge of £90m. This consists of restructuring costs of £39m, representing a cash injection into the funds, and a marked-to-market adjustment of £51m, representing the fair value movements of assets brought on to the Group's balance sheet following the restructuring. Our IFRS profit before tax was £nil (2007: £100m).

Looking ahead

We expect 2009 to be challenging for all players in the industry, including Standard Life Investments. Equity markets are down substantially year on year, and unless there is a marked and rapid recovery, this will impact our revenue streams during 2009. On the other hand, we continue to see a good volume of requests for proposals and our pipeline of confirmed third party new business is strong, driven substantially by institutional funds with opportunities skewed towards fixed interest and liability driven investment mandates, due to the current market conditions.

Against this background we will continue to pursue our strategy of increasing the diversity of our earnings by growing our capability in selected product areas and increasing our global reach. We will also maintain tight control over our costs to drive further efficiencies and allow for necessary investment to support future growth.

We remain confident in the solid underlying performance of the business.

1.6 Group assets under administration

Group assets under administration (AUA) represent the IFRS gross assets of the Group adjusted to include third party AUA, which are not included in the balance sheet. In addition, certain assets are excluded from the definition, for example deferred acquisition costs, intangibles and reinsurance assets.

Analysis of Group AUA

For the year ended 31 December 2008

	Opening at 1 January 2008 £bn	Gross Inflows £bn	Redemptions £bn	Net flows £bn	Market/ other movements £bn	Closing at 31 December 2008 £bn
UK ¹	106.7	12.8	(11.3)	1.5	(12.4)	95.8
Europe	6.1	1.2	(0.6)	0.6	0.6	7.3
Canada	17.9	2.4	(2.1)	0.3	(0.2)	18.0
Asia Pacific	0.4	-	-	-	0.1	0.5
Total worldwide life and pensions	131.1	16.4	(14.0)	2.4	(11.9)	121.6
Banking	13.1	1.1	(2.7)	(1.6)	(0.2)	11.3
Other businesses	1.4	-	-	-	0.3	1.7
Standard Life Investments third party assets under management (AUM)	47.7	8.9	(5.5)	3.4	(5.6)	45.5
Group adjustments ^{1,2}	(24.3)	(4.1)	2.3	(1.8)	2.8	(23.3)
Group assets under administration	169.0	22.3	(19.9)	2.4	(14.6)	156.8
Group assets under administration managed by:						
Standard Life Group entities	158.2					138.5
Other third party managers	10.8					18.3
Total	169.0					156.8

¹ The opening balance has been restated to reflect the inclusion of Sigma mutual funds.

² In order to be consistent with the presentation of new business information certain products are included in both life and pensions AUA and investment operations. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

During the year, positive net flows of £2.4bn were offset by negative market/other movements of £14.6bn due to falling equity, property and fixed interest security values. As a result Group AUA fell by 7% to £156.8bn. Positive net flows were achieved in each of the life and pensions territories. However, worldwide life and pensions AUA fell by £9.5bn due to the adverse market movements experienced in 2008. Third party AUM remained resilient in the face of extremely volatile equity markets with a fall of just 5%. AUA in our banking business

fell by £1.8bn reflecting measures taken to manage our mortgage exposure during difficult market conditions. The UK immediate annuity reinsurance transaction resulted in £6.7bn of assets being reinsured to Canada Life. This transaction reduced AUA managed by Group entities and correspondingly increased AUA managed by other third party managers.

1.7 Capital and cash generation

Group capital and cash generation

The Group's IFRS cash flow statement, included in the Group IFRS consolidated financial statements section of this report, shows that our net cash inflows from operating activities were £2,304m (2007: £2,828m). This statement combines cash flows relating to both policyholders and equity holders, but the practical management of cash within the Group maintains a distinction between the two, as well as taking into account regulatory and other restrictions on availability and transferability of capital. As a result, we analyse cash flow within the Group on a number of additional bases, and take the view that an analysis of the movement in the EEV shareholders' net worth is more representative of underlying shareholder capital and cash flow than the IFRS cash flow

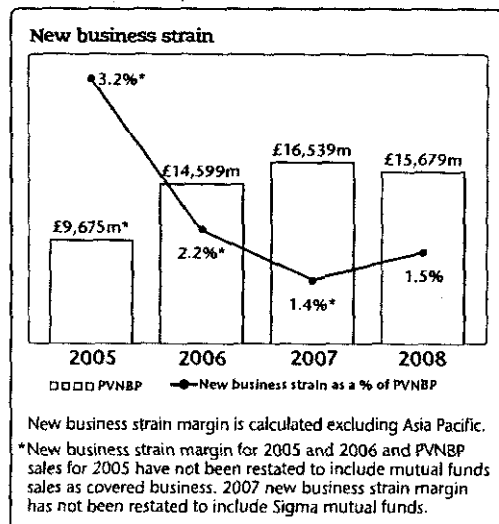
statement. Under existing EEV principles, we are also required to identify required capital for all covered business. Increases/(decreases) in required capital will not reduce the shareholders' net worth because no external cash flows are made, but will decrease/(increase) the free surplus.

The analysis in the table below highlights the most significant influences on free surplus and shareholders' net worth, including investment of shareholder capital in new business, or new business strain (NBS) and the amount of capital and cash emerging from existing business. Our covered business capital and cash flows from new business and expected return have remained stable during a year of economic volatility at £322m (2007: £324m).

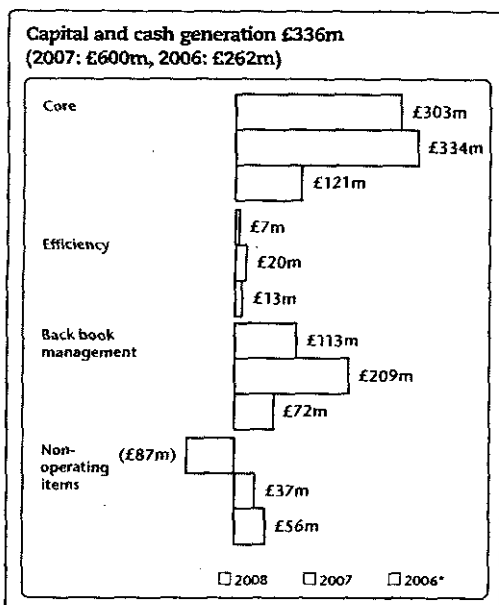
	2008			2007		
	Free surplus movement	Required capital movement	Net worth movement	Free surplus movement	Required capital movement	Net worth movement
	£m	£m	£m	£m	£m	£m
New business strain	(266)	42	(224)	(272)	47	(225)
Capital and cash generation from existing business	546	-	546	561	(12)	549
Covered business capital and cash generation from new business and expected return	280	42	322	289	35	324
Covered business development expenses	(27)	-	(27)	(16)	-	(16)
Non-covered business core, capital and cash generation	8	-	8	26	-	26
Core	261	42	303	299	35	334
Efficiency	9	(2)	7	22	(2)	20
Back book management	107	6	113	200	9	209
Operating profit capital and cash generation	377	46	423	521	42	563
Capital and cash generation from non-operating items	(131)	44	(87)	45	(8)	37
Total capital and cash generation	246	90	336	566	34	600

All figures are net of tax. Net income directly recognised in the EEV balance sheet, including exchange differences and distributions to and injections from shareholders, are not included as these are not trading related cash flows.

NBS is covered two times by capital and cash flow from existing business. In overall terms, our operating profit capital and cash generation decreased from £563m to £423m.



We also analyse capital and cash generation by the three components that reflect the focus of our business effort – core, efficiency and back book management.



Key performance indicators

Capital and cash generation highlights	2008	2007	Movement
EEV operating profit capital and cash generation ¹	£423m	£563m	(25%)
Group capital surplus ²	£3.5bn	£3.6bn	(3%)
Group solvency cover ²	218%	166%	52% points
Realistic working capital: Heritage With Profits Fund	£0.5bn	£1.5bn	(67%)
EEV	£6,245m	£6,211m	1%
IFRS equity attributable to equity holders of Standard Life plc	£3,407m	£3,282m	4%

Please refer to Section 1.11 – Basis of preparation and the Glossary of this report.

Core and back book management were the main contributors to our capital and cash generation during the year. The core capital and cash flows of £303m, primarily reflect robust capital and cash generation from new business and expected return, and after-tax profits from non-life operations, partially offset by development expenses. The back book management capital and cash flows of £113m largely arise from the impact of the UK immediate annuities reinsurance and profits from the release of provisions in relation to UK deferred annuities, partially offset by the charge in relation to the Pension Sterling Fund. Capital and cash generation from efficiency of £7m represent ongoing cost control and efficiencies.

¹ Net of tax.

² Based on draft regulatory returns.

Non-operating capital and cash generation of negative £87m (2007: positive £37m) is driven by £138m of non-operating losses in the non-life businesses and includes unrealised fair value losses on derivatives, losses relating to restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc and non-life restructuring costs. Life business non-operating capital and cash generation remained positive at £93m (2007: £70m) and reflected net worth investment variances and assumption changes after negative £27m of restructuring expenses (2007: negative £4m). Non-operating capital and cash generation also includes an after-tax Group consolidation adjustment for the Canadian subordinated liability of negative £42m.

1.7 Capital and cash generation continued

Holding company capital and cash flows

In addition to the movement in capital and cash on an EEV basis, the following summary has been provided to show an analysis of holding company cash flows and capital, in relation to the Group's holding company, Standard Life plc. The capital position is based on the Company balance sheet, excluding its investments in operating subsidiaries.

	2008 £m	2007 £m
Opening capital 1 January	502	555
Dividends received from subsidiaries	436	273
Additional investments in subsidiaries	(54)	(168)
Group Corporate Centre costs	(50)	(57)
Dividends paid to shareholders	(257)	(197)
Other	46	96
Closing capital 31 December	623	502

The capital and cash held in the holding company is managed at a level to fund the dividend obligations and strategic investments of the Group. During 2008, Standard Life plc's capital, excluding its investment in subsidiaries, increased by £121m, primarily as a result of receiving £436m of dividends from subsidiaries offset by dividends paid to shareholders of £257m and a further investment in subsidiaries of £54m.

Standard Life plc's ability to pay dividends to shareholders is determined by the distributable reserves of the Company which broadly comprise its retained earnings and special reserve. The Board must also consider the Group's future business plans, market conditions and regulatory solvency when determining the level of dividends.

Dividends

During the year, the Group paid the final dividend for 2007 of 7.70p per share, amounting to £168m, and the 2008 interim dividend of 4.07p per share, amounting to £89m. The Board proposes a final dividend of 7.70p per share, making a total of 11.77p for 2008, an increase of 2.3%. This reflects the solid progress made during the year. Looking forward the Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

Capital management

Objectives and measures of Group capital

The process of capital and risk management is aligned within the Group to support the strategic objective of driving sustainable, high quality returns for shareholders. The different measures of capital reflect the regulatory environment in which we operate and the bases that we consider effective for the management of the business.

Sustainable high quality returns for shareholders

	Effective risk management driving capital allocation	Distributable earnings and dividends	Growing shareholder value	Customer security and financial strength	Effective risk management supporting ongoing solvency
	IFRS	EEV	Regulatory capital		
Definition	- Capital attributable to equity holders only - Key performance metric for Group non-life companies - Key determinant of distributable profits	- Capital attributable to equity holders only - Key performance metric for Group life companies - Robust embedded value underpins the financial strength of the Group	- Capital attributable to equity holders and policyholders - Monitored globally and locally using relevant solvency measures - Key determinant of distributable profits		
Highlight	- IFRS equity attributable to equity holders of Standard Life plc: 2008: £3.4bn (2007: £3.3bn) - IFRS dividend cover: 2008: 1.0 times (2007: 2.9 times)	- EEV operating capital and cash generation: 2008: £423m (2007: £563m) - EEV new business strain: 2008: £224m (2007: £225m) - EEV total equity: 2008: £6.2bn (2007: £6.2bn)	- Regulatory capital surplus: 2008: £3.5bn (2007: £3.6bn) - Regulatory solvency cover: 2008: 218% (2007: 166%)		

Financial Groups Directive

	2008 £bn	2007 £bn
Shareholders' capital resources	2.6	2.9
Capital resources arising from subordinated debt	2.2	1.9
SLAL long-term business funds	1.7	4.4
FGD Group capital resources	6.5	9.2
FGD Group capital resource requirement	(3.0)	(5.6)
FGD Group capital surplus	3.5	3.6
FGD Group solvency cover	218%	166%

2008 figures above based on draft regulatory returns.

The Group is classified as a 'financial conglomerate' as defined by the Financial Groups Directive (FGD). The FGD surplus has only decreased by £0.1bn during the year, reflecting the insensitivity to equity market movements which suffered global falls in 2008. This insensitivity of the FGD surplus reflects the structure of the Group post-demutualisation and the strategy for managing the risks of the Heritage With Profits Fund (HWPF). Group capital resources decreased mainly because of ongoing investment in the business and negative market movements during the year which reduced the capital resources of the HWPF. However, this was offset by a corresponding reduction to the capital resource requirements of the HWPF. As the Group capital

resource requirement has decreased by a greater relative percentage than the change in capital resources, the overall Group solvency cover has increased from 166% at 31 December 2007 to approximately 218%.

After allowing for payment of the final dividend of £168m (2007: £168m), our year end FGD surplus would be £3.3bn (2007: £3.4bn).

1.7 Capital and cash generation continued

Analysis of movement in Group capital surplus

The following table illustrates the key movements in the regulatory capital surplus for the year ended 31 December 2008:

	2008 £bn	2007 £bn
Opening capital surplus	3.6	3.4
Movement in capital resources of long-term business funds	(2.7)	0.8
Movement in capital resource requirements of long-term business funds	2.7	(0.8)
Net movement in capital surplus of long-term business funds	-	-
Movement in capital resources of shareholder funds:		
Annuity reinsurance change	0.1	-
New business	(0.2)	(0.3)
Transfers from HWPF to shareholder funds	0.4	0.7
Dividend payments	(0.3)	(0.2)
Other factors	-	0.3
Movement in capital resource requirements of shareholder funds	(0.1)	(0.3)
Closing capital surplus	3.5	3.6

The significant factors affecting the capital surplus were:

Shareholder funds:

- The Group reinsured £6.7bn of pre-demutualisation UK immediate annuities in February 2008. The benefits of this included a release of cash from reserves in 2008 and a reduction in the Individual Capital Assessment (ICA) capital requirements
- Ongoing investment of shareholder capital in the business through writing new business offset by the recourse cash flows emerging from pre-demutualisation business
- Profits earned by the non-life operations included within other factors above
- Payment of £257m of dividends to shareholders during the year

Long-term business funds:

- Impact of changing financial conditions on the capital resources and capital resource requirement of the HWPF

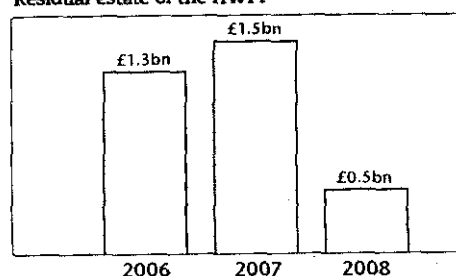
The FGD limits the amount of capital that can be recognised in Group capital resources, where that capital is held by a UK long-term business fund. This limits the capital resources within a long-term business fund to the level of the capital resource requirement for that fund and results in a restriction of approximately £1.3bn at 31 December 2008 (31 December 2007: £1.8bn).

The largest regulated entity within the Group is Standard Life Assurance Limited (SLAL), and its regulatory position reflects capital resources including long-term business funds. While SLAL's capital resources have decreased, the

solvency cover has increased to approximately 274% from 190% due to a relative decrease in the capital requirements of the HWPF, as explained previously.

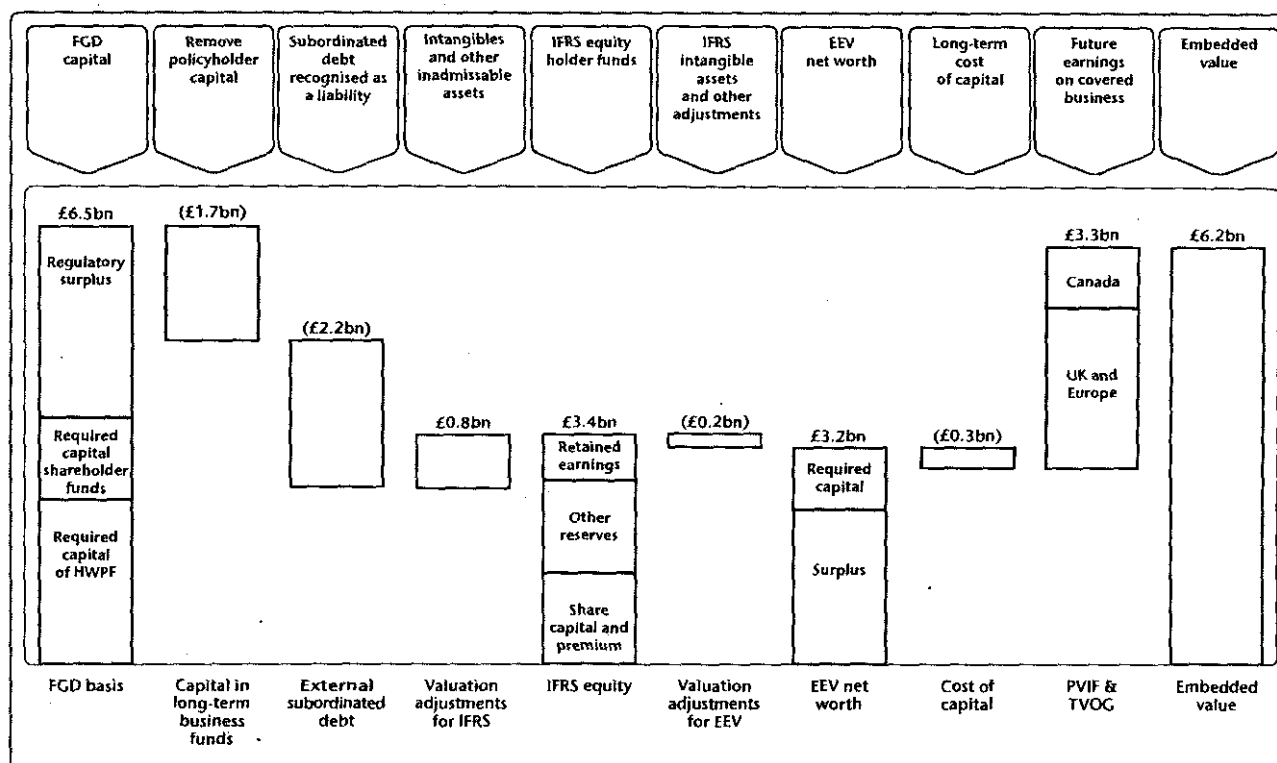
The capital resources of SLAL include the residual estate of approximately £0.5bn (31 December 2007: £1.5bn). The reduction in the estate over the year largely reflects both the direct and indirect effects of movements in corporate debt, property and equity markets, the impact of which has been exaggerated by technical changes in the way that realistic liabilities are calculated. The impact on the residual estate of further falls in equity markets continues to be mitigated by the hedges we have in place. The impact of most other adverse asset movements would, in the first instance, be met by policyholders with indirect impacts on shareholders via higher guarantee costs, and hence higher burnthrough cost. Shareholder exposure is also limited by the structure of the capital support mechanism set up at demutualisation, with shareholder support being obtained by withholding the furthest out cash transfers from the HWPF to shareholders.

Residual estate of the HWPF



Reconciliation of key capital measures

The following diagram illustrates the key differences between the regulatory, IFRS and EEV capital measures at 31 December 2008:



The Group's capital, as measured by the FGD, can be split into three elements:

- Shareholder capital, used to invest in the strategy of the Group, covers the capital requirements borne directly by shareholders and manages risk borne by shareholders
- Capital arising from the subordinated debt issued by the Group, amounting to £2.2bn at 31 December 2008, which is used to provide capital support to SLAL and Standard Life Bank
- A restricted amount of policyholder capital (£1.7bn at 31 December 2008), which matches the capital resource requirements of that business, and includes the HWPF

While these latter two elements provide capital support for the Group, they do not form part of the shareholders' regulatory capital. Shareholder capital can be measured under each of the Group's reporting bases – regulatory, IFRS equity and EEV net worth. Each of these is a comparable measure of the net assets attributable to equity holders of the Group. In some cases, the regulatory rules for valuing assets and liabilities differ from IFRS accounting rules, resulting in a valuation adjustment of £0.8bn. Similarly, the EEV balance sheet recognises certain valuation adjustments to give the EEV net worth, resulting in an equivalent adjustment of £0.2bn to IFRS equity holder funds. The total EEV of the Group relates to the net worth adjusted for the cost of capital of £0.3bn and increased by the value of the present value of in-force business (PVIF) of £3.3bn to give the total EEV of £6.2bn at 31 December 2008.

1.7 Capital and cash generation continued

Capital management policy

Matters related to management of the Group's capital are reserved for the Board of Standard Life plc. The scope of the liquidity and capital management policy is wide ranging and forms one pillar of the Group's overall management framework. It operates alongside and complements the Group's other policies and processes, in particular its risk policies and strategic planning process, and provides a framework for the effective and consistent management of capital. The Group continues to develop its Enterprise Risk Management (ERM) framework to link robustly the processes of capital allocation, value creation and risk management.

Debt, facilities and liquidity

The Group's capital structure has been developed to provide an efficient capital base by using a combination of equity holders' funds, subordinated debt and capital within the HWPF.

- The Group uses subordinated debt to provide capital to our life assurance and banking businesses
- Further analysis of Group borrowings and subordinated liabilities is provided in Note 33 – Borrowings and Note 34 – Subordinated liabilities respectively
- Note 46 – Capital statement in the financial statements shows the external subordinated debt and internal loans made across life and other operations
- Further information on how the Group and its subsidiaries manage liquidity is provided in the financial statements in Note 39 – Risk management

The Group has robust plans in place to ensure that it has access to sufficient liquidity to meet operating requirements during the current market uncertainty.

Following the second maturity from the Lothian securitisation programme on 24 October 2008, there are no securitisation maturities until 2011. Our banking operation remains well capitalised with a very high quality mortgage book, has access to a range of funding sources and has actively reduced its funding requirements during the year.

Bond default allowances

Shareholders are exposed to debt securities which back annuity liabilities in the UK and Europe and the liability in respect of longevity risk reinsured from SLAL's HWPF. These debt securities amount to £1.5bn and comprise £0.8bn of government and government backed bonds and £0.7bn of other corporate bonds. There were no defaults on the debt securities in this portfolio in 2008, however in light of the economic conditions the provision for future defaults within the valuation of liabilities has been increased to £40m (31 December 2007: £20m), representing a weighted average default assumption into perpetuity for corporate bonds of 87bps (31 December 2007: c37bps).

Debt securities in Canadian non-segregated funds amount to £5.4bn, including £2.2bn of corporate bonds. There were no defaults within this portfolio of debt securities during 2008. We have maintained our Canadian corporate bond default assumption at 36bps while the average quality of the portfolio has increased from A to A+. The overall provision for defaults on bonds in the portfolio amounts to £90m (31 December 2007: £71m).

Financial assets valuation and exposures Asset-backed securities

Standard Life's total investment (including third party funds) in the asset-backed securities markets across both short-term treasury instruments and long-term fixed interest is approximately £5.3bn or 3.3% (31 December 2007: £7.7bn or 4.6%) of Group assets under administration (AUA), predominantly in UK securities. Of the total of £5.3bn, £1.3bn relates to shareholder funds, of which £1.2bn is AAA rated. The overall level of asset-backed securities has reduced compared to 31 December 2007 as a result of a number of securities reaching maturity and also due to market movements. The Group has continued to actively manage its exposure to asset-backed securities and the portfolio remains a high quality credit portfolio with no direct

exposures to the US mortgage market, minimal exposure to leveraged structures, no current direct exposure to Monolines and very modest exposure to credit within a Monoline wrapper. Following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, shareholder funds now have a total exposure of £83m (31 December 2007: £27m) to assets within a Monoline wrapper or leveraged structures, representing 0.3% (31 December 2007: 0.1%) of shareholder financial assets.

Shareholder asset exposures

At 31 December 2008, shareholders had direct exposure to equity, debt securities and investment property of £9.6bn. This included exposure to equity securities of £0.4bn. The exposure to debt securities was £8.3bn and consisted of government debt securities of £3.7bn, corporate bonds of £4.3bn and other debt securities including supranationals of £0.3bn. The exposure to investment property amounted to £0.9bn.

The total shareholder exposure to equity securities, debt securities and investment property of £9.6bn includes £6.6bn of assets held by non-segregated funds in Canada. The effective exposure of shareholders to assets of the non-segregated funds in Canada was significantly lower than £6.6bn because changes in the value of assets are typically offset by a change in the value of the related liabilities. The shareholder exposure is limited to the net impact on the shareholder surplus and the value of any guarantees which may be triggered.

In addition, shareholders had direct exposure to loans and receivables of £11.7bn which included £9.5bn in respect of the retail mortgage book of Standard Life Bank and £2.2bn in respect of the commercial mortgage book of the business in Canada. Both mortgage books are deemed to be of very high quality. For further information on the Standard Life Bank mortgage book see Section 1.5.1. The mortgage book in Canada had an average loan to value ratio of 44%, the value of mortgages where the loan to value ratio exceeded 70% amounted to just £31m and there were no mortgages three or more months in arrears or in repossession at the end of 2008.

Credit ratings

External credit ratings agencies perform independent assessments of the financial strength of companies. The current insurer financial strength ratings for SLAL are A1/Stable and A+/Stable from Moody's and Standard & Poor's respectively. The only changes from the position at 31 December 2007 was the Standard & Poor's outlook, which was raised to A/Positive from A/Stable in May 2008 and then raised again to A+/Stable in February 2009. The change in the credit rating was in part due to the strength of the capital position.

1.8 Risk management

Risk management is an integral part of the Group's corporate agenda. The Group's risk strategy statement links value and risk in a concise expression of our objectives, aligned with our corporate purpose.

The Group's corporate purpose

To generate sustainable, high quality returns for our shareholders.

The Group's risk strategy

We recognise the need to manage long-term value creation, cash flow and risk in a holistic manner in order to make informed decisions to create and protect value in the Group's activities.

We are proactive in understanding and managing the risks to our objectives at every level of the Group and ensuring that capital is delivered to areas where most value can be created for the risks taken.

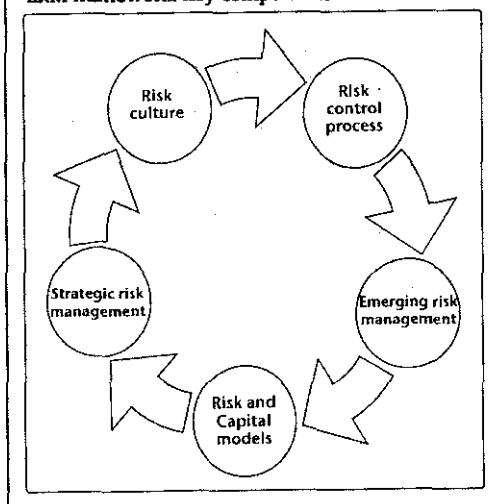
The Group's Enterprise Risk Management (ERM) framework

We have developed and embedded an ERM framework that enables the risks of the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically.

The strength of the Group's framework was recognised by Standard & Poor's in April 2008 when we received an 'adequate with positive trend' rating from the agency.

Over the course of 2008, the Group has further enhanced its framework, addressing and strengthening all the key elements and aligning it with external best practice models.

ERM framework: key components



Risk culture

Risk governance structure

The establishment of the Enterprise Risk Management Committee (ERMC) in 2007 represented a significant strengthening of the risk culture of the Group. The ERMC is now well embedded and has proven to be a highly effective and responsive executive forum for the management of risk over the course of a particularly challenging year.

Developments continue to take place to the Group's governance and committee structure. In 2008, the decision was taken to reconstitute the ERMC. The committee now consists of the members of the Group Executive Committee as well as the Chief Risk Officer and Group Strategy and Corporate Finance Director. The Committee meets at least monthly, and usually in conjunction with the Group Executive.

Three Lines of Defence

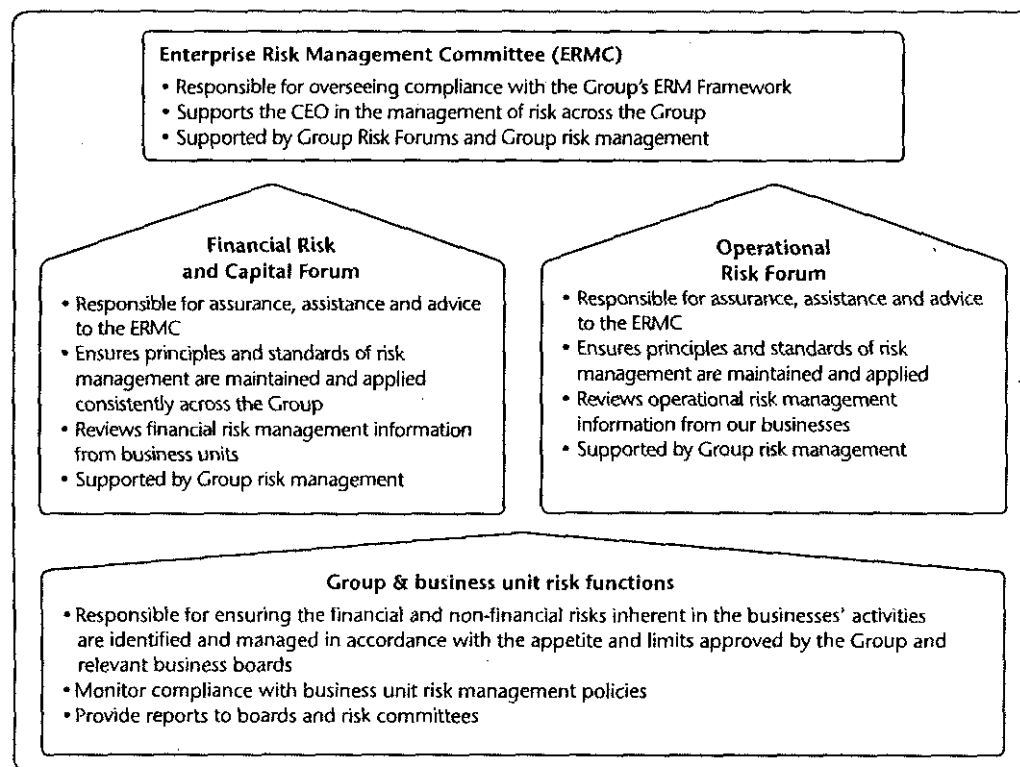
The Group has adopted the Three Lines of Defence model, which provides clearly defined roles and responsibilities:

First line: day-to-day risk management is delegated from the Board to the Group Chief Executive and, through a system of delegated authorities and limits, to business managers;

Second line: risk oversight is provided by the Group Chief Risk Officer (CRO) and established risk management committees. These management committees are supported by the specialist risk management and compliance functions across the Group; and

Third line: independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Group Audit, Risk and Compliance Committee. This Board committee is supported by the Group Internal Audit function.

The Group's risk committee structure



Qualitative risk appetites

The Group has defined qualitative risk appetite principles and statements; these are intended to provide guidance to our businesses and help to drive our strategy in line with the Group's appetite for risk.

Risk appetite: general principles

- The Group has no appetite for unrewarded risk
- The Group has no appetite for any risk that is not consistent with the delivery of our strategic objectives
- The Group's appetite for accepting risk is dependent on the expected return exceeding the cost of capital
- The price charged for accepting risk should seek to maximise risk/reward profile; prices charged for our products should fully reflect all risks

1.8 Risk management continued

The qualitative statements of our appetite for specific classes of risk are shown alongside the definitions set out below.

Risk metrics and profile

The Group has in the past profiled its risks and established quantitative risk appetite by reference, in general, to regulatory capital measures. Risk appetites are now set by reference to both excess working capital and shareholder value.

These metrics have been chosen to provide consistency in the measurement of risk and capital across the Group's diverse range of businesses, activities and projects. They are intended to supplement, rather than replace, the wide range of metrics currently employed throughout the Group, and where appropriate, make allowance for local regulatory capital considerations.

The Group's risk profile is assessed regularly and reviewed by the relevant executives and the Group risk management committees.

Quantitative risk appetites

Considerations taken into account when quantifying the Group's appetite for any specific risk include:

- The general principles outlined above
- Qualitative statements of risk appetite
- The quantum of loss absorbing capital available to the Group, and
- Possible alternative uses for that capital

Our approach for assessing risk exposures and for establishing appetites for risk is outlined in the Risk and capital models section.

Other quantitative metrics

The Group will continue to monitor and assess its financial position on a full range of relevant metrics, including Financial Groups Directive (FGD) surplus, IFRS and Embedded Value, to which the concept of shareholder value is directly linked.

ERM reporting

The content of management information delivered to governance committees has been reviewed, developed and enhanced over the course of the last year.

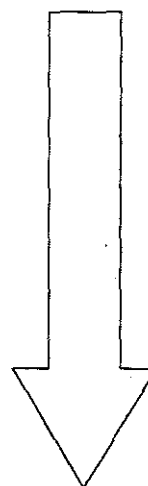
We expect further enhancements to be made to management information to strengthen our risk management capability and to further embed the core value metrics noted above.

	Excess working capital	Shareholder value
Definition	Shareholder cash that is in excess of regulatory requirements, target solvency requirements, and any further operational constraints.	The value of shareholders' economic interest in the Group's assets; i.e. the present value of cash earnings on a particular enterprise or activity.
Management objective	Management of the primary source of funding for the business, for the strategic activities of the Group and for distributions to shareholders.	Management of the financial strength of the Group and delivery of long-term shareholder value.
Exposure measurement	The loss (after allowing for solvency capital, statutory buffer and respectability capital) that a business might expect to see as a consequence of a defined risk event.	Loss in value of cash flow that a business might expect to see as a consequence of a defined risk event.

Risk control processes

Risk control processes are the practices by which we manage risk within the Group. The processes support the identification, assessment, control and monitoring of risk and are defined within, and implemented by, the Group's policy framework.

Identify	Identify major sources of risk which may affect equity holder returns and/or the interests of the Group's policyholders, customers and other stakeholders.	Internal/external events and losses Risk register and policies Risk profile and ownership Key processes and ownership Risk metrics/indicators Gross and net risk assessment Key controls Benchmarks
Assess	Assess exposures to each major source of risk, using qualitative and quantitative techniques as appropriate.	Limits: thresholds/tolerances
Control	Establish a defined response to risk. Management selects the risk responses, which may include avoiding, accepting, reducing or transferring the risk exposure.	Assurance mechanisms: Control self assessment/policy compliance/2nd line oversight/audit reviews
Monitor	Current exposure to identified risks is monitored and reported as required.	Reporting to committees and Boards

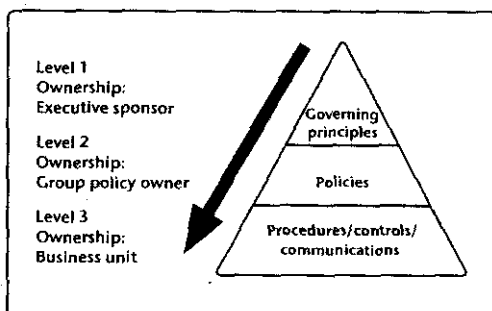


Policy framework

The policy framework supports the Group's corporate purpose by providing a consistent, high level approach to managing the key risks faced by the Group, and assists in ensuring that all businesses operate effectively, efficiently and in compliance with all applicable laws and regulations.

The policy framework operates on three levels:

- **Governing principles:** articulate the Group's approach to managing our key risks at the highest level, and communicate how the policy framework supports the Group Strategy
- **Policies:** support the governing principles and contain clear standards stating what business units are required to do, and
- **Procedures, controls and communications:** designed and implemented by business units to meet the policy standards in a manner appropriate to that individual business unit

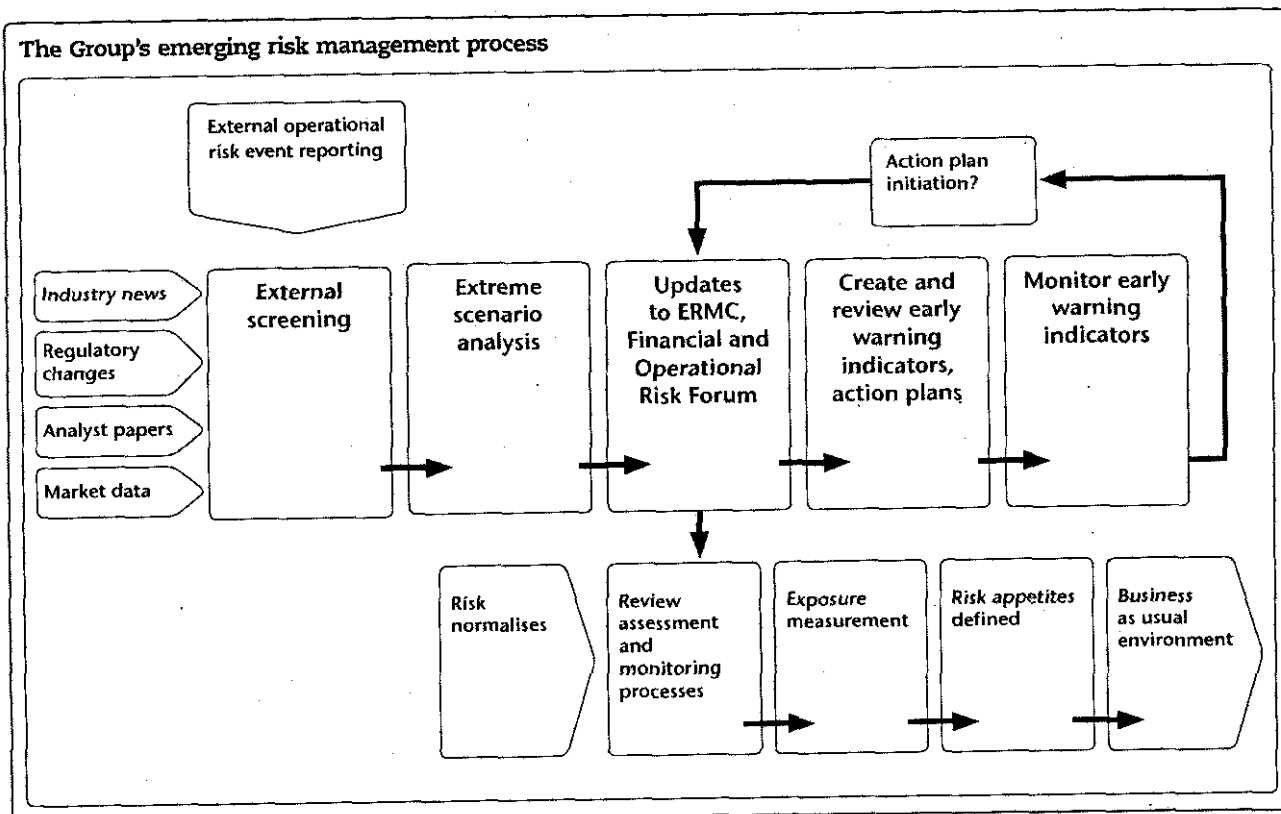


Emerging risk management

The Group has defined a clear and simple process for the identification and management of emerging risks. The process provides for:

- The identification of emerging financial and non-financial risks
- The creation of action plans and identification of early warning indicators
- The effective management of emerging risks by the appropriate committee, and
- The passage of any risks identified into 'business as usual' processes where appropriate

1.8 Risk management continued



Risk and capital models

Extensive work has taken place to enhance our internal risk and capital models. The principal objective of this initiative is to improve the degree of consistency applied to the quantitative measurement of risk and capital usage across all businesses.

Within our model, the capital of the Group is quantified according to a number of metrics (principally, but not exclusively, those outlined above (see Risk culture section)). Businesses plan capital consumption using internally agreed targets, set to ensure that strategic objectives can be delivered under a wide range of market and trading conditions.

The risk exposures of the business units are assessed on the basis of the expected variance in key metrics in response to specific risk events, covering the full range of risks to which the Group is exposed.

Strategic risk management

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the Group's corporate objectives. It provides a Group-wide overview that links all business units within the single framework. This process provides enhanced capability to assess strategic allocation of capital and the ability to identify, monitor and manage emerging risks.

Risks facing the Group are:

Risk type	Key risks	Key risk controls	Qualitative appetite statement
Demographic and expense The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected, which for the purpose of risk management includes liabilities of insurance and investment contracts.	• Longevity • Persistency • Morbidity/mortality (assurances) • Expenses	• Regular reviews of experience • Reinsurance and risk transfer • Business planning process • Specified underwriting limits • Testing of claim values, reinsurance recoveries, and the survival of annuitants	The Group has an appetite for such risks since we expect acceptance of the risk to be value additive. Appetites will be established to reflect planned business activities in line with the Group's overall strategic objectives.
Credit The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of corporate bonds due to a widening of corporate bond spreads.	• Counterparty/bond default • Spread widening • Concentration of exposure	• Regular monitoring of risk exposures to ensure that risks remain within approved risk appetite • Specific limits on counterparty exposure, based on credit rating, approved by the Group Board • Group companies establish and maintain adequate controls to manage exposure within these specified limits	The Group has an appetite for credit risk to the extent that acceptance of this risk optimises the risk adjusted return. However, the Group has limited appetite for significant losses arising from counterparty failures and will therefore establish robust risk limits which must be adhered to by Group companies.
Market The risk that arises from the Group's exposure to market movements which could result in the value of income, or value of financial assets and liabilities, or cash flows relating to these, fluctuating by differing amounts.	• Equity and property risk • Interest rate risk • Foreign currency risk	• Investment benchmarks, and risk tolerances around these benchmarks, set regularly for each major liability based on the nature of that liability to ensure that risk remains within Group's appetite • Regular monitoring of asset mixes and the exposure of Group companies to market risk to ensure that they remain within the above tolerances • Limits for foreign currency set by the Group Board	The Group has no appetite for market risk exposures except where exposures arise as a consequence of core strategic activity (principally as a consequence of exposure of revenue streams to market risks).
Liquidity The risk that businesses are unable to realise investments and other assets in order to settle their financial obligations when they fall due, or can do so only at excessive costs.	• Diversification of funding sources • Quality of funding sources • Depth and liquidity of particular markets	• Businesses maintain contingency funding plans which operate on a continuous basis and are fully documented • Regular monitoring against forecast data, accompanied by cash flow scenarios • Regular monitoring of exposure to liquidity risk to ensure they remain within agreed tolerances	The Group has no appetite to fail to meet its liabilities as they fall due.
Operational The risk of loss, or adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or from external events.	• Fraud or irregularities • Regulatory or legal • Customer treatment • Business interruption • Supplier failure • Planning • Process execution • People, e.g. loss of key people	• Regular risk assessment to identify the potential cause of the risk • The transfer, acceptance, reduction or transfer of risk within risk appetite	The Group has an appetite for operational risks where exposures arise as a consequence of core strategic activity. The Group will seek to put effective controls in place to reduce operational risk exposures except where the costs of such controls exceed the expected benefits.

The Group may also suffer loss or opportunity costs arising as a consequence of reputational risks or regulatory censures; the Group has an extremely low appetite for such risks.

For further information please refer to Note 39 – Risk management.

1.9 Customer satisfaction

We strive to create exceptional customer experiences by always acting in the customers' best interests. To do this, it is important that we *understand their needs* and respond to them in a way which builds loyalty and helps our business to grow. Our relationship with our customers is continually monitored across our businesses.

UK financial services

We remain committed to building strong customer and adviser relationships. We consider this to be the keystone of our drive to provide all customers with exceptional experiences when dealing with Standard Life. Our relationship with our customers is continually monitored and our constant focus on these areas of business has been recognised during the year with these awards:

Life and pensions

- People's Choice Award from Pensions Management Administration and Service Awards
- Money Marketing Awards:
 - Company of the Year (ninth consecutive year)
 - Best Pension Provider (fifth consecutive year)
- Financial Adviser Life & Pensions Awards:
 - Best Group Pensions Provider
 - SIPP and/or SSAS Provider of the Year (third consecutive year)
 - Best Income Drawdown Provider (second consecutive year)
 - Best Alternatively Secured Pension Provider (second consecutive year)
- Financial Adviser Service Awards:
 - Life and Pensions Provider 5-Star Award (13th consecutive year)
 - Special Outstanding Achievement Award in recognition of winning the 5-Star Award for 13 consecutive years
- People's Choice Award for the company with the best technology, administration and service in our industry from Pensions Management Administration and Service Awards (second consecutive year)
- Life Assurance Company of the Year and Multi-Asset Manager of the Year for 2008 from Professional Pensions – UK Pension Awards

Banking

- 5-Star Award in the Mortgage Providers and Packagers category at the FTAdviser Online Services Awards

Healthcare

- Gold Standard Award at the Gold Standard Awards (sixth consecutive year)

Canada

High quality customer service is the basis of our growth strategy, which focuses on high retention and strong customer relationships. Our client retention level, based

on internal methodology, was 94.6% in 2008 (2007: 95.7%). We continually invest in technology, training and processes as part of our efforts to meet the service expectations of our customers. In addition, we have enhanced web-based functionality across our group lines to ease administration of our products from both the sponsor's and participant's perspective.

A survey is carried out at least once a year with Group Insurance plan members being asked if they would *recommend Standard Life services* to others. In November 2008, this was 97% (January 2008: 97%). In Group Savings and Retirement, plan sponsors are asked once a year to grade the company on how likely they would be to recommend us to others; based on the Net Promoter® score methodology. The number of responses in the top 20% categories exceeded those in the bottom 60% categories by a margin of 24% (2007: 16%).

Standard Life Investments

Our business remains underpinned by our strong longer term investment performance, delivered through the rigorous application of our 'focus on change' investment philosophy, and by our continuing commitment to very high levels of client service. High quality support by our client service teams, combined with strong investment performance from our fund management teams, has been recognised with a record 15 awards in 2008, including:

- Multi-Asset Manager of the Year at the Professional Pensions UK Pension Awards 2008
- 5-Star Award in the Investment category at the FTAdviser Online Service Awards
- Best Overall Group Lipper Award in the Non UK Equity Large category at the Lipper Fund Awards 2008
- Standard Life Investments' UK Smaller Companies Fund won the UK Smaller Companies category at the Investment Week Awards 2008
- Harry Nimmo, backed by his award-winning UK Smaller Companies team, was ranked Citywire's Number One Fund Manager of the Year 2008
- Best Private Equity Trust award won by Standard Life European Private Equity Trust fund at the Money Observer Investment Trust Awards 2008
- Gold ranking at the Ethical Investment Association (EIA) Transparency Awards

Our Group-wide engagement score for 2008, as measured by the Gallup survey, increased to 3.91 out of 5 (2007: 3.79). This places us in the top half of companies within the Gallup global database. Results were encouraging across most

1.10 Employee engagement

of our key businesses.

The involvement of all our people in the action planning process is key to progressively developing the engagement of teams at all levels. Local action plans are supported by a Group-level engagement plan, and these combined, support our objective to be in the top performing quartile of the Gallup global employee engagement database by 2012.

We believe that highly engaged people are essential to building, and maintaining, valuable customer relationships, in turn helping to promote business growth and shareholder value.

All of our businesses recognise the importance of attracting, developing and retaining individual skills and talent, as a means to support delivery of business goals.

We are committed to ensuring that all our people understand, and have the opportunity to apply, their own unique strengths within their roles. Additionally, we support the engagement of our people through the selection and development of our leaders, and through promoting a working environment where feedback is given and received, and performance is rewarded fairly and appropriately.

	2008	2007
UK financial services	3.87	3.74
Canada	4.04	3.99
Germany	3.70	3.66
Ireland	3.83	3.90
Investments	4.00	3.90
Group*	3.91	3.79

*Including central Group functions

1.11 Basis of preparation

Overview

Our Business review for the period to 31 December 2008 has been prepared in line with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the Financial Services Authority (FSA). Under Section 417 of the Companies Act 2006 and DTR 4.1.8, the Group is required to provide a fair review of the business and a description of the principal risks and uncertainties facing the Group. Principal uncertainties are detailed in Section 1.1 – Group overview. Principal risks are detailed in Section 1.8 – Risk management and Note 39 of the IFRS Group financial statements section of this report. To provide clear and helpful information, we have also considered the voluntary best practice principles of the Reporting statement: Operating and Financial Review (OFR) issued by the Accounting Standards Board (ASB).

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). However, our Board believes that non-Generally Accepted Accounting Principles (GAAP) measures, which we have used in the Business review, together with other measures that are calculated in accordance with IFRS, are useful for both management and investors and make it easier to understand our Group's performance.

The most important non-GAAP measures in the Business review include European Embedded Value (EEV) information and IFRS underlying profit.

All non-GAAP measures should be read together with the Group's IFRS income statement, balance sheet and cash flow statement which are presented in the IFRS Group financial statements section of this report.

EEV and IFRS reporting

The financial results are prepared on both an EEV basis and an IFRS basis. All EU listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. EEV measures the net assets of the business plus the present value of future profits expected to arise from in-force long-term life assurance and pensions policies and is designed to give a more accurate reflection of the performance of long-term savings business. The EEV basis has been determined in accordance with the EEV Principles and Guidance issued in May 2004 and October 2005 by the CFO forum. The CFO forum represents the chief financial officers of major European insurers, including Standard Life. EEV methodology has been applied to 'covered' business, which mainly comprises the Group's life and pensions business. Non-covered business is reported on an IFRS basis. The EEV financial results in Section 1.3 of the Business review and in the EEV financial statements section of this report have been prepared in accordance with the EEV methodology applied by the Group in Note 16 of the EEV financial statements section of this report for 2008, and in the relevant EEV methodology note included in the 2007 *Annual Report and Accounts* in respect of the comparative period. The IFRS financial results in Section 1.4 of the Business review and in the IFRS Group financial statements section of this report have been prepared on the basis of the IFRS accounting policies applied by the Group in the IFRS Group financial statements section of this report.

EEV operating and IFRS underlying profit

The segmental analysis of IFRS underlying profit before tax presents profit before tax attributable to equity holders adjusted for non-operating items. The 2008 EEV consolidated income statement presents EEV profit showing both operating and non-operating items. In doing so, the Directors believe they are presenting a more meaningful indication of the underlying business performance of the Group. The 2008 EEV consolidated income statement and the 2008 IFRS reconciliation of Group underlying profit to profit before tax are presented in the relevant financial statements sections of this report.

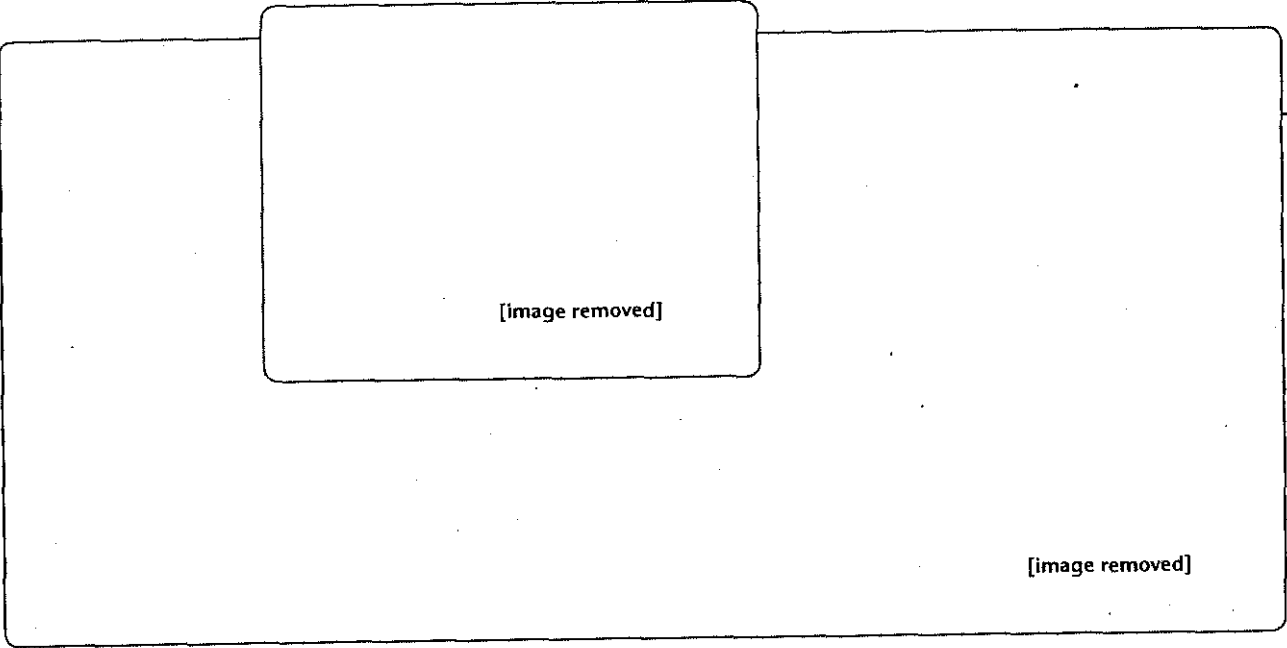
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Business overview

Governance information

Financial statements

Additional information



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Corporate responsibility

Our strategic objective of being recognised as an outstanding corporate citizen in each of our communities reflects our company values of thinking holistically, being flexible, delivering performance and acting with integrity.

Our corporate responsibility approach for 2008 was to build on the work achieved in previous years and to concentrate on the issues that are material to our business and stakeholders:

- Trust
- Responsible investment
- Wealth and health
- Managing our people
- Our community and environmental impacts

Trust

Trust is crucial to any relationship, especially one where people's financial future is at the heart of it. We take this trust very seriously. Acting with integrity and actively demonstrating commitment to the fair treatment of all our customers has never been more important, especially in light of the global financial uncertainty of the last year.

The importance of putting customers at the heart of what we do has long been part of our culture and practices. The Treating Customers Fairly (TCF) initiative, a key focus of the Financial Services Authority's (FSA) aim to rebuild consumer confidence in the financial services industry, helped us to shape our customer focus. At the end of 2008, we met the FSA deadline for companies to provide evidence that through our strategies, behaviour, practices and procedures, the culture of TCF was embedded

throughout the organisation. This is illustrated by the increase in team-based discussions on the topic, which grew by 9% to 61% over the three months leading up to our October staff survey.

We also support another FSA initiative, the Retail Distribution Review, which sets out to provide greater clarity about the advice customers are being offered and the way it is paid for.

We have a developed and embedded Enterprise Risk Management Framework that enables the Group's risks to be identified, assessed, controlled and monitored consistently, objectively and holistically. Our Enterprise Risk Management committee is well embedded and has proven to be a highly effective and responsive executive forum for the management of risk over the course of a particularly challenging year. Further information is provided in the Risk management section of the Business review on pages 58 to 63.

As part of our corporate governance approach our Board is committed to maintaining high standards in directing the Group's affairs and being accountable to shareholders. Our Board also believes that good governance makes for efficient and effective management that can deliver shareholder value over the longer term. To support this commitment and belief, we all operate within an approved governance framework, which is regularly reviewed and documented in the Board Charter.

In November our responsible investment practices were recognised when we were ranked fifth in a survey of 30 UK pensions companies by Fair Pensions – an independent body that campaigns for responsible investment.

Responsible investment

We take our responsibility as an investor seriously. We believe that analysis of company policies and practices on environmental, social and governance (ESG) issues is an integral part of the investment process.

Where possible, we use our influence to encourage best practice in the way ESG issues are managed by the companies in which we invest. In 2008 we had 680 engagement meetings to discuss ESG issues with companies (2007:633).

We also exercise our voting rights. In 2008 we voted on all our clients' UK and Irish equity holdings and at selected overseas company meetings – a total of 730 shareholder meetings. To expand the scope of our voting activity we will be implementing a programme to vote all of the securities we manage on behalf of all clients around the world in 2009.

We are a signatory to the United Nation's Principles for Responsible Investment – a set of guidelines that reflects our commitment to incorporate ESG issues into our investment processes. In November our responsible investment practices were recognised when we were ranked fifth in a survey of 30 UK pensions companies by Fair Pensions – an independent body that campaigns for responsible investment.

Health and wealth

We know from research that health and wealth are of particular interest to our customers and we are in a position to help them with both areas through all stages of their life.

We begin by introducing financial education to primary school children through *On the Money*, a collection of educational stories now in its second year. An independent evaluation of the resource found that 93% of pupils said they knew more about money since starting the project.

The stories have since been translated into Scottish and Irish Gaelic and in 2009 we intend to broaden *On the Money's* reach across the UK and look at the feasibility of extending to our overseas operations.

In order to get a better understanding of the public's perception of our industry, and to understand people's attitudes to saving and investing, we carry out research and publish a quarterly savings and investments index.

We are always looking to protect the health of our people and promote best practice across the industry. We have done this in conjunction with Business in the Community's Business Action on Health (BAH) campaign of which Standard Life Healthcare is a founding member.

The UK Government has selected the BAH campaign as a strategic partner for the implementation of its health, work and wellbeing initiative. Already 100 companies have signed up to report on workplace health issues, and in 2008, 85% of Standard Life Healthcare staff took part in the scheme.

We continue to help our people in the later stages of life and last year we launched our first pre-retirement courses. The one-day seminars are designed to educate our people about the various issues and options they'll face in retirement, and help them consider the different circumstances that may arise. Taking part in these courses is helping our future retirees to prepare for both the financial and the emotional changes retirement may bring.

Managing our people

We believe engaged and enthusiastic people who embrace our values are crucial to building sustainable relationships with our customers through exceptional service.

Throughout 2008, we conducted a series of Group-wide events called *Shaping our Future* to inform and engage our people globally in our mission, vision and strategy. This strategy includes a drive for operational excellence and improved risk management, which we believe will contribute to greater consumer trust.

We believe that each individual possesses a unique blend of skills, knowledge and talents. In 2008, we introduced *Clifton StrengthsFinder®* a talent discovery tool to provide each individual with an insight into their talents and how this increased awareness can be used to enhance their performance. Complementing this initiative, we have introduced a structured approach to managing talent globally to ensure we attract, identify and retain world class talent.

Consistent with our goal of being an employer of choice, we offer our people in the UK and Canada the chance to tailor their benefits package. Most of our people also have the opportunity to become shareholders in our business. Our Share Plan gives our people a better understanding of the interests of shareholders and promotes a wider interest in our performance and business needs. 96% of our people across the UK, Ireland, Germany, Austria and Canada now hold shares in our business.

96%
of our people across the
UK, Ireland, Germany,
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our business

We have established a new Partnership Agreement with VIVO, the Standard Life Staff Association, the representative body for the majority of UK based employees. The agreement was negotiated, consulted upon and ratified by employees – 66% of eligible employees voted, and 92% were in favour of the new agreement.

We actively encourage our people to take up placements with charities and community groups in a mutually beneficial exchange. In 2008, more than three years of employee time and consultancy was contributed over nine different placements of between three to 12 months, with groups like *Scottish Social Enterprise Coalition* and *Age Concern*.

We also support the community with our Work Life initiative which helps people who have experienced homelessness, or have a disability, by offering them a temporary employment contract with us. In the last 12 years over 25 people in the UK have benefited from this initiative. Last year, we employed another two individuals in the UK, and eight in Canada through links with the West Montreal Re-adaptation Centre.

Our community and environmental impacts
Wherever we operate, we take an active interest in our neighbouring communities and surrounding environment. We do this because we are aware of the effect our business can have on a community. As set out in our newly revised Environment and Corporate Community Investment policies, all our activities, from minimising our environmental impact to investing in our communities, are based on long-term commitments that will benefit them now and in the future.

We believe the material environmental issues for our business are the energy and paper we use, the waste we produce and the travel we undertake. We have been working for the past 10 years to improve our overall performance in these areas for the business that we operate by consuming less, recycling more and disposing sensitively of anything that remains.

In 2008, total energy consumption for our UK head office operations fell by 12%. The volume of paper we have consumed in the UK and Ireland has also decreased by 23% since our 2006 baseline. However, in 2008 the number of air miles we travelled on business went up by 4%. While some increase can be attributed to international travel as our business grows globally, we will be encouraging our people to reduce domestic air miles in 2009.

The volume of paper we have consumed in the UK and Ireland has decreased by 23% since 2006

Ensuring our people are kept informed and involved in environmental issues is a key part of our approach. Our *InvolveME* programme provides information on environmental issues and encourages our people to consider the environmental impacts of their working lives. As part of this programme we have hosted environmental roadshows with external partners, and *Green Teams* were set up to empower our people to make local changes to improve environmental performance. Currently we have 13 teams across Canada, Germany, Ireland and the UK. These teams have been instrumental in raising awareness of environmental issues and encouraging local action.

We have also taken measures to minimise the environmental impact of the buildings within our investment property portfolio by monitoring their energy, water and waste consumption. For example, we achieved a 70% reduction in recycled waste at retail centres against our target of 45%.

Charitable fundraising gives our people the opportunity to help make a real difference in the communities where they live and work. Every year, our people in the UK vote for the causes they wish to support and projects are sourced accordingly with the funds raised augmented by the company. Through the outstanding fundraising efforts of our people around the world, last year a total of £1.393m was raised for nominated charities.

Our community work also includes our Step up in Life and Skills for Life programmes. Through these programmes we help groups develop generic employment skills and run workshops about applying for jobs, interview skills and how to make a successful start at work. 39% more students took part in Step up in Life last year with 8,915 students benefiting from the programme. In all, our total contribution to our communities was £2.85m for the year, or £278 for each employee.

 Full details of our corporate responsibility approach and performance last year will be published in our Corporate Responsibility Report in May 2009, and will be available at www.standardlife.com/corporate_responsibility

Our willingness to work in partnership with the relevant people in education and the wider community has been key to the success of these initiatives and was reflected in Step up in Life winning the Merrill Lynch Education Award from Scottish Business in the Community (Big Tick Award) and the Scottish Financial Enterprise Innovators Award for Investment in the Future.

Looking forward

As the financial market is likely to continue to be testing, we remain focused on and committed to our corporate responsibility approach. For more information or to give us your feedback, please visit www.standardlife.com/corporate_responsibility

Board of Directors

As at 31 December 2008

[image removed]

[image removed]

[image removed]

Gerry Grimstone

Chairman, age 59

Appointed Chairman in May 2007, having been Deputy Chairman since March 2006. He became a director of The Standard Life Assurance Company in July 2003. He is also Chairman of Candover Investments plc. Gerry held senior positions within the Department of Health and Social Security and HM Treasury until 1986. He then spent 13 years with Schroders in London, Hong Kong and New York, and was Vice Chairman of Schroders' worldwide investment banking activities from 1998 to 1999.

Sir Sandy Crombie

Group Chief Executive, age 59

Appointed Director and Group Chief Executive in March 2006, having been a director of The Standard Life Assurance Company since January 2000. He was Chief Executive of Standard Life Investments Limited from its launch in 1998 until his appointment as Group Chief Executive of The Standard Life Assurance Company in 2004. Sir Sandy is also a member of the Chancellor of the Exchequer's High-Level Group on Financial Services, a director of the Association of British Insurers and the Royal Scottish Academy of Music and Drama, and Chairman of the Edinburgh World City of Literature Trust. He received a knighthood for services to the insurance industry in Scotland in the 2009 New Year Honours List.

Kent Atkinson

Non-executive Director, age 63

Appointed Director in March 2006, having been a director of The Standard Life Assurance Company since January 2005. He is also Senior Independent Director and Chairman of the Audit Committee of Coca-Cola HBC S.A., a non-executive director and Chairman of the Audit Committee of Northern Rock plc, and a non-executive director of Gemalto N.V. and Millicom International Cellular S.A. From 1994 to 2002, Kent was Group Finance Director at Lloyds TSB Bank plc and then a non-executive director until 2003.

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Crawford Gillies

Non-executive Director, age 52

Appointed Director in January 2007. He is also Chairman of Hammonds LLP and Control Risks Group Holdings Limited, and Chairman of the Board of Trustees of the Saltire Foundation. Crawford spent 22 years with Bain & Company Inc., the international management consultants, and has been retained by them as a special adviser. He was an independent member of the DTI's Management Board and Strategy Board from 2002 to 2007, and chaired the DTI's Audit and Risk Committee from 2003 to 2007.

Baroness McDonagh

Non-executive Director, age 47

Appointed Director in March 2007. She is also a non-executive director of TBI plc and Care Capital Group plc. Margaret is a business consultant, having previously been General Manager of Express Newspapers and she was appointed a Life Peer in 2004. From 1998 to 2001, she was both the first female and the youngest General Secretary of the Labour Party.

David Nish

Executive Director, age 48

Appointed Director and Group Finance Director in November 2006. He is also a non-executive director of Northern Foods plc. David was previously a partner with Price Waterhouse, and then Group Finance Director and Executive Director, Infrastructure Division at Scottish Power plc.

Board Committee members

Business overview

Governance information

Financial statements

Additional information

Audit, Risk and Compliance Committee
Kent Atkinson (Chairman)
Lord Blackwell
Crawford Gillies
Baroness McDonagh

Remuneration Committee
Crawford Gillies (Chairman)
Lord Blackwell
Colin Buchan
Baroness McDonagh

Nomination and Governance Committee
Gerry Grimstone (Chairman)
Lord Blackwell
Colin Buchan
Sir Sandy Crombie
Jocelyn Proteau

Investment Committee
Colin Buchan (Chairman)
Kent Atkinson
Crawford Gillies

Corporate Responsibility Committee
Gerry Grimstone (Chairman)
Sir Sandy Crombie
Baroness McDonagh
Marcia Campbell

You can find out more about how these Committees operate – including the duties of the members – on pages 83 to 85.

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Lord Blackwell

Non-executive Director, age 56
Appointed Director in March 2006, having been a director of The Standard Life Assurance Company since June 2003. He is the Company's Senior Independent Director and Chairman of Standard Life Assurance Limited. Lord Blackwell is also Chairman of Interserve plc, Senior Independent Director of SEGRO plc, a board member of the Office of Fair Trading, a non-executive director of the Centre for Policy Studies and an active member of the House of Lords. From 1995 to 1997, he was Head of the Prime Minister's Policy Unit and, subsequently, was Director of Group Development at National Westminster Bank until 2000.

Colin Buchan

Non-executive Director, age 54
Appointed Director in January 2008, he is Chairman of Standard Life Investments Limited. Colin is also a non-executive director of The Royal Bank of Scotland Group plc, Blackrock World Mining Trust plc and Wood Mackenzie Limited. He was formerly Global Head of Equities at UBS Warburg and a member of the group management board of UBS AG.

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Jocelyn Proteau

Non-executive Director, age 61
Appointed Director in March 2006, having been a director of The Standard Life Assurance Company since August 2003. He is Chairman of The Standard Life Assurance Company of Canada and has worked for much of his career in the Canadian financial services industry. Jocelyn holds a number of non-executive positions, including Chairman of BTB Real Estate Investment Trust, Co-Chairman of Technologies 20/20 Inc. and director of the Canadian Public Accountability Board.

Keith Skeoch

Executive Director, age 52
Appointed Director in May 2006, having been a director of The Standard Life Assurance Company since March 2006. He is Chief Executive of Standard Life Investments Limited. Keith joined Standard Life Investments Limited in 1999 after nearly 20 years' investment experience at James Capel & Co. Limited in a number of roles, including Chief Economist and Managing Director International Equities. He is also a director of the Investment Management Association, director and Chairman of the Investment Committee of the Association of British Insurers, and a member of the Advisory Board of Reform Scotland.

Directors' report

The Directors present their annual report on the affairs of the Standard Life Group (the Group), together with the European Embedded Value (EEV), International Financial Reporting Standards (IFRS) and Company financial statements and auditors' reports, for the year ended 31 December 2008.

Reporting for the year ended 31 December 2008

The Company is the holding company of the Group. The principal activities of the Group are to provide long-term savings and pensions, protection, healthcare, mortgages and investment management products and solutions. Further details on the activities of the Company's principal subsidiary undertakings and their branches are given in the Group overview and Business segment performance sections of the Business review. The main trends and factors likely to affect the future development, performance and position of the Group are outlined in the Group overview section of the Business review. Reviews of the operating and financial performance of the Group for the year ended 31 December 2008, of any important events after the year end and of likely future developments are given in the Group Chief Executive's statement and the Business review.

Together with the Chairman's statement and the Corporate responsibility section, the Group Chief Executive's statement and the Business review form part of this report. The Corporate governance report is submitted by the Board, and the Directors' remuneration report is submitted on behalf of the Board.

The results of the Group on both EEV and IFRS bases are presented on pages 22 and 26 respectively of the Business review. A detailed description of the basis of preparation for IFRS (including underlying profit) and for EEV results is set out in the Basis of preparation section on page 66 of the Business review. There is information about the Group's use of financial instruments and related financial risk management matters in Note 39 to the Group financial statements.

The Directors' responsibility statement follows this report and a cautionary comment concerning forward-looking statements is made below.

Forward-looking statements

The Chairman's statement, Group Chief Executive's statement, Business review and other sections of this *Annual Report and Accounts 2008* may contain forward-looking statements about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and objectives. Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and other words of similar meaning are forward-looking. All forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements. The Company will not undertake any obligation to update any of the forward-looking statements in this *Annual Report and Accounts 2008*.

Dividend

The Board recommends the payment of a final dividend for 2008 of 7.70p per ordinary share, payable on 29 May 2009 to shareholders on the register of members on 20 March 2009. This will amount to an estimated £168m. Together with the interim dividend of 4.07p paid on 28 November 2008, this makes a total dividend of 11.77p for the year (2007: 11.50p). A local currency payment service is available to shareholders residing in certain countries outside the UK. The Company currently offers a dividend reinvestment plan that gives shareholders the option to choose to receive ordinary shares instead of cash dividend payments. It is proposed that this plan be replaced with a Scrip dividend scheme which will also give shareholders the option to receive ordinary shares instead of cash dividend payments. More details of these shareholder services can be found on the Shareholder information section of our website at www.standardlife.com/shareholders

Share capital

Full details of the authorised and issued share capital, together with details of the movements in the Company's issued ordinary share capital during the year are shown in Note 24 to the Group financial statements. The Company has one class of ordinary shares, which carry no right to fixed income. On a poll at general meetings of the Company, each share carries the right to one vote.

As at 31 December 2008, there were 2,177.8 million issued ordinary shares held by 122,741 registered members, with the Standard Life Share Account (the Company-sponsored nominee) holding 1,053 million shares on behalf of 1,332,515 participants. There is an analysis of registered shareholdings by size of shareholding as at 31 December 2008 at the end of the *Annual Report and Accounts 2008*. Details of ordinary shares under option in respect of the Standard Life Long Term Incentive Plan (LTIP) are shown in Note 43 to the Group financial statements. Under the terms of the Trust Deed relating to the LTIP, the Trustees, who hold shares under option on behalf of participants for a period between the vesting date and the exercise date, have waived all of any current or future dividend entitlements.

During the year, and up to 9 March 2009, the Company received the following notification in respect of substantial shareholdings in accordance with the Disclosure and Transparency Rules of the Financial Services Authority:

Computershare Company Nominees Limited: 56,500,000 shares (2.59%)

This holding is in respect of the Unclaimed Assets Trust which was established by the Company and its share registrar to hold the demutualisation entitlements of those eligible members who have not yet confirmed their details in accordance with the Scheme of Demutualisation.

Except as described below, there are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's articles of association and prevailing legislation and regulation.

The Board may decline to register the transfer of a share that is not a fully paid share. The Board may also decline to register the transfer of a certificated share unless the instrument of transfer is duly stamped and accompanied by the relevant share certificate or other evidence of the right to transfer, is in respect of only one class of share and is in favour of no more than four joint transferees. Registration of the transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the articles of association) and where the transfer is in favour of more than four joint transferees.

Additionally, the Board may decline to register the transfer of a certificated share by a person with a 0.25% interest in the Company if that person has been served with a restriction notice under the articles of association, after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts (unless the transfer is shown to the Board to be pursuant to an arm's length sale under the articles of association).

These restrictions are in line with the standards set out in the FSA's Listing Rules and are considered to be standard for a listed company. The Directors are not aware of any other agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of the Company's employee share plan, The Standard Life Share Plan, are set out in Note 43 to the Group financial statements. The Trustees of this plan vote the appropriate shares in accordance with any instructions received from participants in the plan.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its articles of association, the Companies Acts and related legislation. The articles of association themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Company's articles of association. The Company also complies with the relevant provisions of the Combined Code on Corporate Governance.

Under its articles of association, the Company has authority to issue 3,000 million ordinary shares and 50,000 redeemable preference shares. At the 2008 Annual General Meeting (AGM), the Directors were granted limited power by the shareholders to allot the Company's ordinary shares and to disapply, to a limited extent, shareholders' pre-emption rights in respect of new ordinary shares issued for cash and to make market purchases of the Company's ordinary shares up to a maximum of 217,418,940. The Company did not make any market purchases of its ordinary shares during the year ended 31 December 2008, and has not done so since then and up to the date of this report, under its limited authority to make market purchases of up to 10% of its issued ordinary share capital.

Significant agreements

The following significant agreements contain provisions which entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under a £600m credit facility agreement dated 7 June 2006 between the Company and the banks and financial institutions named therein as lenders, the facility agent must, upon a change of control of the Company and at the request of the majority lenders (as defined), cancel the total commitments of the lenders under the facility and declare all outstanding loans, together with accrued interest and any other amounts payable in respect of the facility, to be immediately due and payable.
- Under a £450m revolving loan agreement dated 10 June 2005 between Standard Life Bank Limited (now Standard Life Bank plc) and the banks and financial institutions named therein as lenders, the loan agent must, upon a change of control of the Company and at the request of the majority lenders (as defined) request prepayment of the loans in full within 10 business days (as defined) of the request.
- Under a £350m term facility agreement dated 20 November 2006 between Standard Life Bank Limited (now Standard Life Bank plc) and the banks and financial institutions named therein as lenders, the facility agent must, upon a change of control of the Company and at the request of the majority lenders (as defined), cancel the total commitments of the lenders under the facility and declare all outstanding loans, together with accrued interest and any other amounts payable in respect of the facility, to be immediately due and payable.
- Under a shareholders' agreement dated 15 January 2002 between The Standard Life Assurance Company and Housing Development Finance Corporation Limited (HDFC), pursuant to which the Group holds its interest in HDFC Standard Life Insurance Company Limited (HDFC SL), upon a change of control of the Company, HDFC potentially has the right to terminate the joint venture and to compulsorily acquire the Group's shares in HDFC SL on termination of the joint venture, although the enforceability of these rights is not certain under Indian law.

- Under a shareholders' agreement dated 10 June 2003 (as amended) between Standard Life Investments Limited (SLI) and HDFC, pursuant to which the Group holds its interest in HDFC Asset Management Company Limited (HDFC AMC), upon a change in the ownership structure of SLI that results in the acquisition by a third party, either directly or indirectly, of more than 20% of the issued, subscribed and paid-up capital of SLI, HDFC will have 90 days from the date upon which SLI notifies it in writing of the occurrence of such a change to purchase the Group's shares in HDFC AMC at a mutually agreed price.
- Under a joint venture agreement dated 28 April 2003 (as amended) between The Standard Life Assurance Company and Tianjin TEDA Investment Holding Co. Ltd. (TEDA), pursuant to which the Group holds its interest in Heng An Standard Life (Heng An SL), upon a change of control of the Company, TEDA has the right to terminate the joint venture and to purchase, or nominate a third party to purchase, the Group's shares in Heng An SL for a price determined in accordance with the agreement.

There are also a number of other agreements that contain provisions that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. None of these, other than the above, is considered significant in terms of its likely impact on the business of the Group as a whole. The Directors are not aware of any agreements which provide for compensation for loss of office or employment that occurs because of a takeover bid.

Contractual arrangements

The Directors consider that contractual or other arrangements which are essential to the business of the Group are in place with the following:

- Standard Life Investments Limited – Provision of investment management services
- Citibank N.A. London Branch – Provision of fund administration and fund accounting services
- The Bank of New York Mellon (International) Limited (formerly The Bank of New York Europe Limited) – Provision of administration services in respect of collective investment schemes
- FNZ (UK) Limited – Provision of customised administration and custodial services for our WRAP platform
- Computershare Investor Services PLC – Provision of share registry services
- IBM United Kingdom Limited – Provision of hardware and software services

Directors and their interests

The Directors who served throughout the year were:

Gerry Grimstone (Chairman)

Kent Atkinson

Lord Blackwell (appointed Senior Independent Director on 19 May 2008)

Colin Buchan (appointed 1 January 2008)

Sir Sandy Crombie (Group Chief Executive)

Crawford Gillies

Trevor Matthews (resigned 29 January 2008)

Baroness McDonagh

David Nish

Jocelyn Proteau

Keith Skeoch

Hugh Stevenson (Senior Independent Director – retired 19 May 2008)

Biographical details of the current Directors of the Company are shown on pages 72 and 73.

Crawford Gillies and Gerry Grimstone will retire as Directors and, being eligible, will offer themselves for re-election at the 2009 AGM. Jocelyn Proteau will retire as Director at the conclusion of the 2009 AGM, and will not offer himself for re-election.

The interests of the Directors in the Company's ordinary shares, the employee share plan and the share-based executive long-term incentive plans are set out in the Directors' remuneration report, together with details of the executive Directors' service contracts and non-executive Directors' appointment letters.

During the year, no Director had any interest in the Company's listed debt securities or in any shares, debentures or loan stocks of the Company's subsidiaries, or any material interest in any contract with the Company or a subsidiary undertaking, being a contract of significance in relation to the Company's business, other than the benefit of a third-party indemnity provided by the Company (in accordance with company law and the Company's articles of association) and service contracts between each executive Director and subsidiary undertakings. Copies of these documents are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's 2009 AGM.

The Company maintains directors' and officers' liability insurance on behalf of its Directors and officers.

Employees

Worldwide, the Group employed 10,394 people on 31 December 2008. Outside the UK, 2,921 people were employed. The Group's policy on rewarding its employees is set out in the Directors' remuneration report.

The Group is committed to engaging with employee representatives on a broad range of issues, including consultation on any major business change. In September 2008, the Company entered into a new Partnership Agreement with VIVO, the Standard Life Staff Association. This outlines how the Company and VIVO will work on shared objectives including employment security, terms and conditions, equality and diversity, and health and safety. VIVO represents eligible employees from all our UK businesses, with the exception of Standard Life Investments, which currently has its own staff association, and for some collective purposes, those represented by Unite in Standard Life Healthcare. In Ireland, there is an established procedural arrangement in place with Unite, and a Works Council was established in Germany in 2008.

The Group communicates with employees in a variety of ways appropriate to the circumstances or business environment. This includes communicating and sharing information with employees through formal team briefings and discussions, informal team meetings, email, DVDs, or the Group's intranet and in-house publications. Further details of Group-wide employee engagement initiatives are contained in the Group Chief Executive's statement and the Group overview section of the Business review.

The Group takes the issue of equality and diversity seriously, ensuring the provision of equal employment and development opportunities for all employees. By using the talent and skills available in the countries where it operates, the Group is developing a strong, and increasingly, international basis to support its future business plans. All employees across the Group participate in a discussion with their manager, as part of their performance management process, to discuss their aspirations, strengths and limitations and how these can be applied, developed and addressed at work.

The Group remains committed to providing a work environment free from harassment and discrimination and to treating people with disabilities fairly in relation to job applications, training, promotion and career development. The health and safety of all employees is a priority and is reviewed at regular intervals. Each business within the Group is responsible for ensuring compliance with the Group's People Policy and Health and Safety Policy standards through a quarterly certification process.

Employees have the opportunity to participate in the Company's employee share plan, which enables eligible individuals to buy ordinary shares in the Company directly from their earnings – up to a total market value of £125 per month, or an equivalent sum in the relevant currency. These are called partnership shares. For each partnership share bought under the plan, the Company matches the purchase by allocating the relevant individual one ordinary share up to a maximum total value of £25 per month, or an equivalent sum in the relevant currency. At 31 December 2008, 55.41% of eligible Group employees were participating, making an average monthly purchase of £42.69, and the average number of shares held in the plan was 788 per employee.

In addition, ordinary shares or rights to ordinary shares up to a limit specified in the plan may be allotted annually to each eligible employee – these are called free shares. In April 2008, a total of 9,920 eligible employees accepted an individual award of 110 free shares.

Environmental matters and social and community issues

Information about environmental matters, including the impact of the Group's business on the environment, and information on social and community issues is given in the Corporate responsibility section on pages 68 to 71.

Creditor payment policy

It is the Group's policy to agree payment terms at the start of business with each supplier and to pay all creditors promptly and in accordance with contractual and other legal obligations. In respect of Group activities, the average time taken to settle supplier invoices was 29 days (2007: 34 days restated from 14), based on the average daily amount invoiced by suppliers during the year.

Charitable and political donations

Payments for charitable purposes made by the Group during the year totalled £1,077,705, of which £357,240 was given to UK resident charities, mainly to the British Lung Foundation and The Place2Be. The Company did not make any donations to any political party, organisation or election candidate, or incur any political expenditure.

Auditors

Resolutions to re-appoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the 2009 AGM.

At the date of approving this report, so far as each Director is aware, there is no relevant audit information, being information needed by the auditors in connection with the preparation of their report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Company's auditors, all the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are also aware of that information.

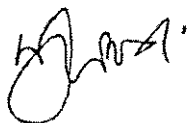
Annual General Meeting

The Company's AGM will be held at 11am on Friday, 15 May 2009. In addition to considering separate resolutions relating to the Company's *Annual Report and Accounts 2008*, the Directors' remuneration report, a final dividend, the re-appointment of the auditors (and the setting of their fees), the individual re-election of certain Directors of the Company, shareholders will be asked to consider proposals to:

- Grant the Directors limited power to allot the Company's ordinary shares and to disapply, to a limited extent, shareholders' pre-emption rights in respect of new ordinary shares issued for cash
- Grant the Directors limited authority to make market purchases of the Company's ordinary shares
- Grant the Company and its subsidiaries limited authority to make certain payments and incur certain expenditure which might inadvertently breach the provisions of Part 14 of the Companies Act 2006 (Control of Political Donations and Expenditure)
- Allow the Company to continue to benefit from the ability to call certain shareholder meetings on 14 days' notice, as permitted by the articles of association
- Implement a Scrip dividend scheme (in place of the current dividend reinvestment plan), under which eligible shareholders may receive their dividends in the form of ordinary shares in the Company, rather than receiving cash dividend payments

Information about the meeting venue and full details of the resolutions to be proposed, together with explanatory notes, are set out in the *AGM guide 2009*.

On behalf of the board



M J Wood
Group Company Secretary and General Counsel
12 March 2009

Directors' responsibilities for preparing the financial statements

The following statements, which should be read in conjunction with the statement of auditors' responsibilities included in the independent auditors' reports, are made to help shareholders distinguish the respective responsibilities of the Directors and the auditors in relation to the financial statements for 2008.

The Directors are responsible for preparing the *Annual Report and Accounts 2008* and *Summary Financial Report 2008*. The Directors are required by company law to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year, and of the profit or loss of the Company and the Group for the financial year. The financial statements of the Group must be prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted for use in the European Union, the Companies Acts 1985 and 2006, the Disclosure and Transparency Rules (DTR) issued by the Financial Services Authority and Article 4 of the IAS Regulation. The Directors have elected to prepare the Company's financial statements on the same basis.

The Directors consider that, in preparing the financial statements on a going concern basis, the Company has used appropriate accounting policies, that these have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The Directors have responsibility for ensuring the maintenance of proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Acts 1985 and 2006, the DTR and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Directors' responsibility statement

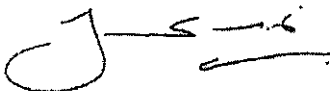
We confirm to the best of our knowledge that:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
2. the Business review, which is incorporated into the Directors' report, includes the information required by DTR 4.1.8 and DTR 4.1.9, namely a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board



Gerry Grimstone
Chairman
12 March 2009



David Nish
Group Finance Director
12 March 2009

Corporate governance

This section of the *Annual Report and Accounts 2008* has been prepared in respect of the Code of Best Practice in the *Combined Code on Corporate Governance* (the Code) issued by the Financial Reporting Council in June 2006. Together with the Directors' remuneration report on pages 88 to 99, it explains how the Group's corporate governance framework supports the Company's application of all the main principles of good governance set out in the Code to its organisational structure, its processes to appoint and remunerate Directors, its contact with shareholders and its financial reporting, internal control and assurance procedures. The Board considers that throughout the year to 31 December 2008, the Company complied with all relevant provisions of Section 1 of the Code.

The Board is committed to maintaining high standards of corporate governance in directing the Group's affairs and in its accountability to shareholders. It also believes that good governance facilitates efficient and effective management that can deliver shareholder value over the longer term. To support this commitment and belief, the Group operates within an approved governance framework, which is kept under regular review and documented in the Board Charter. The Nomination and Governance Committee reviews the Board Charter regularly in light of developments in regulatory guidance and corporate governance best practice. The Board Charter is complemented by the Group's Code of Business Conduct, which sets out the Group's standards in terms of operational excellence, compliance responsibilities, customers, people and other stakeholders.

Role and responsibilities of the Board

The Board's role is to organise and direct the affairs of the Company and the Group to maximise value for the benefit of shareholders, in accordance with the Company's constitution and all relevant laws, regulations and corporate governance standards. The roles and responsibilities of the Board, collectively and for individual Directors, are set out in the Board Charter. A section of the Board Charter identifies matters that are specifically reserved for decision by the Board. These include approving, overseeing and challenging:

- development and implementation of strategies, objectives and business plans
- capital and management structures
- dividend policy
- financial reporting, risk management and internal controls and key Group policies
- significant corporate transactions
- significant external communications
- terms of reference of Board Committees
- appointments to the Board and Board Committees

Regular items reviewed by the Board include updates from the Group Chief Executive and the Group Finance Director on progress against approved strategies, plans and budgets, as well as Market updates and risk management updates. There are also regular presentations from key business areas, regional operating divisions and Group functions.

Board structure

It is the Company's policy that, apart from the Chairman, at least half the Board should normally be made up of independent non-executive Directors. This balance ensures that no individual Director or small group of Directors dominates the decision-making process. Advised by the Nomination and Governance Committee, the Board's policy is to appoint and retain non-executive Directors who can bring not only relevant expertise, but also the widest possible perspective to the affairs of the Group and its decision-making framework. The Board regularly reviews and refreshes the required skills and experience through a programme of rotational retirement and a broad recruitment search.

The roles of the Chairman and the Group Chief Executive are separate and each has clearly defined and documented responsibilities. The Chairman leads the Board and is responsible for promoting high standards of corporate governance and ensuring that the Board members receive accurate, timely and clear information on the Group and its activities. The Group Chief Executive, within authorities delegated by the Board, is responsible for leading the executive Directors and senior management in the day-to-day running of the Group, including making and implementing operational decisions, and developing strategic plans and structures for presentation to the Board. The chief executives of each Business unit and the heads of the Group functions manage their Business units and functions within authorities set out in the Board Charter. These include reporting to the Group Chief Executive on compliance with Group Policies and performance against approved plans and budgets.

As at 12 March 2009, the Board comprises the Chairman, six independent non-executive Directors and three executive Directors. Each non-executive Director serves for a fixed term not longer than three years. This term may then be renewed by mutual agreement and re-election at the appropriate Annual General Meeting (AGM). As long as the Board is satisfied with a Director's performance, independence and ongoing commitment, there is no specified limit to the number of terms a Director may serve. The role of the non-executive Directors is to participate fully in the functioning of the Board, advising, supporting and challenging management as appropriate. The formal letter of appointment received by non-executive Directors is available from the Group Company Secretary and General Counsel.

All Directors must be elected by shareholders at the AGM following their appointment by the Board, and offer themselves for re-election at every third AGM (as a minimum). Non-executive Directors who have served on the Board for more than six years will be proposed for re-election following a full evaluation of individual performance by the Chairman at a one-to-one meeting. Those with nine years or more continuous service must offer themselves for re-election each year. There are currently no Directors with nine years or more continuous service.

The Directors

The following changes were made to the Board during the year. As disclosed in last year's Directors' report, Colin Buchan was appointed to the Board on 1 January 2008 and Hugh Stevenson retired from the Board at the conclusion of the 2008 AGM. As announced, Jocelyn Proteau will retire at the conclusion of the 2009 AGM and will not offer himself for re-election.

As all of the Directors retired and were elected or re-elected at the 2007 AGM or the 2008 AGM, there is no requirement under the Company's articles of association for any of the Directors to retire and offer themselves for re-election at the 2009 AGM. However, recognising the Board's support for the Code principle of regular Board rotation, the Chairman, Gerry Grimstone, and the Chairman of the Remuneration Committee, Crawford Gillies, will retire voluntarily and offer themselves for re-election at the 2009 AGM. Information relating to their proposed re-election is contained in the *AGM guide 2009*.

Gerry Grimstone served as Chairman of the Board throughout the year. He continues in his role as Chairman of Candover Investments plc, and the Board is satisfied that he remains independent and has sufficient time to carry out his duties. Hugh Stevenson served as Senior Independent Director until the conclusion of the 2008 AGM, and, following his retirement, Lord Blackwell was appointed as Senior Independent Director. In this capacity, he is available to talk with shareholders about any concerns they have not been able to resolve through the normal channels of Chairman, Group Chief Executive or Group Finance Director, or if these channels are inappropriate. The Senior Independent Director is also responsible for leading the Board's discussion on the Chairman's performance.

The Board conducts an annual review of the independence of non-executive Directors to consider all issues relevant to their independence. This includes reviewing their external appointments and any potential conflicts of interest as well as assessing their individual circumstances against independence criteria, including those contained in the Code. Having considered the matter carefully, the Board is of the opinion that all the non-executive Directors are independent in character and judgement and that there are no relationships or circumstances that are likely to affect this.

The Board's policy is to allow Directors to seek, at the Company's expense, appropriate professional advice outside the Company when they consider this necessary to carry out their responsibilities. All Directors have access to the advice and services of the Group Company Secretary and General Counsel, whose appointment and removal is a matter for the Board. The Group Company Secretary and General Counsel is responsible for advising the Board, through the Chairman, on all governance matters.

Conflicts of interest

Recognising the relevant directors' statutory duty introduced by the Companies Act 2006 on 1 October 2008 and following the amendment to the Company's articles of association approved at the 2008 AGM, the Directors exercised their power in accordance with the authority given in connection with conflicts of interest. Prior to 1 October 2008, a comprehensive exercise was undertaken to identify all potential and actual conflicts of interest of the Directors and their connected persons. The Directors considered carefully the potential and actual conflicts identified, including external directorships which had already been disclosed, and concluded that it was appropriate for the non-conflicted Directors to approve them for a defined period. The terms of the approvals specify that conflicted Directors can be excluded from receiving information, participating in discussions and making decisions arising from the potential or actual conflict.

Board effectiveness

As the Board's effectiveness is key to the Group's success, the Board has, through the Nomination and Governance Committee, developed a formal annual review process to assess how well the Board, its Committees and Directors are performing collectively and individually, and how their respective performances might be improved. The process requires each Director to complete a confidential questionnaire on the Board and each Committee of which the Director is a member. The questionnaire is updated each year to reflect learning points from the previous year's review. This is followed up by individual interviews with all Board members, based on their responses to the questionnaire, to gather their views on areas where the Board or Committee has performed well and areas for improvement. The questionnaires cover subjects such as the Board's input to the setting of strategy, the quality of information presented to the Board and the processes that support the Board's activities. The results are considered in detail by the Nomination and Governance Committee before being formally reported to the Board. As well as reporting progress on the action plan from the previous year's review, the report summarises the Board's key successes and development points, and includes an action plan based on the current year's recommendations. Progress against this plan is monitored and reported back to the Nomination and Governance Committee. The Board effectiveness review is undertaken with internal support from the Group Company Secretary and General Counsel's office. Each year, the Nomination and Governance Committee and the Board consider whether this process remains the most effective approach.

Following the review covering the period 1 July 2007 to 30 June 2008, the Board concluded that it had performed effectively, and agreed actions in respect of certain areas identified for improvement. These included strengthening the Board's process to review and challenge the Group's strategy and planning work.

The review of the Chairman's performance is led by the Senior Independent Director and involves obtaining formal feedback via confidential questionnaires from each of the other Directors. The feedback is summarised into a themed report, which is distributed to all members of the Board, other than the Chairman. The Directors, led by Lord Blackwell and without the Chairman being present, met during the year to consider the report on the Chairman's performance and concluded that he had performed effectively. Lord Blackwell is responsible for passing the feedback arising from the review to the Chairman.

The process of reviewing the performance of individual Directors is led by the Chairman, who held one-to-one meetings with each of the Directors to assess their individual performance and contribution against performance objectives set out in the Board Charter. Prior to these meetings, the Directors self assessed their performance by completing a confidential questionnaire. The meetings were designed to ensure that each Director was contributing effectively to the Board and each Board Committee and continued to have sufficient time to commit to the role. In addition, the Chairman and the non-executive Directors met formally and informally without the executive Directors present to discuss various issues including the executive succession planning processes.

Development

The Chairman, supported by the Group Company Secretary and General Counsel, is responsible for arranging for all new Directors to receive a comprehensive and structured induction, tailored to their individual requirements. For the appointment of Colin Buchan on 1 January 2008, this included discussions with executive Directors, key members of senior management, the heads of the operating businesses and Group control functions, visits to operating divisions within the Group and meetings with the external auditors and the supervisory team from the Financial Services Authority, as well as the provision of key Board materials and information. The aim of this programme is to give all new Directors an understanding of the Group's organisational structure and business activities, the key drivers of business performance, the role of the Company's Board and its Committees, and the Company's corporate governance and risk management policies and procedures. When a non-executive Director is appointed to one of the Board's Committees, additional relevant induction training is arranged.

On appointment, the Directors undertake to broaden their understanding of the Group's business and they are invited to identify any matters relating to the Group's activities, or to relevant developments in the external business environment, where they would benefit from additional training. During 2008, specific Board training sessions took place on Treating Customers Fairly (TCF), and the revisions to the Enterprise Risk Management Framework (ERMF). If any individual training needs are identified through the annual Director appraisal process with the Chairman, the Company makes every effort to meet these either using internal resources or by reference to external expertise.

Board meetings and meeting attendance

The Board and its Committees meet regularly, operating to an agreed timetable of scheduled meetings. Meetings are generally held in Edinburgh or London and, during the year, the Board held both on-site and off-site sessions to consider the Group's strategy. The Board has also established a formal procedure for holding unscheduled meetings when, exceptionally, decisions on matters specifically reserved for the Board need to be taken urgently.

The Company requires Directors to attend all meetings of the Board and the Committees on which they serve, and to devote enough time to the Company to perform their duties. It is sometimes necessary to call or rearrange meetings at short notice and it is recognised that it may be difficult for all Directors to attend in these circumstances. Board and Committee papers are generally distributed before meetings. When Directors have not been able to attend meetings because of conflicts in their schedules, they receive and read all of the papers for consideration at that meeting and have the opportunity to submit their comments in advance to the Chairman or the Group Company Secretary and General Counsel and, if necessary, to follow up with the relevant Chairman of the meeting. The attendance of the Directors at the Board and Committee meetings held in 2008 is shown in this table:

	Board	Audit, Risk and Compliance	Remuneration	Nomination and Governance	Investment	Corporate Responsibility
Number of meetings	13	6	8	5	6	5
Chairman						
Gerry Grimstone	13			5(c)		5(c)
Executive Directors						
Sir Sandy Crombie	13			5		5
Trevor Matthews ⁽ⁱ⁾	1					
David Nish	13					
Keith Skeoch	13					
Non-executive Directors						
Kent Atkinson	11	5(c)			5	
Lord Blackwell	13	6	8	5		
Colin Buchan ⁽ⁱⁱ⁾	12		4	2	5(c)	
Crawford Gillies	13	6	8(c)		6	
Baroness McDonagh	13	6	7			5
Jocelyn Proteau	12			5		
Hugh Stevenson ⁽ⁱⁱⁱ⁾	6		3	2	2(c)	

(i) Trevor Matthews resigned from the Board on 29 January 2008.

(ii) Colin Buchan was appointed to the Investment Committee on 29 January 2008 and to the Remuneration Committee and the Nomination and Governance Committee on 19 May 2008.

(iii) Hugh Stevenson retired from the Board on 19 May 2008.

(c) Chairman of Board Committee.

Board Committees

The Board has established a number of Committees to oversee, consider and make recommendations to the Board on important issues of policy and oversight. At each Board meeting, the Committee chairmen provide oral reports of the key issues considered at earlier Committee meetings, and minutes of Committee meetings are circulated to the Board. The Committees operate within specific terms of reference approved by the Board. These terms are published on the Company's website and are also available from the Group Company Secretary and General Counsel on request. Board Committees are authorised to engage the services of external advisers at the Company's expense, whenever they consider this necessary.

Membership of the Committees is reviewed at regular intervals by the Chairman of each Committee and the Nomination and Governance Committee. New appointments are considered by the Nomination and Governance Committee for onward recommendation to the Board.

Audit, Risk and Compliance Committee

The Committee members are Kent Atkinson (Committee Chairman), Lord Blackwell, Crawford Gillies and Baroness McDonagh – all of whom are considered by the Board to be independent non-executive Directors. Jocelyn Proteau resigned from the Committee on 29 January 2008. The Board is satisfied that at least one member has recent and relevant financial experience.

The remit of the Committee is to consider any matter relating to the financial affairs of the Group, its internal and external audit arrangements and its risk management and compliance arrangements, and to make appropriate recommendations to the Board. The Committee's terms of reference are available from the Group's website at www.standardlife.com. The Committee is required to meet at least four times a year and its meetings are timed to coincide with the Company's financial reporting cycle. At least once a year, it meets with each of the external and internal auditors without management being present. Others invited to attend the Committee meetings on a regular basis include the Chairman, the Group Chief Executive, the Group Finance Director and other members of senior management, including the Head of Internal Audit and the Chief Risk Officer and Group Actuary, as well as the external auditors.

The Committee reviews the intended publication of the *Annual Report and Accounts* and *Summary Financial Report* of the Group and any formal statements relating to the financial performance of the Group and Group companies. This includes consideration of significant accounting policies, estimates and judgements applied, any changes made to these during the year, and the views of the external auditors. Also during 2008, the Committee reviewed the content of the Company's Interim Management Statements.

The Committee considers the effectiveness of the Group's internal audit function, monitoring its independence and objectivity within the context of professional standards, and it approves the scope and content of the annual internal audit plan and considers whether the internal audit function is adequately resourced. It also receives regular reports on the implementation of the approved plan, key findings arising from the reviews conducted, and the status of the implementation of the recommended improvement actions.

The Committee monitors the external auditors' independence and objectivity, also within the context of regulatory requirements and professional standards, and assesses the effectiveness of the external audit process. As part of its ongoing review of the effectiveness of the external auditors, the Committee assesses their qualifications, expertise and resources and considers the scope and planning of the external audit of the Group, as well as reviewing the findings with the external auditors. Following the 2008 effectiveness review, the Committee was satisfied that the external auditors continued to fulfil the terms of their engagement.

The Committee is also responsible for making a recommendation to the Board on the appointment, re-appointment or removal of the external auditors and approves their terms of engagement and remuneration for audit services. The external audit was the subject of a tender process in 2003, following which the present auditors were re-appointed. Following the 2008 effectiveness review, the Committee concluded that it was appropriate to recommend to the Board that the present auditors should be re-appointed.

A policy on non-audit services provided by the external auditors is monitored by the Committee. The aim of this is to support and safeguard the objectivity and independence of the external auditors, by ensuring that the audit services provided are not impaired by the provision of certain non-audit services. The policy prohibits the auditors from performing certain types of non-audit services and ensures that where non-audit fees for approved non-audit services are significant, they are subject to the Committee's approval. Details of the fees paid to the external auditors for both audit and non-audit work carried out during the year can be found in Note 7 to the accounts on page 132. Non-audit services undertaken during 2008 included tax advisory work and assurance services relating to key corporate projects such as the acquisition of Vebnet (Holdings) plc and the issue of covered bonds by Standard Life Bank plc. The level and type of non-audit fees is reviewed by the Committee at each meeting.

The Committee considers the effectiveness of existing processes and initiatives in place to manage risks, receiving regular update reports from the Chief Risk Officer and Group Actuary on the development and implementation of the ERMF and the status of the key risks facing the Group.

The Committee also reviews the arrangements for employees of the Group to raise concerns, in confidence, about possible impropriety in financial reporting and other matters. Any concerns are independently investigated and the Committee ensures that appropriate follow-up action is taken.

The remit and effectiveness of the Committee are reviewed annually by the members completing a self-assessment questionnaire and reviewing the Committee's terms of reference. The Committee analysed the questionnaire responses in late 2008 and concluded that it had performed effectively during the year, had fulfilled its duties under its terms of reference and had received sufficient, reliable and timely information from management and the external auditors to enable it to fulfil its responsibilities. In undertaking its duties, the Committee is authorised by the Board to obtain any information it requires from any Director or employee of the Group, and to seek, at the expense of the Group, appropriate professional advice inside and outside the Group, whenever it considers this necessary. During 2008, the Committee sought assurance from external professional advisers on the Group's preparedness to comply with TCF obligations.

Remuneration Committee

The Committee members are Crawford Gillies (Committee Chairman), Lord Blackwell, Baroness McDonagh and Colin Buchan (appointed 19 May 2008) – all of whom are considered to be independent non-executive Directors. Hugh Stevenson retired from the Committee on 19 May 2008. Details of the Committee's main functions, and its current remuneration policies for the Company Directors and senior executives, are given in the Directors' remuneration report on pages 88 to 99. The key matters for which the Committee has responsibility include the development of policy on executive remuneration and the determination of remuneration for executive Directors and certain members of senior management. The Chairman and the Group Chief Executive are invited to attend Committee meetings on a regular basis and the Group Human Resources Director and the Head of Group Reward are invited to attend to provide advice. The Committee's terms of reference are available from the Group's website at www.standardlife.com

Nomination and Governance Committee

The Committee members are Gerry Grimstone (Committee Chairman), Lord Blackwell, Sir Sandy Crombie, Jocelyn Proteau and Colin Buchan, (appointed 19 May 2008) – a majority of whom are considered to be independent non-executive Directors. Hugh Stevenson retired from the Committee on 19 May 2008. The Committee's role is to keep under review the Board and senior executive leadership needs, with a view to ensuring the Group's continued ability to compete effectively in the marketplace. It meets when required to make recommendations to the Board on new Director appointments and also carries out other activities related to the composition of the Board and the review of its effectiveness. Members of the Committee are not present when their own performance or re-appointment is being considered.

When considering new non-executive appointments, the Committee evaluates the Board's balance of skills, knowledge and experience, and prepares a description of the role, including the capabilities needed. Once a role description has been agreed, the Committee interviews suitable candidates and makes appropriate recommendations to the Board. For Board appointments, the process includes using external search consultants.

The Board recognises the importance of effective succession planning to its long-term success and has delegated the detailed review of these processes to the Committee. The Committee reviews the output of the succession planning processes, which take into account the skills and expertise required by the Board and senior management to allow the Group to operate effectively. The review also focuses on talent development to ensure that succession is in place for the levels below the Group Executive team. The Committee reviews the input required from non-executive Directors and the annual performance evaluation checks that they have sufficient time to meet their commitment to the Group. The Committee also considers the potential outside appointments of the Directors, and refers any potential or actual conflicts of interest identified to the Board for discussion.

The Committee also reviews the Group's corporate governance arrangements, recognising relevant generally accepted corporate governance standards. In particular, it reviews in detail the Group's compliance with Section 1 of the Code, and makes appropriate recommendations on governance arrangements to the Board. The Committee's terms of reference are available from the Group's website at www.standardlife.com

Investment Committee

The Committee members are Kent Atkinson, Crawford Gillies and Colin Buchan (appointed 29 January 2008 and appointed Committee Chairman on 19 May 2008) – all of whom are considered to be independent non-executive Directors. Hugh Stevenson served as the Committee Chairman until his retirement on 19 May 2008. The Committee meets regularly to review and report to the Board on matters relevant to the management of the Group's investments. These include significant proposed changes to a Group company's investment strategy or benchmarks. The Committee also monitors policies and guidelines concerning the role of Group companies as active institutional shareholders. The Chief Executive and other executives (where appropriate) of Standard Life Investments Limited attend Committee meetings. The Committee's terms of reference are available from the Group's website at www.standardlife.com

Corporate Responsibility Committee

On 29 January 2008, the Board established a Corporate Responsibility Committee to take forward the corporate responsibility work previously carried out by a management committee. The Committee members are Gerry Grimstone (Committee Chairman), Baroness McDonagh, Sir Sandy Crombie and Marcia Campbell, the Group Operations Director – the majority of whom are Board Directors. The Committee provides guidance and direction on, and oversight of, the Group's corporate responsibility programme and helps support the Board's role in providing leadership on environmental and social issues. The Committee's duties include keeping under review the Group's policies relating to corporate responsibility and making recommendations to the Board on corporate responsibility issues. There are more details about the Group's corporate responsibility activities in the Corporate responsibility section on pages 68 to 71. The Committee's terms of reference and a copy of the Company's Code of Business Conduct are available in the corporate responsibility section of the Group's website at www.standardlife.com

Communicating with investors

The Company has been continuing to work to develop processes to support an effective dialogue with its shareholders based on a mutual understanding of objectives. The Company has an Investor Relations department, whose remit is to support communication with institutional investors. During 2008, the Group continued to implement an ongoing programme of domestic and international presentations and meetings between the executive Directors and institutional investors, fund managers and analysts. A wide range of relevant issues is discussed at these presentations and meetings, including business strategy, financial performance, operational activities and corporate governance – but excluding price-sensitive inside information. From time to time the Chairman attends these meetings and issues discussed at the meetings have been brought to the attention of the Board. As a result of these procedures, the non-executive Directors believe that they are aware of shareholders' and analysts' views. No shareholders asked to meet Hugh Stevenson or Lord Blackwell, the non-executive Directors who served as the Senior Independent Director, during the year.

The Board is equally committed to the interests of retail shareholders who make up 95% of the Company's total number of shareholders and hold approximately 63% of the Company's issued share capital. During the year, shareholders' views continued to be gathered on the services and means of communication available to them. Shareholder comments have informed the Company's communication methods, in particular with regard to the use of electronic communications and the distribution of the *Annual Report and Accounts 2008*, *Summary Financial Report 2008* and the AGM information.

To allow all shareholders full access to the Company's announcements, all material information reported via the London Stock Exchange's regulatory news service is simultaneously published on the Company's website.

The Chairman's statement, Group Chief Executive's statement and Business review contained in this *Annual Report and Accounts 2008* together aim to provide a balanced overall assessment of the Group's activities, performance and prospects. This information will be supported by a presentation at the 2009 AGM – an event that provides a valuable opportunity for the Board and shareholders to communicate. Shareholders will be invited to ask questions during the meeting and will have an opportunity to meet the Directors after the formal part of the meeting. Details of the voting results from the meeting, including the number of votes withheld, if any, will be published on the Group's website at www.standardlife.com after the meeting.

Institutional investor

Standard Life Investments Limited (SLI), the Group's principal asset management company, recognises the importance of good governance. As a major investor, it monitors the governance of those companies in which it invests and holds regular meetings with their senior management representatives. The board of SLI maintains detailed policy guidelines on corporate governance and voting, which support its approach to engaging and voting at shareholder meetings. SLI makes voting reports available to clients and publishes summary information on its website. The policy guidelines, which also cover social responsibility issues, are applied pragmatically, after careful consideration of all relevant information. When reviewing the Company's compliance with the principles and provisions of the Code, the Nomination and Governance Committee also considered the Company's compliance with these policy guidelines. The Committee considered that the Company complies with the guidelines.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Risk management and internal control

Standard Life has a documented and embedded Enterprise Risk Management Framework (ERMF). This provides the basis for ensuring that risks inherent in the design and execution of the Group's strategy and in its day-to-day operations are managed in line with the expectations of the Group's stakeholders on an ongoing basis. This framework is designed to manage, rather than eliminate risk and can only provide reasonable, not absolute assurance against material misstatement or loss.

The Group seeks to derive a competitive advantage from the ERMF and risk is an integral part of the Group's corporate agenda. Overall responsibility for approving, establishing and maintaining the framework rests with the Board, with authorities clearly delegated to the executive Directors and the Board Committees, and to senior management and the risk management committees. The Board Charter states the Board's responsibility is 'to establish and maintain a framework of internal controls that enables the financial and operational risks of the Group to be assessed and managed' and the matters reserved for the Board include 'the approval of the Group's financial and non-financial risk policies and review of their implementation'.

The Directors have overall responsibility for the Group's system of internal control and the ongoing review of its effectiveness. In addition, the effectiveness of internal controls is reviewed regularly by Group Internal Audit and Group Compliance, which report their findings to the Audit, Risk and Compliance Committee.

In accordance with the Code, and the further guidance in the Turnbull Report, the Board has reviewed the effectiveness of the system of internal control. The review incorporated an evaluation of the Group's ERMF and an assessment of any significant internal control issues that were raised during the year in relation to financial, operational and compliance risk controls. Where any significant control weaknesses were identified during the year, necessary action plans have been taken or are being taken and monitored to remedy them. This includes instances previously disclosed. The system was in place throughout the year and up to the date of approval of the *Annual Report and Accounts 2008*.

The Group Chief Executive and the Group's senior management are responsible for the implementation of the ERMF and for ensuring that it is operating effectively across the Group.

Governance

The ERMF is built around a robust governance structure. The 'three lines of defence' are an important part of this structure, providing clearly defined roles and responsibilities:

First Line: Day-to-day risk management is delegated from the Board to the Group Chief Executive and, through a system of delegated authorities and limits, to business line managers.

Second Line: Risk oversight is provided by the Chief Risk Officer and established risk management committees. These management committees are supported by the specialist risk management and compliance functions across the Group.

Third Line: The Group internal audit function advises management on the extent to which the systems of risk management and control are adequate and effective to manage business risks. It provides objective assurance on risk and control to senior management and the Audit, Risk and Compliance Committee.

Risk appetite

The Group risk profile is assessed regularly against the Board approved risk appetite, and reviewed by the relevant executives and Group risk committees.

Risk appetites and limits are established following due consideration of:

- The nature of current risk exposures in business units
- Gross exposures and concentrations of risk across the Group
- The Group's overall corporate strategy

Risk committees

The Group Chief Executive has established the Enterprise Risk Management committee (ERMC) to provide him with support in the management of risks across the Group. The ERMC is responsible for overseeing compliance with the Group's ERMF and is supported by Group Risk Forums and Group Risk Management.

Structure and organisation of the risk management function

The Group Chief Executive has allocated responsibilities in the management of risk to the Chief Risk Officer including reporting to the Board in relation to setting and controlling risk exposure. The Chief Risk Officer reports directly to the Group Finance Director.

The Group Risk function supports the Chief Risk Officer in his day-to-day activities including guiding senior management on the formulation of risk governance structures, developing and implementing enterprise risk management processes and systems, providing ongoing challenge and quality assurance of risk management processes and providing management with relevant information to inform and challenge business decisions.

Risk functions within each Group Company form part of the 'Second Line of Defence'. Group Risk liaises with these risk functions in relation to their risk management tools, analysis and management information.

Risk categorisation

The Group has classified the risks it is exposed to as expense and demographic, market, credit, liquidity, and operational risk. Group policies have been approved for each risk category, defining the objectives of the ERMF and reporting requirements for each.

These policies are published internally and compliance with them is reported on a quarterly basis. This in turn forms an integral part of the risk and control reporting to the ERMC. Further detail on these risk categories can be found in the Risk management section of the Business review.

Risk control process

The objective of the Group's ERMF is to identify, assess, control and monitor potential events that may affect the interests of our stakeholders.

Identify

Identify major sources of risk which may affect our key stakeholders.

Assess

Assess exposures to each major source of risk, using qualitative and quantitative techniques as appropriate.

Control

Establish a defined response to risk. This may include one or more of the following: avoiding, accepting, reducing or transferring the risk exposure.

Monitor

Monitor exposure to each major source of risk and report.

Directors' remuneration report

This section of the Annual Report and Accounts explains how, why and what we pay to the Directors of Standard Life plc. It will be presented for approval at the Annual General Meeting on 15 May 2009 and the Chairman of the Remuneration Committee will be available to answer any questions you may have.

Some parts of this report have been audited by PricewaterhouseCoopers LLP (PwC) and are marked as 'audited' for clarity.

Remuneration Committee members

The members of the Remuneration Committee are all independent non-executive Directors. The members are Crawford Gillies (Committee Chairman), Hugh Stevenson (who retired on 19 May 2008), Lord Blackwell, Baroness McDonagh and Colin Buchan (who was appointed on 19 May 2008).

Our role

The Remuneration Committee approves the remuneration policy and rewards for the executive Directors and senior executives, and considers and makes recommendations to the Board on the Chairman's fee. A copy of the Remuneration Committee's terms of reference is available on our website at www.standardlife.com or on request from the Group Company Secretary and General Counsel. In January 2009, we reviewed the terms and modest changes were made.

External advisers

During the year the Remuneration Committee has continued to take advice from Hewitt New Bridge Street (HNBS), a trading name of Hewitt Associates Limited. This is part of the Hewitt group of companies, one of which is a customer of the Corporate Benefits business of the UK financial services division of Standard Life. Recognising this, the Nomination and Governance Committee and the Remuneration Committee considered and sought assurances as to the framework and operation of the internal control process, segregation of duties and remuneration structures within Hewitt/HNBS. As a result of this the Committee continues to view HNBS as independent. The Remuneration Committee receives information on comparative pay data from Towers Perrin. Where appropriate, it receives input from the Chairman, Group Chief Executive, Group Finance Director, Group HR Director and the Head of Group Reward, although this never relates to their own remuneration.

What we did in 2008

The Remuneration Committee met eight times during 2008 and the standing items included:

- Keeping the remuneration policy under review. This year we have summarised this within a set of remuneration principles
- Reviewing executive Directors' salaries and the Chairman's fee
- Setting annual bonus targets for 2008 and determining bonuses to be paid for 2007
- Granting the 2008 long-term incentive plan (LTIP) awards and measuring the performance condition of the 2005 LTIP awards (we liaise with the Audit, Risk and Compliance Committee on this)
- Reviewing the terms of reference and effectiveness of the Committee
- Approving the 2007 Directors' remuneration report

Extra items included:

- Dealing with the resignation of Trevor Matthews
- Responding to the Financial Services Authority (FSA) on their questions about pay in the financial services sector – more detail on this below
- Redesigning the annual bonus plan for sub Board level executives so that it gives a greater weighting to personal contribution and Group financial performance

FSA's review of remuneration practices

Standard Life welcomed the FSA's approach to learn more about the remuneration practices in the financial services sector and responded to this request. The Chairman of the Remuneration Committee explained how Standard Life's policies compared against the 'good' and 'bad' practices identified by the FSA both by way of letter and conference call. In some aspects Standard Life's policy exceeds the FSA's view of 'good' practice, for example, by having individual annual bonus limits.

Our remuneration principles

Our remuneration principles are:

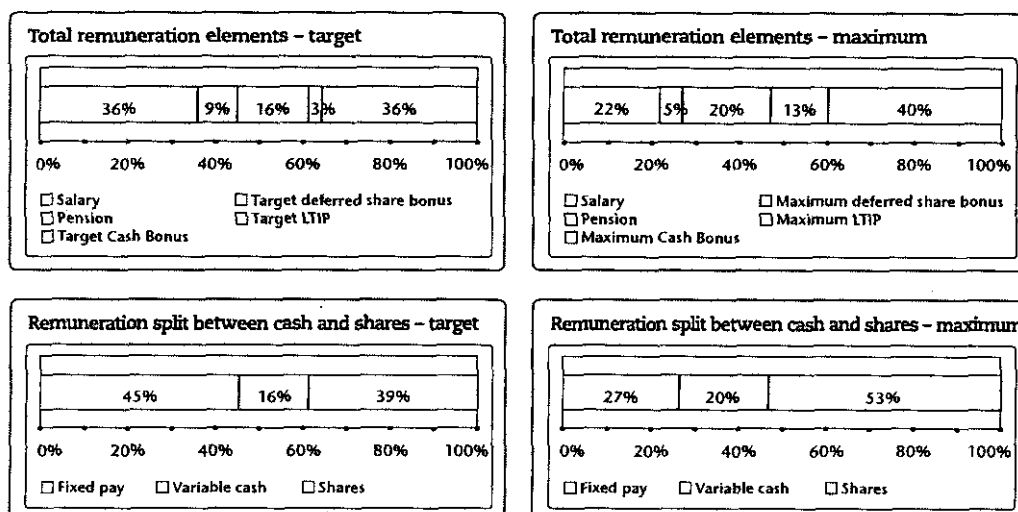
1. Our reward policy and practice are designed to encourage behaviours and bring about results that reflect our corporate goals and are in the best interests of our shareholders and other stakeholders
 - a. Such behaviours include the unobstructed flow of information and people across the Group
 - b. Our corporate goals include our role as a promoter of best remuneration practice in the wider market

2. Our reward policy and practice should be transparent and easy to understand
3. We seek to pay market competitive levels of remuneration to attract and retain the number and quality of staff we require to operate the business successfully
 - a. Pay should reflect both the individual's contribution and their value in the market in which we deem them to operate
 - b. Total remuneration for all our staff will include an appropriate proportion of annual and longer term performance related variable pay – generally the more senior the role, the greater the variable component

Standard Life believes that our people play a key part in the overall success of our organisation. It is therefore critical that our remuneration offering enables us to attract, reward and retain high quality people and that it supports our corporate goals.

Remuneration packages for the Group's executive Directors consist of: base salary, participation in the Company's UK flexible benefits scheme, pension provision, short-term annual bonus and participation in a share-based LTIP. Each of these sections are explained on the following pages.

As well as looking at each constituent element, the Remuneration Committee reviews the remuneration packages as a whole to ensure that they meet the above principles. The charts below show the composition of the Group Chief Executive's remuneration both at 'target' and 'maximum' levels of performance.



Elements of remuneration at Standard Life

Base salary

Purpose: This is the core element of pay that reflects the individual's role and position within Standard Life and is payable for doing the expected day-to-day job.

Policy: To pay a market rate comparable to similar roles within the financial services industry and more broadly where appropriate. This reflects each executive Director's contribution and level of experience.

Remuneration Committee's role: Every March the Remuneration Committee reviews independent market data. It considers this along with the executive Director's performance, experience and skills, the level (if any) of salary increases being awarded to Standard Life staff and what any increase means in the context of the total remuneration package.

Policy changes for 2009: None, other than the regular annual review.

What we will pay in 2009: The Remuneration Committee reviewed salaries of executive Directors and approved the following annual base salaries with effect from 16 March 2009:

	Annual base salary from 16/03/2008 to 15/03/2009	Annual base salary from 16/03/2009	Percentage increase
Sir Sandy Crombie	£760,000	£775,000	1.97%
David Nish	£505,000	£525,000	3.96%
Keith Skeoch	£350,000	£350,000	0%

This is consistent with the salary review for Standard Life employees in general for whom the total spend for salary increases has been budgeted for at 4%.

Benefits

Purpose: To provide non-monetary items that assist the employee in carrying out their duties efficiently and are appreciated by the employee.

Policy: To provide a wide range of benefits within the context of individual choice and on a cost effective basis.

Remuneration Committee's role: Standard Life operates a flexible benefits scheme for all UK-based staff. Executive Directors take part on the same terms with no special arrangements being made.

Policy changes for 2009: None.

What we will pay in 2009: Apart from membership of the Company's private medical scheme and the payment of a non-benefit bearing car allowance, all benefits to executive Directors are either provided through a salary sacrifice arrangement or paid for by the employee from their salary.

Pension arrangements

Purpose: To give employees a specific element of remuneration to save for their life in retirement.

Policy: To provide competitive retirement benefits in a manner that does not create an unacceptable level of risk for our business.

Remuneration Committee's role: In the UK, and like many other companies, Standard Life closed its final salary pension scheme to new entrants from 16 November 2004. From 31 December 2007, the scheme was closed to future accruals on a final salary basis. For future pension provision from 1 January 2008, members opted either to receive benefits calculated on a Revalued Career Average Salary (RCAS) basis with an accrual rate of 1/60th or to keep the link between past service and final salary and for their future benefits to be delivered on a defined contribution basis into either an individual money purchase arrangement attached to the main benefit scheme or into a Group Personal Pension Plan. Instead of participation in the RCAS scheme, executive Directors recruited prior to 16 November 2004 can choose between an employer contribution into the money-purchase Group Personal Pension Plan of 27.5% of salary or a cash allowance 25% of salary (that does not count for bonus and share plan purposes). Executive Directors appointed from 16 November 2004 can only choose between the cash allowance and the Group Personal Pension Plan.

Changes for 2009: None.

What we will pay in 2009:

- Group Chief Executive: 25% of salary cash allowance
- Group Finance Director: 25% of salary cash allowance
- Chief Executive Officer of Standard Life Investments: 25% of salary cash allowance

Annual bonus

Purpose: To create a performance culture where people recognise that good annual results compared to pre-determined targets will be rewarded.

Policy: To reward good financial and non-financial performance that supports the corporate strategy and personal contribution in a clear and reasonable way against targets that are specific, measurable, set at the beginning of the year and communicated to the executives.

Remuneration Committee's role: The Group Chief Executive and the Group Finance Director participate only in the Group annual bonus plan. Reflecting his direct responsibilities, the Chief Executive Officer of Standard Life Investments can receive a bonus based on Group results, but most of his bonus potential is under the Standard Life Investments' remuneration arrangements which are discussed on the next page.

Both profit and non-profit bonus metrics are used. The non-profit bonus metrics include:

- Customer – meeting all customer needs including treating customers fairly
- Process – ensuring that proper risk and control frameworks are in place including corporate performance on governance, social and environmental issues
- People – ensuring our people have the skills needed to build valuable customer relationships
- Collaboration – promoting the effectiveness of the executive team across different business streams

The Remuneration Committee, with input from the Chairman and the Audit, Risk and Compliance Committee, reviewed the Company's profit performance and concluded that notwithstanding that the actual 2008 total profitability exceeded the target set for the year, a review of the underlying core profits justified reducing the bonuses that would otherwise have been payable to the on-target level. In respect of the non-financial measures, the Remuneration Committee concluded that there were a series of positive and negative factors.

This means the following bonuses were payable to the executive Directors in respect of 2008:

	Group cash bonus	Group deferred bonus	Standard Life Investments cash bonus	Total
Sir Sandy Crombie	£380,000	-	-	£380,000
David Nish	£267,650	-	-	£267,650
Keith Skeoch	£78,750	-	£800,500	£879,250
Trevor Matthews	-	-	-	-

Annual bonus payments do not qualify for pension or incentive scheme purposes.

Policy for 2009: The performance metrics for the Group annual bonus plan for the executive Directors in 2009 are:

- Actual total Group profit (ignoring one-off items) compared to the targets set at the beginning of the year – 65% of an executive Directors' bonus will depend on this; and
- Non-profit measures such as utilisation of capital across the Group, cash management and the non-financial measures described above – 35% of an executive Director's bonus will depend on these non-profit measures

All these targets are subject to a minimum working capital condition to support the company's focus on cash generation.

The Remuneration Committee has decided to increase the proportion of the annual bonus that will be deferred in shares. For 2009 half of any bonus above 35% of salary will be deferred in Standard Life shares.

Consistent with our principle to comply with best practice, the total (cash and deferred shares) Group annual bonus that can be paid to any individual is capped. For Sir Sandy Crombie the bonus maximum is 150% of salary, for David Nish it is 130% of salary and for Keith Skeoch it is 60% of salary. These figures are unchanged from 2008.

Bonuses remain discretionary and are subject to a quality review by the Remuneration Committee at the end of the year before determining the amount to be paid.

Keith Skeoch will continue to participate in Standard Life Investments' two annual cash bonus plans, which are:

1. Personal bonus plan – this is a discretionary annual cash bonus plan that rewards personal performance and team investment performance. Keith Skeoch's personal performance bonus is capped at 105% of salary; and
2. Company bonus plan – this annual cash bonus plan rewards participants by referring to Standard Life Investments' investment performance over the year. Under this plan, Keith Skeoch's bonus is capped at 400% of salary.

What will we pay for 2009:

The table below shows the potential bonus payments at various performance levels assuming that the working capital condition has been satisfied.

	Group Chief Executive	Group Finance Director	Chief Executive Officer of Standard Life Investments*
Threshold			
Cash	£0	£0	£0
Deferred shares	£0	£0	£0
	£0	£0	£0
Target			
Cash	£329,375	£210,000	£78,750
Deferred shares	£58,125	£26,250	£0
	£387,500	£236,250	£78,750
Maximum			
Cash	£716,875	£433,125	£166,250
Deferred shares	£445,625	£249,375	£43,750
	£1,162,500	£682,500	£210,000

* The Chief Executive Officer of Standard Life Investments also participates in that company's bonus plans (see below) with a total bonus cap of £1,767,500.

For actual performance between threshold, on-target and maximum, a proportional bonus is payable.

Long-term incentive plans (LTIPs)

Purpose: To incentivise, retain and align the interests of executives with shareholders and the Group's corporate goals.

Policy: We have a share-based LTIP under which annual grants are made and for which the performance and vesting periods are three years. The performance condition is primarily return on embedded value (RoEV), which is the key financial indicator for Standard Life, and in this way the remuneration policy supports the corporate strategy.

Remuneration Committee's role: The Group LTIP was introduced in 2005. The 2005 and 2006 LTIP awards were granted before flotation, so they were cash-based awards and were converted to share based awards on flotation. On 21 April 2008, the Remuneration Committee granted the following Group LTIP awards which will vest in 2011:

	Number of shares subject to the award	Value of shares at grant by reference to salary
Sir Sandy Crombie	615,011	200%
David Nish	255,411	125%
Keith Skeoch	141,614	100%

Performance conditions

Group LTIP awards will only vest to the extent that a return on embedded value (RoEV) performance condition has been met. RoEV is the key longer term financial metric for Standard Life and is explained in more detail below.

To ensure that management is encouraged to write the right balance of short, mid and long term profitable business, the RoEV performance condition is underpinned by the Remuneration Committee having a power to adjust the return on embedded value figure for any year in light of actual versus expected cash generation in that year.

This performance target has been chosen by the Remuneration Committee because it is an appropriate measure of the financial performance of the Group as a whole. It is also aligned to the corporate goals of the Group and applies universally to all participants. The returns on capital are calculated using audited results, therefore ensuring that there is third party verification, and are reviewed by the Audit, Risk and Compliance Committee.

The target is set on a sliding scale basis. For 2007 and later, awards performance is measured over a three-year period. In light of the Company's transition to reporting European Embedded Value (EEV) profits, the target for 2006 awards, the return on capital target was measured over the two financial years ending 31 December 2008.

The policy on setting the RoEV performance conditions is:

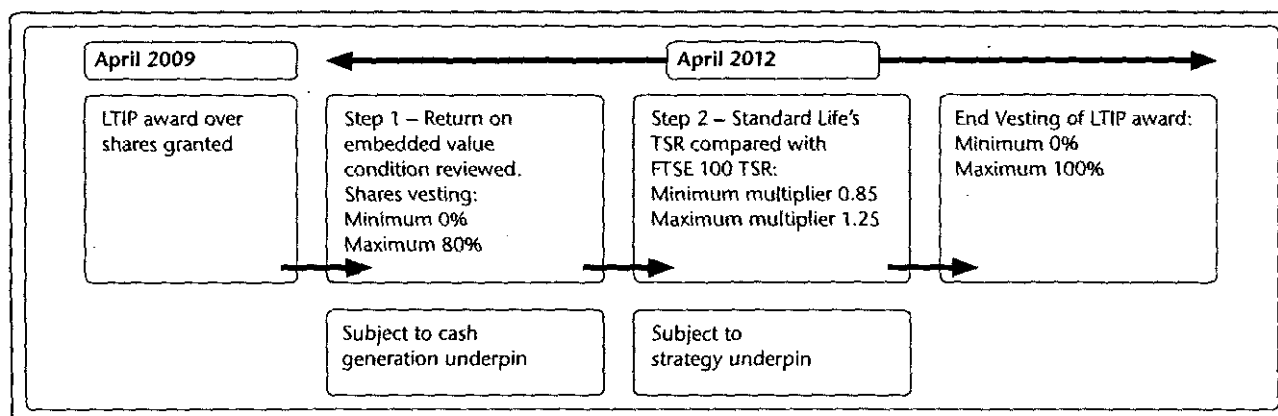
- The Remuneration Committee will set a threshold, target and maximum return on capital for each award. Between these three calibration points straight-line pro-rating of vesting will apply
- If the performance condition is not met at the first and only review at the end of the performance period, then the awards lapse
- The targets are set as a combined RoEV ensuring performance is measured over the whole period. The awards are not sub-divided across performance in the separate years making up the performance period
- When defining the targets, the Remuneration Committee will take into account the levels of RoEV being made by the Company's competitors on comparable business

For 2008 and later LTIP awards, there is a total shareholder return multiplier that is applied to the return on capital performance condition. The return on capital target will apply to 80% of the maximum number of shares subject to an award and the total shareholder return (TSR) multiplier will be applied to the extent to which the RoEV target is met. The return on capital target will apply to 80% of the maximum number of shares subject to an award and the total shareholder return (TSR) multiplier will be applied to the extent to which the RoEV target is met.

It works as follows:

- Once the return on capital performance condition has been determined the level of vesting will normally be flexed by comparing Standard Life's TSR over the three-year performance period to that of the FTSE 100 Index. The two TSR figures will be averaged for one month at the start and end of the performance period and the multiplier will work as follows:
 - If Standard Life's TSR = or < the FTSE 100 Index TSR minus 3% per annum then the multiplier is 0.85
 - If Standard Life's TSR = the FTSE 100 Index TSR then multiplier is 1.0
 - If Standard Life's TSR = or > the FTSE 100 Index TSR plus 6% per annum then the multiplier is 1.25
 - Straight-line pro-rating applies between 0.85 and 1, and between 1 and 1.25.

Summarising all of the above description in a diagram means that the performance condition for the 2009 award is:



The reasons for including the TSR multiplier were:

- The level of vesting will reflect the change in the market's view on Standard Life's growth potential over the performance period
- Longer term initiatives that improve margins or growth in revenue will be rewarded via the multiplier
- It aligns the interests of our executives with our shareholders
- It does not lose sight of the fact that RoEV is the best metric to judge management performance and is the key financial indicator for the Group

As explained above the 2008 LTIP award has a multiplier that is based on Standard Life's total shareholder return (TSR) against the FTSE 100 Index. As at 31 December 2008, Standard Life's TSR was -2.61% and the FTSE 100 Index's was -30.83% based on one month averaging prior to the start of the performance period and one month to 31 December 2008. This means that this part of the performance condition is being met in full at 31 December 2008 and the multiplier would be 1.25.

Vesting schedule

For LTIP awards granted in 2008 and later years, the level of vesting for threshold performance under the return of capital target was reduced from 30% to 15% of the total award for the Group Chief Executive and to 20% for all other participants. The Remuneration Committee has invoked the power within the LTIP rules for the awards to carry a right to receive rolled-up dividends, but only to the extent that the awards vest.

Policy changes for 2009: The Remuneration Committee has approved two changes.

1. Keith Skeoch will not be granted an award under the Standard Life Investments long-term incentive plan in 2009 and later years and, instead, will only be granted awards under the Group LTIP.
2. In light of recent market conditions and the impact that this has on the setting of RoEV targets the Remuneration Committee has decided to scale back the 2009 grant levels by 10% of the levels that it would otherwise have approved.

What we will pay for 2009: The 2009 Group LTIP awards will normally be granted in the six week period following the announcement of results. Subject to continued employment and performance the awards will vest in 2012. The maximum value of shares as at the date of grant for these 2009 awards will be:

- Group Chief Executive: 180% of salary
- Group Finance Director: 112.5% of salary
- Chief Executive Officer of Standard Life Investments: 180% of salary

The 2009 RoEV targets for the 2007 and 2008 awards and the average three year RoEV targets for the 2009 awards are:

Performance level	2009 RoEV target for 2007 awards	2009 RoEV target for 2008 awards	Average three year RoEV target for 2009 awards
Threshold	10.25%	10.5%	10.0 %
Target	11.25%	11.5%	11.0 %
Maximum	12.75%	12.5%	12.0 %

Vesting of 2006 LTIP awards

The 2006 Group LTIP awards had the following return on capital target:

Performance level	Level of vesting	Cumulative 2007 and 2008 return on capital target
Threshold	30%	19.36%
Target	50%	20.45%
Maximum	100%	22.66%

The actual average annual return on capital for the two years ended 31 December 2008 was 22.42%. This means that 94.57% of each 2006 LTIP vested on 12 March 2009. The Remuneration Committee is satisfied with the Group's cash generation over the performance period so it did not use its power to amend this level of vesting. The TSR multiplier did not apply to the 2006 awards.

Standard Life Investments long-term incentive plan

Standard Life Investments operates a cash based long-term incentive plan and in 2008, as well as previous years, Keith Skeoch in his capacity as Chief Executive Officer of Standard Life Investments received an award under this plan. The purpose of this incentive arrangement is to give selected executives of Standard Life Investments the opportunity to share in the longer-term success of Standard Life Investments. It does this by rewarding them for the actual profit growth of Standard Life Investments over a three-year performance period, compared with its expected profit growth over this period. The profit performance condition is underpinned by an investment performance target. At the end of the three-year performance period, a bonus pool is calculated based on the extent that the performance conditions have been met. Individual allocations are then calculated by referring to the points held by each participant, compared with the total number of points that remain in allocation. Participants who leave during the three-year performance period generally lose their points. Any cash payments are then made at the first practical payroll date following determination. Total payments are limited to 15% of Standard Life Investments' profits of the third year in the performance period, subject to adjustment for a market value capital factor, which is based upon the change in the price earnings ratio of the FTSE General Financials sector over the performance period.

A payment to Keith Skeoch of £244,080 has been approved in respect of the award granted in 2006 which covered the three-year performance period which ended 31 December 2008.

Policy on executive contracts

The current executive Directors' service contracts were issued in 2006 and the Remuneration Committee continues to believe that they strike the right balance between the company's interests and those of the executive Directors. Consistent with our remuneration principles they comply with best practice.

The main terms are:

Provision	Policy								
Notice periods	• Six months by the Director • 12 months by the Company or alternatively a payment in lieu of notice can be paid								
Termination payment	• Any payment in lieu of notice will be up to 12 months' salary, pension contributions and the value of other contractual benefits • A duty to mitigate applies • The payment may be made in phased instalments and the policy is to do this for notice periods in excess of 6 months • Rights to bonus and existing LTIP awards are governed by the rules of the respective plans								
Remuneration	• Salary, pension and benefits are mentioned in the contracts and are treated as described above • There is no contractual entitlement to annual bonus and LTIP awards and instead individuals are told of these discretionary schemes at the beginning of each year								
Non-compete	• Apply during the contract and for up to 6 months after leaving at the Company's choice								
Contract dates	<table> <tr> <td>Sir Sandy Crombie</td><td>31 March 2006</td></tr> <tr> <td>David Nish</td><td>31 October 2006</td></tr> <tr> <td>Keith Skeoch</td><td>3 April 2006</td></tr> <tr> <td>Trevor Matthews</td><td>9 April 2006 (but now expired)</td></tr> </table>	Sir Sandy Crombie	31 March 2006	David Nish	31 October 2006	Keith Skeoch	3 April 2006	Trevor Matthews	9 April 2006 (but now expired)
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David Nish	31 October 2006								
Keith Skeoch	3 April 2006								
Trevor Matthews	9 April 2006 (but now expired)								

Trevor Matthews

Trevor Matthews tendered his resignation as a Director and as Chief Executive of UK Financial Services on 29 January 2008. He had a six-month notice period and therefore ceased to be a Standard Life employee on 28 July 2008. During 2008 he received his salary, pension allowance and benefits (with a total value of £337,912) and a cash bonus of £457,425 in respect of 2007. The 2005 LTIP vested on 12 March 2008 and at the date of exercise (13 March 2008) the total value of his options was £459,263.

Trevor will not receive an annual bonus in respect of 2008 and he was not granted an LTIP award in 2008. Further, he forfeited his 2006 and 2007 LTIP awards and no compensation was paid to him.

Our policy on external appointments

Subject to the Board's approval, executive Directors are able to accept a limited number of external appointments to the boards of other organisations.

During 2008, Sir Sandy Crombie was a member of the board of the Association of British Insurers (ABI), a trustee of The Stewart Ivory Foundation (to 29 May 2008), Chairman of the Edinburgh World City of Literature Trust, a director of the Royal Scottish Academy of Music and Drama, the Prince's Ambassador for Corporate Social Responsibility in Scotland (to 30 May 2008), and a member of the Chancellor of the Exchequer's High Level Group on Financial Services. He did not receive any fees for these appointments.

David Nish is a non-executive director of Northern Foods plc and received fees of £41,000 in respect of 2008. It is our policy that he can retain these fees. He was also a non-executive director of the Royal Scottish National Orchestra to 22 August 2008 and received no fees for this work.

Keith Skeoch is a member of the boards of the Association of British Insurers (ABI) and the Investment Management Association. He became a member of the Advisory Board of Reform Scotland in August 2008. He received no fees for these appointments.

Fees and appointment of non-executive Directors

The non-executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities.

The key terms are:

Provision	Policy																
Period of appointment	• Three-year term which can be extended by mutual consent and required re-election by shareholders																
Notice periods (apply to both the company and the non-executive director)	• Gerry Grimstone – six months • Kent Atkinson, Lord Blackwell, Jocelyn Proteau and Hugh Stevenson – one month • Colin Buchan, Crawford Gillies and Baroness McDonagh – no notice period																
Termination payment	• No provision for compensation payments																
Remuneration	• Fees as described below • Reimbursement of travel and other reasonable expenses incurred in the performance of their duties • No pension, annual bonus or other incentive payment permitted																
Dates of letters of appointment	<table> <tr> <td>Gerry Grimstone</td><td>6 June 2003* as Director and 28 February 2007 as Chairman</td></tr> <tr> <td>Kent Atkinson</td><td>1 February 2005*</td></tr> <tr> <td>Lord Blackwell</td><td>6 June 2003* and 19 May 2008 as Senior Independent Director</td></tr> <tr> <td>Colin Buchan</td><td>27 November 2007</td></tr> <tr> <td>Crawford Gillies</td><td>7 December 2006</td></tr> <tr> <td>Baroness McDonagh</td><td>27 February 2007</td></tr> <tr> <td>Jocelyn Proteau</td><td>27 June 2003*</td></tr> <tr> <td>Hugh Stevenson</td><td>26 May 1999* as Director and 4 December 2003 as Senior Independent Director (both now expired)</td></tr> </table>	Gerry Grimstone	6 June 2003* as Director and 28 February 2007 as Chairman	Kent Atkinson	1 February 2005*	Lord Blackwell	6 June 2003* and 19 May 2008 as Senior Independent Director	Colin Buchan	27 November 2007	Crawford Gillies	7 December 2006	Baroness McDonagh	27 February 2007	Jocelyn Proteau	27 June 2003*	Hugh Stevenson	26 May 1999* as Director and 4 December 2003 as Senior Independent Director (both now expired)
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Hugh Stevenson	26 May 1999* as Director and 4 December 2003 as Senior Independent Director (both now expired)																

*Initially appointed as a director of The Standard Life Assurance Company, appointment as a Director of Standard Life plc effective as of 30 March 2006.

Policy on fees

It is Standard Life's policy to set the fees for its Chairman and the other non-executive Directors so that they reflect the time commitment in preparing and attending meetings, the responsibility and duties of the position and the contribution that is expected from them. As such regard is had to the level of fees paid to other non-executive directors in FTSE 100 financial services companies and the policy is to pay a market rate. This is reviewed annually.

For non-executive Directors, the individual fees are constructed by taking a base fee (£57,500 in 2008) and adding extra fees for chairing committees and subsidiaries where this is expected to involve a greater responsibility and time commitment.

The Board sets the fees for the Chairman and the other non-executive directors. It receives a recommendation from the Remuneration Committee, which has consulted with the Group Chief Executive, in respect of the Chairman's fee and a recommendation from the Group Chief Executive for the fees of the other non-executive Directors. In January 2009 the Remuneration Committee reviewed the Chairman's fee taking into account the time commitment of the role, the responsibilities of the position and his personal performance. It was aware that for historical reasons that were more applicable to the Group's position prior to demutualisation, the Chairman's fee was set at a figure that did not reflect the present day role of a Chairman of a FTSE 100 financial services company. This was confirmed by third party market data. To address this anomaly the Remuneration Committee recommended to the Board an increase to the annual fee from £285,000 to £330,000. The Board accepted this recommendation. In conjunction with this the Remuneration Committee recommended, and the Board accepted, the introduction of a share ownership guideline for the Chairman, which is described below.

The fee levels are:		Additional fees are:	
Chairman's fee	£330,000	Senior Independent Director	£15,000
Non-executive Director base fee	£60,000	Chairman of Audit, Risk and Compliance Committee	£25,000
		Chairman of Remuneration Committee	£15,000
		Chairman of subsidiary company	£15,000

The Company's articles of association provide that the total aggregate fees paid to the Chairman and the non-executive Directors must not exceed £1m. In 2008 the total fees paid were £767,000 and in 2009 it is expected that the total fees will be £790,000. The executive Directors are remunerated under their service contracts and do not receive an additional fee for serving as a Director.

Directors' remuneration for 2008

The following tables show a breakdown of the various elements of remuneration paid or payable to the Directors in respect of the year ended 31 December 2008.

1. Directors' remuneration, excluding LTIP and pension information (audited)

	Footnote	Base salary/Fees £000	Pension allowance £000	Taxable benefits £000	Annual bonus £000	Total 2008 £000	Total 2007 £000
Executive directors							
Sir Sandy Crombie	1	754	188	65	380	1,387	1,644
David Nish	2	501	100	16	268	885	945
Keith Skeoch	3	350	88	26	879	1,343	1,747
Non-executive directors							
Kent Atkinson	4	83	-	-	-	83	79
Lord Blackwell	5	82	-	-	-	82	70
Colin Buchan	6	72	-	-	-	72	-
Crawford Gillies	7	73	-	-	-	73	64
Gerry Grimstone	8	285	-	-	-	285	203
Baroness McDonagh		58	-	-	-	58	48
Jocelyn Proteau	9	73	-	-	-	73	70
Former executive directors							
John Hylands	10	-	-	-	-	-	934
Trevor Matthews	11	326	-	9	-	335	1,012
Former non-executive directors							
Alison Mitchell	12	-	-	-	-	-	25
Hugh Stevenson	13	40	-	1	-	41	85
Sir Brian Stewart	14	-	-	-	-	-	126
Total		2,697	376	117	1,527	4,717	7,052

¹ Sir Sandy Crombie receives a non-benefit bearing cash supplement of 25% of base salary in place of pension provision and this is reflected in the above table. His taxable benefits relate to car allowance, professional fees, private health scheme and use of accommodation. In 2008 he received an ad hoc payment of £44,900 as compensation for an administration error made in connection with the exercise of his LTIP award.

² David Nish – from 1 January 2008 to 15 March 2008, he received a contribution of £27,607 into the Group Personal Pension Plan. From 16 March 2008 he receives a non-benefit bearing cash supplement of 25% of base salary in place of pension provision and this is reflected in the above table. He elected to sacrifice £5,019 from his salary and £140,000 from his annual bonus and in return the Company paid contributions of £159,521 into the Group Personal Pension Plan. His taxable benefits include car allowance, professional fees and private health scheme.

³ Keith Skeoch receives a non-benefit bearing cash supplement of 25% of base salary in place of pension provision and this is reflected in the above table. His taxable benefits relate to car allowance, professional fees and subscriptions, private health scheme and use of accommodation. The Remuneration Committee approved personal and company bonus payments of £150,500 and £650,000 respectively in respect of his participation in Standard Life Investments' annual bonus arrangements.

⁴ Kent Atkinson's total fee for 2008 includes a fee of £25,000 as Chairman of the Audit, Risk and Compliance Committee.

⁵ Lord Blackwell's fee for 2008 includes a fee of £15,000 as Chairman of the UK financial services division and £9,395 as Senior Independent Director (from 19 May 2008).

⁶ Colin Buchan's total fee for 2008 includes a fee of £9,395 as Chairman of Standard Life Investments and £5,000 as Chairman of Standard Life Investments' Audit Committee.

⁷ Crawford Gillies' total fee for 2008 includes a fee of £15,000 as Chairman of the Remuneration Committee.

⁸ Gerry Grimstone – in addition to his Chairman's fee, he also received £7,796 (inclusive of associated tax and NI costs) as a contribution towards his business related accommodation costs in Edinburgh.

⁹ Jocelyn Proteau's total fee for 2008 includes a fee of £15,000 as Chairman of Standard Life Canada.

¹⁰ John Hylands retired as a Director on 31 March 2007.

¹¹ Trevor Matthews resigned as a Director on 29 January 2008. He had a six-month notice period and therefore ceased to be a Standard Life employee on 28 July 2008. He elected to sacrifice £16,209 from his salary in return for an employer contribution of £17,830 into his Retirement Account Plan. His taxable benefits relate to car allowance, private health scheme and use of accommodation. He received a cash bonus payment of £457,425 in April 2008 in relation to the 2007 business year. He will not receive an annual bonus in respect of 2008.

¹² Alison Mitchell retired as a Director on 29 May 2007.

¹³ Hugh Stevenson retired as a Director on 19 May 2008. His total fee for 2008 includes a fee of £6,855 as Senior Independent Director and £6,855 as Chairman of Standard Life Investments.

¹⁴ Sir Brian Stewart retired as Chairman on 29 May 2007.

2. Directors' pension information (audited)

	Footnote	Accrued entitlement at 31/12/2007 £000	Additional pension earned during the year £000	Additional pension earned in excess of inflation £000	Transfer value of additional pension in excess of inflation £000	Accrued entitlement 31/12/2008 £000
Sir Sandy Crombie	1	462	15	0	0	477
Trevor Matthews	2	31	6	5	104	37
Keith Skeoch	3	41	0	0	0	41

	Footnote	Age at 31/12/2008	Years of pensionable service at 31/12/2008	Transfer value of pension at 31/12/2007 £000	Increase in transfer value £000	Transfer value of pension at 31/12/2008 ⁴ £000
Sir Sandy Crombie	1	59	37	8,674	1,742	10,416
Trevor Matthews	2	56	4	524	187	711
Keith Skeoch	3	52	7	597	46	643

¹ Sir Sandy Crombie left the scheme on 6 April 2006 and since that date has received a non-benefit bearing cash allowance of 25% of base salary that is not shown in the table (but appears in the Directors' remuneration table on page 96). For completeness, he has a money purchase fund in the Standard Life Retirement Account Plan. The value of this fund at 31 December 2008 was £28,590 and no employer contributions were made during the year ending 31 December 2008.

² Trevor Matthews accrued benefits based on the Revalued Career Average Salary (RCAS) basis of calculation up to his termination date of 28 July 2008.

³ Keith Skeoch left the scheme on 6 April 2006 and since that date has received a non-benefit bearing cash allowance of 25% of base salary that is not shown in the table (but appears in the Directors' remuneration table on page 96).

⁴ The trustees updated the transfer value basis during the year following changes to legislation which became effective on 1 October 2008. Under the new regime, trustees are now responsible for determining the underlying assumptions, having regard to the investment strategy of the scheme and having taken advice from an actuary.

3. Directors' interests in share-based long-term incentive plans (audited)

	Award date		Number of shares					Value of shares			
	Date of award	Expected first date of exercise	At start of year	Awarded during year	Exercised during year	Lapsed during year	At end of year	Share price at award date ¹	Share price on exercise date	Actual date of exercise	Total value on exercise date
Sir Sandy Crombie	01/01/2005	12/03/2008	458,715	-	458,715	-	-	£2.47975	£2.39125	12/03/2008	£1,096,902
	01/01/2006	12/03/2009	494,001	-	-	-	494,001	£2.47975	-	-	-
	01/05/2007	01/05/2010	397,294	-	-	-	397,294	£3.21550	-	-	-
	21/04/2008	21/04/2011	-	615,011	-	-	615,011	£2.47150	-	-	-
			1,350,010	615,011	458,715	-	1,506,306				
David Nish ²	01/05/2007	01/05/2010	150,831	-	-	-	150,831	£3.21550	-	-	-
	21/04/2008	21/04/2011	-	255,411	-	-	255,411	£2.47150	-	-	-
			150,831	255,411	-	-	406,242				
Keith Skeoch	01/01/2005	12/03/2008	80,653	-	80,653	-	-	£2.47975	£2.40125	13/03/2008	£193,668
	01/01/2006	12/03/2009	80,653	-	-	-	80,653	£2.47975	-	-	-
	01/05/2007	01/05/2010	87,078	-	-	-	87,078	£3.21550	-	-	-
	21/04/2008	21/04/2011	-	141,614	-	-	141,614	£2.47150	-	-	-
			248,384	141,614	80,653	-	309,345				
Former executive Director											
Trevor Matthews ³	01/01/2005	12/03/2008	191,551	-	191,551	-	-	£2.47975	£2.39760	13/03/2008	£459,263
	01/01/2006	12/03/2009	201,633	-	-	-	201,633	£2.47975	-	-	-
	01/05/2007	01/05/2010	166,381	-	-	-	166,381	£3.21550	-	-	-
			559,565	-	191,551	368,014	-				

¹ This column shows the conversion share price used to convert the maximum value of each LTIP award into the maximum number of shares based on the share conversion price. To promote alignment with shareholders, it was a condition of the awards granted in 2005 and 2006 that they would convert into equivalent awards over shares after flotation using the average Standard Life plc share price over the 20 dealing days following flotation. This averaging was deliberately done so as to avoid any conflict of interest over the flotation share price. The rising share price meant that awards were converted at an average share price of 247.975p rather than the flotation price of 230p, so the executive Directors received fewer shares than would have been the case had the conversion been done immediately on flotation. In 2007 and 2008 LTIP awards were granted over shares and this will remain the case in future years. For the 2007 and 2008 awards, the conversion share price was the average share price for the five dealing day period immediately before the awards were granted.

² Shortly after David Nish was recruited, he was granted an LTIP award which entitles him to acquire a maximum of 118,729 ordinary shares in the Company on terms equivalent to the 2006 LTIP awards described above. For technical reasons, this grant was made as a one-off recruitment award as permitted by the Listing Rules rather than under the terms of the LTIP. The award will vest on 12 March 2009. The level of grant was pro-rated to reflect the fact that he was not an employee during the first 10 months of the 2006 financial year.

³ Having tendered his resignation on 29 January 2008, Trevor Matthews forfeited his 2006 and 2007 LTIP awards and no compensation was paid to him. He was not granted an LTIP award in 2008. He met the eligibility criteria in respect of the 2005 award, which vested in 2008, and details are outlined in the above table.

Other pay and share matters**Our belief in share ownership****Share ownership guidelines**

Standard Life has adopted a set of share ownership guidelines because we believe that executives should be encouraged to hold a substantial element of their personal wealth in Standard Life shares. It aligns their interests with the shareholders.

The Group Chief Executive's guideline is 150% of salary and other executive Directors are expected to build up a holding of shares worth 100% of base salary. Group executive members are expected to build up a holding worth 50% of base salary. This is to be achieved by keeping any shares they or their family members acquire, plus at least half of the shares acquired under the LTIP on an after-tax basis, until the target has been met. For executives who held these roles at the time of flotation (10 July 2006), we expect this guideline will be achieved within five years of that date. For all other individuals, the guidelines should be met within five years of their appointment.

In January 2009 the Remuneration Committee adopted a share ownership guideline for the Chairman. Within four years of his appointment as Chairman (i.e. 29 May 2011), it is expected that he will have a shareholding with a value equal to his annual fee. This is to promote alignment with shareholders and is not a level of ownership that will compromise his judgement. The current Chairman has voluntarily agreed to abide by this guideline.

As at 31 December 2008 the executive Directors' share ownership against the guidelines were:

Director	Target date for meeting the guideline	Share ownership as a percentage of salary/fee	Guideline already met?
Gerry Grimstone	29 May 2011	100%	Yes
Sir Sandy Crombie	10 July 2011	201%	Yes
David Nish	1 November 2011	24%	No
Keith Skeoch	10 July 2011	219%	Yes

Directors' interests in shares

The following table shows the level of share ownership of all the Directors:

	Total number of shares owned at 01/01/2008	Shares acquired/(sold) by the Director during the period	Total number of shares owned at 31/12/2008	Shares acquired/(sold) by the Director during the period 31/12/2008 to 09/03/2009
Executive Directors				
Sir Sandy Crombie	297,710	458,831	756,541	-
David Nish	16,512	42,462	58,974	160
Keith Skeoch	256,566	123,132	379,698	160
Non-executive Directors				
Kent Atkinson	3,651	-	3,651	-
Lord Blackwell	5,673	-	5,673	-
Colin Buchan	3,758	-	3,758	-
Crawford Gillies	32,954	-	32,954	-
Gerry Grimstone	100,827	40,400	141,227	-
Baroness McDonagh	-	2,000	2,000	-
Jocelyn Proteau	1,857	-	1,857	-

Promoting all-employee share ownership

We believe that share ownership by our employees helps them to understand the interests of our shareholders. On 31 December 2008, 81% of our employees were Standard Life shareholders. The initiatives that promote employee share ownership are:

1. We operate the Standard Life Share Plan which allows employees to buy shares directly from their earnings. Take-up has been excellent. On 31 December 2008, 64% of eligible employees in the UK were making a monthly average contribution of £43.50. A similar tax approved plan is used in Ireland and has a 53% take-up. Even though the plan cannot be structured on a tax favourable basis in Canada, Germany and Austria, more than 800 employees in these countries are buying shares each month.
2. We have a Group-wide annual profit sharing scheme which means that employees can receive extra shares if Group profit targets are outperformed. Shares were awarded in 2007 and in 2008, but no shares are being awarded in 2009.

Share dilution limits

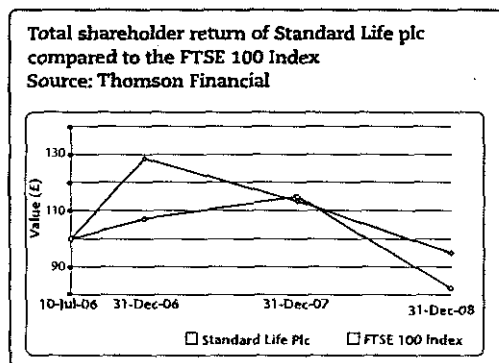
The LTIP and the Standard Life Share Plan contain dilution limits that comply with the guidelines produced by the Association of British Insurers (ABI). On 31 December 2008 the Company's standing against these dilution limits was:

5% in any 10 years under all executive share plans (i.e. just the LTIP)	0.65%
10% in any 10 years under all share plans (i.e. LTIP and Standard Life Share Plan)	0.83%

As is normal practice, there are employee trusts that operate in conjunction with Standard Life's share plans. On 31 December 2008, the number of unallocated shares held within these trusts was 36,173. Again this is comfortably less than the 5% best practice limit as endorsed by the ABI.

Performance graph

The following graph shows the value on 31 December 2008 of £100 invested in Standard Life and across the FTSE 100 as a whole on 10 July 2006 (the first day of trading for Standard Life plc shares). The FTSE 100 has been chosen as the comparator index because Standard Life is a member of this FTSE grouping and is used as the LTIP multiplier.



Related party transactions

All transactions between Directors and the Group are on commercial terms that are equivalent to those available to all employees. During the year to 31 December 2008, the Directors contributed £283,150 (2007: £1m) to products sold by the Group.

Approved on behalf of the Board of Directors
Crawford Gillies
 Chairman, Remuneration Committee
 Edinburgh 12 March 2009

Independent auditors' report to the members of Standard Life plc

We have audited the consolidated financial statements of Standard Life plc for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated statement of recognised income and expense, the Consolidated cash flow statement, the accounting policies and the related notes. These Consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company financial statements of Standard Life plc for the year ended 31 December 2008 and on the information in the Directors' remuneration report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the *Annual Report and Accounts* and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' responsibilities for preparing financial statements.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the consolidated financial statements. The information given in the Directors' report includes that specific information that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the *Annual Report and Accounts* and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Chairman's statement, the Group Chief Executive's statement, the Business review, the Directors' report, the unaudited sections of the Directors' remuneration report and the other information as listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

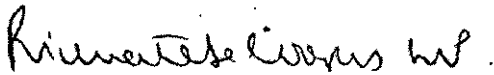
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the consolidated financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
12 March 2009

- (a) The maintenance and integrity of the Standard Life website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue			
Gross earned premium		3,564	3,732
Premium ceded to reinsurers	31	(6,338)	(86)
Net earned premium		(2,774)	3,646
Net investment return	2	(13,531)	5,803
Fee and commission income	3	622	593
Other income		93	71
Total net revenue		(15,590)	10,113
Expenses			
Claims and benefits paid		7,142	7,598
Claim recoveries from reinsurers		(571)	(66)
Net insurance benefits and claims		6,571	7,532
Change in reinsurance assets	30	(5,559)	311
Change in insurance and participating liabilities	30	(7,021)	(2,336)
Change in investment contract liabilities	30	(10,907)	2,073
Change in unallocated divisible surplus	32	(184)	(247)
Expenses under arrangements with reinsurers	4	92	-
Administrative expenses			
Restructuring and corporate transaction expenses	8	73	31
Other administrative expenses	5	2,391	2,266
Total administrative expenses		2,464	2,297
Change in liability for third party interest in consolidated funds	28	(598)	(78)
Finance costs	5	129	122
Total expenses		(15,013)	9,674
Share of profits from associates and joint ventures	15	101	181
(Loss)/profit before tax		(476)	620
Tax (credit)/expense attributable to policyholders' returns	9	(334)	111
(Loss)/profit before tax attributable to equity holders' profits		(142)	509
Total tax (credit)/expense		(493)	44
Less: Tax attributable to policyholders' returns		334	(111)
Tax credit attributable to equity holders' profits	9	(159)	(67)
Profit for the year		17	576
Attributable to:			
Equity holders of Standard Life plc		100	465
Minority interest	28	(83)	111
		17	576
Earnings per share			
Basic (pence per share)	11	4.6	21.7
Diluted (pence per share)	11	4.6	21.4

The Notes on pages 107 to 242 are an integral part of these consolidated financial statements.

Consolidated balance sheet

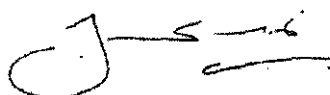
As at 31 December 2008

	Notes	2008 £m	2007 £m
Assets			
Intangible assets	13	112	69
Deferred acquisition costs	14	892	693
Investments in associates and joint ventures	15	3,098	4,146
Investment property	16	7,738	10,646
Property, plant and equipment	17	740	870
Deferred tax assets	18	428	111
Reinsurance assets	30,31	6,076	476
Loans and receivables	19	12,069	13,056
Derivative financial assets	20	2,800	520
Investment securities	21	90,716	102,304
Other assets	22	2,259	1,754
Cash and cash equivalents	23	10,052	9,335
Total assets		136,980	143,980
Equity			
Share capital	24	218	217
Share premium reserve	25	792	792
Retained earnings	26	774	776
Other reserves	27	1,623	1,497
Equity attributable to equity holders of Standard Life plc		3,407	3,282
Minority interest	28	334	391
Total equity		3,741	3,673
Liabilities			
Non-participating contract liabilities	30	71,908	79,742
Participating contract liabilities	30	34,163	37,888
Deposits received from reinsurers	31	5,968	53
Third party interest in consolidated funds	28	1,603	1,501
Borrowings	33	3,227	6,118
Subordinated liabilities	34	2,204	1,908
Pension and other post retirement benefit provisions	35	42	203
Deferred income	36	382	340
Deferred tax liabilities	18	93	480
Current tax liabilities	18	174	252
Customer accounts related to banking activities and deposits by banks	37	6,991	6,080
Derivative financial liabilities	20	1,348	642
Other liabilities	38	5,136	5,100
Total liabilities		133,239	140,307
Total equity and liabilities		136,980	143,980

Approved on behalf of the Board of Directors on 12 March 2009 by the following Directors:



Gerry Grimstone, Chairman



David Nish, Group Finance Director

The Notes on pages 107 to 242 are an integral part of these consolidated financial statements.

Pro forma reconciliation of Group underlying profit to profit for the period

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Underlying profit before tax attributable to equity holders of Standard Life plc			
Life and pensions			
UK		184	395
Canada		(102)	168
Europe		65	63
Other		(35)	(12)
Total life and pensions		112	614
Investment management		42	83
Banking		26	32
Healthcare		11	13
Other		(37)	(28)
Underlying profit before tax attributable to equity holders of Standard Life plc and adjusted items		154	714
(Loss)/profit attributable to minority interest		(83)	111
Underlying profit before tax attributable to equity holders and adjusted items		71	825
Adjusted for the following items:			
Volatility arising on different asset and liability valuation bases	10	(141)	(302)
Restructuring and corporate transaction expenses	8	(72)	(31)
Profit on part disposal of associate		-	17
(Loss)/profit before tax attributable to equity holders' profits		(142)	509
Tax credit attributable to:			
Underlying profit		100	11
Adjusted items		59	56
Total tax credit attributable to equity holders' profits		159	67
Profit for the year		17	576

Underlying profit is calculated by adjusting the profit for the period for volatility that arises from different International Financial Reporting Standards (IFRS) measurement bases for liabilities and backing assets, volatility arising from derivatives that are part of economic hedges but do not qualify as hedge relationships under IFRS, restructuring costs, significant corporate transaction expenses, impairment of intangibles and profit or loss arising on the disposal of a subsidiary, joint venture or associate. The Directors believe that, by eliminating this volatility from the equity holder profits, they are presenting a more meaningful indication of the underlying business performance of the Group.

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Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Fair value losses on cash flow hedges		(38)	(6)
Actuarial gains/(losses) on defined benefit pension schemes	35	161	(3)
Revaluation of land and buildings	17	(58)	(26)
Net investment hedge	27	(17)	-
Exchange differences on translating foreign operations	27	479	175
Equity movements transferred to the unallocated divisible surplus	32	(236)	(11)
Equity movements attributable to third party interest in consolidated funds	28	22	-
Share of other recognised income from associates and joint ventures	15	2	-
Aggregate equity holder tax effect of items not recognised in income statement	9	(42)	-
Net income not recognised in income statement		273	129
Profit for the year		17	576
Total recognised income for the year		290	705
Attributable to:			
Equity holders of Standard Life plc		373	594
Minority interest		(83)	111
		290	705

The movements in equity are summarised below:

	Notes	2008 £m	2007 £m
Equity at 1 January		3,673	3,185
Total recognised income for the year		290	705
Distributions to equity holders	12	(257)	(197)
Issue of share capital other than in cash	24	1	7
Capitalisation of share premium account	25	-	(7)
Reserves credit for employee share-based payment schemes	27	10	12
Vested employee share-based schemes	27	(2)	(5)
Change in minority interest in the year		26	(27)
Equity at 31 December		3,741	3,673

The Notes on pages 107 to 242 are an integral part of these consolidated financial statements.

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Consolidated cash flow statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
(Loss)/profit before tax		(476)	620
Gain on disposal of property, plant and equipment		(38)	(27)
Depreciation of property, plant and equipment	5	10	9
Amortisation of intangible assets	5	10	8
Amortisation of deferred acquisition costs	5	165	135
Impairment losses on property, plant and equipment	17	137	16
Impairment losses on deferred acquisition costs	5	1	-
Interest cost on other borrowings		12	15
Adjustment for finance costs on banking activities		(12)	6
Finance costs		129	122
Net foreign exchange losses on investment activities		60	(41)
Share of profits from associates and joint ventures	15	(101)	(181)
Net decrease in operating assets and liabilities	40	2,966	2,731
Adjustment for non-cash movements in investment income		4	(15)
Taxation paid		(379)	(323)
Change in unallocated divisible surplus	32	(184)	(247)
Net cash flows from operating activities		2,304	2,828
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(285)	(233)
Proceeds from sale of property, plant and equipment		147	165
Acquisition of subsidiaries, net of cash acquired	47	(24)	-
Acquisition of investments in associates and joint ventures		(16)	(35)
Proceeds from disposal of investment in associates and joint ventures		-	23
Dividends received from associates and joint ventures		-	3
Purchase of intangible assets		(23)	(17)
Net cash flows from investing activities		(201)	(94)
Cash flows from financing activities			
Proceeds from other borrowings		64	36
Repayment of other borrowings		(6)	(28)
Capital flows from minority interest and third party interest in consolidated funds		(1,047)	495
Distributions paid to minority interest		(33)	(31)
Interest paid		(138)	(134)
Ordinary dividends paid	12	(257)	(197)
Net cash flows from financing activities		(1,417)	141
Net increase in cash and cash equivalents		686	2,875
Cash and cash equivalents at the beginning of the year	23	9,120	6,194
Effects of exchange rate changes on cash and cash equivalents		145	51
Cash and cash equivalents at the end of the year	23	9,951	9,120
Supplemental disclosures on cash flow from operating activities			
Interest paid		628	630
Interest received		3,666	3,581
Dividends received		1,649	1,464
Rental income received on investment properties		625	615

The Notes on pages 107 to 242 are an integral part of these consolidated financial statements.

Accounting policies

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

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

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

The Group has adopted the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. The amendments to IAS 39 introduce the possibility of reclassifications which were already permitted under US generally accepted accounting principles (GAAP) in rare circumstances. These amendments are part of a series of steps that the IASB has undertaken to respond to the credit crisis. The amendments address the desire to reduce differences between IFRS and US GAAP. Minor updates have been made to IFRS 7 to take account of the revisions to IAS 39. The Group has not reclassified any financial instruments as a result of adoption of the updates.

IFRIC 14, IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction* was adopted by the Group from 1 January 2008. The interpretation provides guidance on assessing the limit in IAS 19 *Employee benefits* on the amount of the surplus that can be recognised as an asset and explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The interpretation has been taken into consideration in determining the treatment of the surplus arising in respect of the United Kingdom defined benefit plan. Please refer to Note 35(b) – Pension and other post retirement benefit provisions.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods. The Group has not early adopted the standards, amendments and interpretations described below:

IFRS 8 *Operating Segments* (effective from 1 January 2009)

IFRS 8 will replace IAS 14 *Segment reporting* and proposes that the 'management approach' is adopted for reporting the financial performance of operating segments. The Group will adopt the requirements of IFRS 8 from 1 January 2009. The standard has no financial impact but is expected to have a significant impact on the Group's segmental disclosures.

Amendment to IAS 1 *Presentation of financial statements* (effective from 1 January 2009)

The revised standard will prohibit the presentation of items of income and expenses in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from 'owner changes in equity'. All non-owner changes in equity will be required to be shown in a performance statement but there will be a choice as to whether to present only the statement of comprehensive income or both the income statement and statement of comprehensive income. The revised standard also requires that, where restatements or reclassifications of comparative information are made, a restated balance sheet must be presented as at the beginning of the comparative period. The Group will apply the revisions from 1 January 2009. The revisions are expected to have an impact on presentation within primary statements and certain of the notes to the financial statements but will not have a financial impact on the Group's financial statements.

Amendment to IAS 23 *Borrowing costs* (effective from 1 January 2009 – prospective application)

The publication of the revised standard has followed the joint short-term convergence project between the IASB and the US Financial Accounting Standards Board (US FASB). Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Group will apply the revisions to IAS 23 from 1 January 2009, but it is not expected to have a significant impact on the Group's financial statements.

(a) Basis of preparation *continued*

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

Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009)

The amendments require certain puttable financial instruments, and certain financial instruments that impose on the Group an obligation to deliver to another party a pro rata share of net assets of the Group only on liquidation, to be classified as equity. Management have assessed that the expected impact of adoption of the amendments on the Group's financial statements will be minimal.

Amendment to IFRS 2 *Share-based payment* (effective for annual periods beginning on or after 1 January 2009)

The amendment addresses vesting conditions and cancellations, clarifying that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. The amendment also specifies that all cancellations, whether made by the Group or by other parties, should receive the same accounting treatment. Management are considering the expected impact of adoption of the amendments on the Group's financial statements.

IFRS 3 (Revised) *Business combinations* (applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009)

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through profit or loss. Goodwill may be calculated based on the parent company's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. Management will give consideration to the application of the requirements of the revised standard in respect of business combinations for which the acquisition date is on or after 1 July 2009. The amendments have not yet been endorsed by the EU.

IAS 27 (Revised) *Consolidated and separate financial statements* (effective for annual periods beginning on or after 1 July 2009)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and goodwill or gains and losses will no longer be recognised. The standard also specifies the accounting when control is lost: any remaining interest in the entity is re-measured to fair value and any resulting gain or loss is recognised in the income statement. Management are considering the expected impact of adopting the revised standard on the Group's financial statements. The revisions have not yet been endorsed by the EU.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* on eligible hedged items (effective from accounting periods beginning on or after 1 July 2009 – retrospective application)

The amendment makes two significant changes. It prohibits both the designation of inflation as a hedgeable component of a fixed rate debt and the inclusion of time value in the one-sided hedged risk when designating options as hedges. Management will give consideration to the expected impact of adoption of the amendments on the Group's financial statements and in doing so will assess any hedging strategies involving options. The amendments have not yet been endorsed by the EU.

Improvements to IFRSs (effective from accounting periods beginning on or after 1 January 2009)

The publication amends 20 standards, basis of conclusions and guidance and the improvements include changes in presentation, recognition and measurement plus terminology and editorial changes. Management is considering the impact of adoption of the amendments on the Group's financial statements.

IFRIC 16 *Hedges of a net investment in a foreign operation* (effective from accounting periods beginning on or after 1 October 2008)

The interpretation clarifies, in respect of net investment hedging, that net investment hedging relates to differences in functional currency, not presentation currency, that hedging instruments may be held anywhere in the group and that the requirements of IAS 21 *The effects of changes in foreign exchange rates* do apply to the hedged item. Management will give consideration to the expected impact of adoption of the amendments on the Group's financial statements. IFRIC 16 has not yet been endorsed by the EU.

IFRIC 15 *Agreements for construction of real estates* (effective from accounting periods beginning on or after 1 January 2009)

The interpretation clarifies which standard (IAS 18 *Revenue* or IAS 11 *Construction Contracts*) should be applied to particular transactions. The new guidance may have an impact on the accounting in a number of industries as the interpretation may also be used by analogy in other circumstances to determine whether a transaction is accounted for as a sale of a good (IAS 18) or a construction contract (IAS 11). Management will give consideration to the expected impact of adoption of the amendments on the Group's financial statements. IFRIC 15 has not yet been endorsed by the EU.

IFRIC 13 *Customer loyalty programmes relating to IAS 18 Revenue* (effective for annual periods beginning on or after 1 July 2008)

The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. The adoption of the interpretation is not expected to have a significant impact on the Group's financial statements.

IFRIC 17 *Distributions of non-cash assets to owners* (effective from accounting periods beginning on or after 1 July 2009)

The interpretation provides clarification around the measurement of distributions of assets, other than cash, in respect of upward dividends. The interpretation states that a dividend payable should be recognised when appropriately authorised, it should be measured at the fair value of the net assets to be distributed, and the difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognised in the income statement. Management will give consideration to the expected impact of the adoption of the interpretation on the Group's financial statements. IFRIC 17 has not yet been endorsed by the EU.

(iii) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements, in conformity with Generally Accepted Accounting Principles (GAAP), requires management to make estimates and assumptions and exercise judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the period. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the financial statements are as follows:

- Fair value determination of financial instruments at fair value through profit or loss – refer to (q)(i) and Note 45
- Fair value determination of investment property and land and buildings – refer to (l), (m) and Notes 16 and 17
- Classification of insurance and investment contracts – refer to (f)
- Insurance contract liabilities – refer to (u), (v), (w), (x) and Note 29
- Pension and other post retirement provisions – refer to (aa) and Note 35
- Impairment testing – refer to (i), (j), (o), (p) and Note 39

(b) Basis of consolidation

The Group financial statements consolidate the income statements and balance sheets of the Company and its subsidiary undertakings. Associate and joint venture undertakings are accounted for using the equity method from the date that significant influence or joint control, respectively, commences until the date this ceases.

(i) Subsidiaries

Subsidiaries are all entities, including special purpose entities, over which the Group has the power to govern the financial and operating policies. Such power, generally but not exclusively, accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

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

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where the Group owns more than 50% of an investment vehicle, such as open-ended investment companies, unit trusts and limited partnerships, and it is consolidated, the interests of parties other than the Group in such vehicles are classified as liabilities. These are recorded in the consolidated balance sheet line 'Third party interest in consolidated funds' and any movements are recognised in the consolidated income statement. The interests of parties other than the Group in all other types of entities are recorded as minority interest in equity.

(b) Basis of consolidation continued

(ii) Associates and joint ventures

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity, which is subject to joint control arising from contractual agreement.

Where the Group has a significant holding in an investment vehicle that meets the definition of an associate or joint venture and that investment in associate and joint venture backs policyholder liabilities, including the unallocated divisible surplus, that investment is accounted for at fair value through profit or loss (FVTPL) in accordance with IAS 39.

All other associates and joint ventures are accounted for using the equity method and, in this case, the Group's investment in associates and joint ventures includes goodwill, net of any impairment loss, identified on acquisition.

Investments in associates and joint ventures that are accounted for using the equity method are initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate and joint ventures. The Group's share of post-acquisition results of its associates and joint ventures is recognised in the income statement. The Group's share of any post-acquisition movements in reserves, where the associate recognised a gain or loss directly in equity, is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. The accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Group reconstructions

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

(d) Foreign currency translation

The consolidated financial statements are presented in millions pounds Sterling, which is the Group's presentation currency.

The balance sheets of Group entities that have a different functional currency than the Group's presentation currency are translated into the presentation currency at the year end exchange rate and their income statements and cash flows are translated at average exchange rates for the year. All resulting exchange differences arising are recognised in the foreign exchange reserve in equity. Where the unallocated divisible surplus changes as a result of such exchange differences which are attributable to participating policyholders, this change in the unallocated divisible surplus is not recognised in the income statement but is recognised in equity (refer also to (h)(v)).

Foreign currency transactions are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on financial assets and liabilities held at amortised cost are included in foreign exchange gains or losses in the income statement.

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Segments have been separately identified after consideration of the various regulatory reporting regimes, the nature of the products sold, distribution channels, customer segments and management's view of the relative risks and rewards associated with each segment.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

(f) Classification of insurance and investment contracts

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

The Group has written insurance and investment contracts which contain discretionary participating features (e.g. with profits business). These contracts provide a contractual right to receive additional benefits as a supplement to guaranteed benefits. These additional benefits are based on the performance of with profits funds and their amount and timing is at the discretion of the Group. These contracts are referred to as participating contracts.

Generally, life and pensions business product classes are sufficiently homogeneous to permit a single classification at the level of the product class. However, in some cases, a product class may contain individual contracts that fall across multiple classifications (hybrid contracts). For certain significant hybrid contracts the product class is separated into the insurance element, a non-participating investment element and a participating investment element so that each element is accounted for separately.

Healthcare and general insurance business contracts are classified as insurance contracts only if they transfer significant insurance risk.

(g) Revenue recognition**(i) Deposit accounting for non-participating investment contracts**

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue in the income statement.

Deposit accounting is also applied to reinsurance contracts that do not qualify as insurance contracts under policy (f) above.

The fee income associated with non-participating investment contracts is dealt with under policy (g)(iv) below.

(ii) Premiums

Premiums received on life and pensions business insurance contracts and participating investment contracts are recognised as revenue when due for payment, except for unit linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular (and recurring) premium contracts, receivables are established at the date when payments are due.

Premiums receivable on healthcare and general insurance business insurance contracts are recognised as revenue as they are earned over the period of the policy having regard to the incidence of risk.

(iii) Net investment income

Realised and unrealised gains and losses resulting from changes in both market value and foreign exchange on investments classified as fair value through profit or loss, including investment income received (such as dividends and interest payments) are recognised in the income statement in the period in which they occur.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the income statement.

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

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

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

(iv) Fee and commission income

All fees related to unit linked non-participating investment contracts are deemed to be associated with the provision of investment management services. Fees related to the provision of investment management services and administration services are recognised as the services are provided. Front-end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the expected life of the contract. Ongoing fees that are charged periodically, either directly or by making a deduction from invested funds, are recognised as received, which corresponds to when the services are provided.

(g) Revenue recognition *continued*

(iv) Fee and commissions *continued*

Commissions received or receivable are recognised as revenue on the commencement or renewal date of the related policies. However, when it is probable the Group will be required to render further services during the life of the policy, the commission is deferred as a liability and is recognised as the services are provided.

Trail or renewal commission, where the Group does not have an unconditional legal right to avoid payment, is deferred at inception of the contract and an offsetting liability for contingent commission is established.

(h) Expense recognition

(i) Deposit accounting for non-participating investment contracts

Withdrawals paid out to policyholders on non-participating investment contracts are treated as a reduction to policyholder deposits and not recognised as expenses in the income statement.

Deposit accounting is also applied to reinsurance contracts that do not qualify as insurance contracts under policy (f) above.

(ii) Claims and benefits paid

Claims paid on life and pensions business insurance contracts and participating investment contracts and healthcare and general insurance business insurance contracts are recognised as expenses in the income statement.

Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the insurance liability. Death claims and all other claims are accounted for when notified. Healthcare and general insurance claims are accounted for when there is sufficient evidence of their existence and a reasonable assessment can be made of the monetary amount involved.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Change in insurance and participating investment contract liabilities

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

(iv) Change in investment contract liabilities

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the income statement as changes in investment contract liabilities.

(v) Change in unallocated divisible surplus (UDS)

The change in UDS recognised in the income statement comprises the movement in the UDS during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are taken directly to equity, the change in UDS arising from these movements is not recognised in the income statement as it is also recognised in equity.

(vi) Expenses under arrangements with reinsurers

Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised as they are incurred in the income statement as expenses under arrangements with reinsurers.

(i) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, at least at each balance sheet date. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

(j) Goodwill and intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash generating units that are expected to benefit from the business combination. The carrying amount

of goodwill for each cash generating unit is reviewed when changes in circumstances or events indicate that there may be uncertainty over its carrying value, and at least annually.

Goodwill is carried at cost less any accumulated impairment losses and is included in intangible assets.

(ii) Intangible assets

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

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

(k) Deferred acquisition costs

(i) UK, Ireland and Germany – insurance and participating investment contracts

Acquisition costs incurred in issuing participating insurance or participating investment contracts are not deferred where such costs are borne by a with profits fund that is subject to the Financial Services Authority's (FSA) realistic capital regime. For other participating investment contracts incremental costs and other direct costs directly attributable to the issue of the contracts are deferred. For other insurance contracts, acquisition costs, which include both incremental acquisition costs and other indirect costs of acquiring and processing new business, are deferred.

Deferred acquisition costs are amortised in proportion to projected margins over the period the relevant contracts are expected to remain in force. After initial recognition deferred acquisition costs are reviewed by category of business and written off to the extent that they are no longer considered to be recoverable.

(ii) Canada – insurance and participating investment contracts

Implicit allowance is made for deferred acquisition costs in the Canadian Asset Liability Valuation Model (CALM). Therefore no explicit deferred acquisition costs have been recognised separately for business written by the Canadian subsidiaries.

(iii) UK, Ireland, Germany and Canada – non-participating investment contracts

Incremental costs directly attributable to securing rights to receive fees for asset management services sold with unit linked investment contracts are deferred. Where such costs are borne by a with profits fund that is subject to the FSA's realistic capital regime deferral is limited to the level of any related deferred income.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

(l) Investment property

Property held for long-term rental yields or investment gain that is not occupied by the Group is classified as investment property.

Investment property is initially recognised at cost including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is determined without any deduction for transaction costs that may be incurred on sale or other disposal, unless the property is under development with a view to resale. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as discounted cash flow analysis or recent prices in less active markets are used. Valuations are carried out at least annually, by external independent qualified valuers. Gains or losses arising from changes in fair value are recognised in the income statement. Investment property is not depreciated.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the companies in the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income and are also spread over the term of the lease.

(m) Property, plant and equipment

Land and buildings consists of property occupied by the Group and property that is being constructed or developed for future use as investment property. Land and buildings are recognised initially at cost and subsequently at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as discounted cash flow analysis or recent

(m) Property, plant and equipment *continued*

prices in less active markets are used. Valuations are carried out at least annually, by external independent qualified valuers less subsequent depreciation on buildings. Property occupied by the Group is valued on a vacant possession basis. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Prior to the demutualisation of The Standard Life Assurance Company (SLAC), increases in the fair value of land and buildings were recognised in the unallocated divisible surplus and following the demutualisation of SLAC, all fair value increases are recognised in the revaluation reserve in equity. Where the unallocated divisible surplus changes as a result of fair value increases which are attributable to participating policyholders, this change in the unallocated divisible surplus is not recognised in the income statement but through equity. Decreases in the fair value of land and buildings that offset previous increases in the same asset were recognised in the unallocated divisible surplus prior to the demutualisation of SLAC and are recognised in the revaluation reserve in equity post the demutualisation of SLAC. All other decreases are charged to the income statement for the period.

Owner occupied properties are depreciated on a straight-line basis over their estimated useful lives, generally between 30 and 50 years. The depreciable amount of an asset is determined by the difference between the fair value and the residual value. The residual value is the amount that would be received on disposal if the asset was already at the age and condition expected at the end of its useful life. Properties under development are not depreciated.

Equipment is stated at historical cost less depreciation. Depreciation on equipment is charged to the income statement on a straight-line basis over their estimated useful lives of between two and 15 years. The residual values and useful lives of the assets are reviewed at each balance sheet date and adjusted if appropriate.

(n) Income tax

The current tax expense is based on the taxable profits for the year, after adjustments in respect of prior years. Amounts are charged or credited to the income statement or equity as appropriate.

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

Temporary differences arising from investments in subsidiaries and associates give rise to deferred tax only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and the timing of the reversal of that difference cannot be controlled. Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future and the Group is not able to control the timing of the reversal.

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

The income tax expense is determined using rates enacted or substantively enacted at the balance sheet date.

The Group's long-term businesses in the UK and Ireland are subject to tax on policyholders' investment returns on certain products and tax on equity holder profits. Policyholder tax is accounted for as an income tax and is included within the total income tax expense. Total income tax expense is analysed between equity holder tax and policyholder tax in the consolidated income statement. Equity holder tax is current and deferred tax on profits attributable to equity holders. Policyholder tax represents current and deferred tax on investment returns attributable to policyholders.

(o) Reinsurance assets

Reinsurance assets primarily include balances due for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits, subject to the terms of the contract.

Amounts due from reinsurers in respect of claims incurred are separately recognised in 'Other assets' and are accounted for on a basis consistent with loans and receivables (refer to policy (p)).

If a reinsurance asset is considered to be impaired, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. The recoverable amount is determined as the carrying amount less any impairment losses. Impairment losses are determined as the difference between the carrying amount assuming no impairment and the estimated recoverable amount.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present they are accounted for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments.

(p) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as fair value through profit or loss (FVTPL). Financial assets classified as loans and receivables include deposits with credit institutions, loans secured by mortgages and loans secured on policies.

Loans and receivables are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are measured at amortised cost, using the effective interest rate (EIR) method, less any impairment losses. Revenue from financial assets classified as loans and receivables is recognised in the income statement on an EIR basis.

Impairment on individual loans is determined at each reporting date. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group. This would include a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective rate, and the loan's current carrying value. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Subsequent recoveries are credited to the income statement.

If there is no evidence of impairment on an individual basis, a collective impairment review is undertaken whereby the assets are grouped together, on the basis of similar credit risk characteristics, in order to calculate a collective impairment loss. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Loans and receivables which are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the renegotiated terms have been collected. Individually significant loans whose terms have been renegotiated are subject to ongoing review to determine whether they remain impaired or past due.

(q) Investment securities and derivatives

Management determines the classification of investment securities and derivatives at initial recognition. The Group has designated its investment securities as either fair value through the profit or loss or held to maturity. All derivatives are held at fair value and where derivatives are not designated as part of a hedging relationship, changes in fair value are recorded in the income statement. Where derivatives are designated within hedging relationships, the treatment of the fair value changes depends on the nature of the hedging relationship as described below.

(i) Designation as fair value through profit or loss (FVTPL)

Financial assets and liabilities are designated at FVTPL where the asset or liability is part of a group of assets that are evaluated and managed on a fair value basis. The Group holds portfolios of equities and debt securities that are all managed and monitored, through quarterly investment reports, on a fair value basis so as to maximise returns either for policyholders or equity holders.

The Group uses derivative financial instruments including forwards, swaps, futures, and options for the purposes of matching contractual liabilities, reducing investment risks and for efficient portfolio management activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative trading purposes. The Group designates certain derivatives as part of fair value and cash flow hedge relationships under IAS 39 *Financial Instruments: Recognition and Measurement*. The impact of hedge accounting on the measurement of financial assets and liabilities is detailed in policy (q)(iii).

(q) Investment securities and derivatives continued

(i) Designation as fair value through profit or loss (FVTPL) continued

The Group recognises these assets at fair value on the trade date of the transaction. In the case of derivatives where no initial premium is paid or received the initial measurement value is nil. Directly attributable transaction costs are not included in the initial measurement value but are recognised in the income statement.

Fair values are based upon the current quoted bid price where an active market exists. Where a quoted price in an active market cannot be obtained an appropriate market consistent valuation technique (for example discounted cash flows and recent market transactions) is used to determine fair value. If a price/technique is not available to provide a reliable fair value the investment is carried at cost less a provision for impairment.

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

(ii) Designation as held-to-maturity

The Group classifies certain government bonds, held for regulatory purposes, as held-to-maturity financial assets. Held-to-maturity financial assets are recognised as assets on the trade date and initially measured at fair value plus any directly attributable transaction costs incurred on recognition. At each subsequent reporting date, the Group measures the held-to-maturity investments at amortised cost, using the EIR method, less any impairment losses identified (refer to accounting policy (p)). Revenue from held-to-maturity assets is recognised in the income statement on an EIR basis.

(iii) Hedge accounting

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

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

The Group discontinues hedge accounting in the following circumstances:

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

Fair value hedge relationships

A fair value hedge is a hedge of the changes in fair value of a recognised asset or liability or an identified portion of such an asset or liability that is attributable to a particular risk and could impact the income statement. A fair value hedge is therefore used to hedge the exposure to variability in the fair value of financial assets and liabilities such as fixed rate debt instruments. The change in the fair value of the underlying assets or liabilities relating to the hedged risk is recognised in the income statement offsetting the change in the fair value of the hedging derivative. The change in the fair value of the hedged item in relation to the hedged risk is shown as an adjustment against the carrying value of the hedged item in the balance sheet.

If the fair value hedge ceases to meet the relevant hedging criteria, hedge accounting is discontinued and the adjustment to the carrying value of the hedged item is amortised over the remaining period to maturity and recognised in the income statement.

Cash flow hedge relationships

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

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

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

Net investment hedge relationships

A hedge of net investments in foreign operations is the hedge against the effects of changes in exchange rates in the net investment in a foreign operation, that is, the hedge of the translation gains or losses that are recognised in equity.

A hedge of net investments in foreign operations is accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. In the event of disposal of the foreign operation, gains and losses accumulated in equity are included in the income statement.

If the net investment hedge ceases to meet the relevant hedging criteria, hedge accounting is discontinued and gains and losses accumulated in equity are included in the income statement.

(iv) Embedded derivatives

Options, guarantees and other derivatives embedded in a host contract are separated and recognised as a derivative unless they are either considered closely related to the host contract, meet the definition of an insurance contract or if the host contract itself is measured at fair value with changes in fair value recognised in income.

(r) Financial guarantee contracts

The Group recognises and measures financial guarantee contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The Group initially recognises and measures a financial guarantee contract at its fair value. At each subsequent reporting date, the Group measures the financial guarantee contract at the higher of the initial fair value recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue* and the best estimate of the expenditure required to meet the obligations under the contract at the reporting date.

(s) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and any highly liquid investments with less than three months to maturity from the date of acquisition. For the purposes of the cash flow statement cash and cash equivalents also include bank overdrafts, which are included in borrowings on the balance sheet.

(t) Equity

(i) Share capital and treasury shares

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

If the Company or its subsidiaries purchase any equity instruments of the Company, the consideration paid is treated as a deduction from total equity. Where such shares are sold, if the proceeds are equal to or less than the purchase price paid, the proceeds are treated as a realised profit in equity. If the proceeds exceed the purchase price, the excess over the purchase price is transferred to the share premium account.

(ii) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under Section 131 of the UK Companies Act 1985 are met, a sum equal to the difference between the issue value and nominal value is transferred to a 'merger reserve'.

(u) Insurance and investment contract liabilities

For insurance contracts and participating investment contracts IFRS 4 *Insurance contracts* permits the continued application of previously applied Generally Accepted Accounting Principles (GAAP), except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. The Group therefore adopts UK GAAP, including the requirements of FRS 27 *Life Assurance* in relation to its UK-regulated with profits funds, for the measurement of its insurance and participating investment contract liabilities. As permitted under UK GAAP, the Group adopts local regulatory valuation methods, adjusted for consistency with asset measurement policies, for the measurement of liabilities under insurance contracts and participating investment contracts issued by overseas subsidiaries.

Further details on these policies and the policies for the measurement of non-participating investment contracts are given in (v), (w) and (x) below.

(v) Participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities
- Participating investment contract liabilities
- Unallocated divisible surplus, and
- Present value of future profits on non-participating contracts, which is treated as a deduction from the gross participating contract liabilities

The policy for measuring each component is noted below.

(i) Participating insurance and investment contract liabilities

Participating contract liabilities arising under contracts held in with profits funds falling within the scope of the Financial Services Authority's (FSA) realistic capital regime are measured on the FSA realistic basis. Under this approach the value of participating insurance and participating investment contract liabilities in each with profits fund is calculated as:

- With profits benefits reserves (WPBR) for the fund as determined under the FSA realistic basis, plus
- Future policy related liabilities (FPRL) for the fund as determined under the FSA realistic basis, less
- Any amounts due to equity holders included in FPRL, less
- The portion of future profits on non-participating contracts included in FPRL not due to equity holders, where this portion can be separately identified (see policy (v)(iii) below)

The WPBR is primarily based on the retrospective calculation of accumulated assets shares. The FPRL comprises other components such as market consistent stochastic valuation of the cost of options and guarantees.

The Group's principal with profits fund is the Heritage With Profits Fund (HWPF) operated by Standard Life Assurance Limited (SLAL). Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the board of SLAL is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. This planned enhancement to the benefits under with profits contracts held in the HWPF is included in the FPRL under the FSA realistic basis resulting in a realistic surplus of nil. Applying the policy noted above this planned enhancement is therefore included within the measurement of participating contract liabilities.

The Scheme provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Irish business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the Shareholder Fund or the Proprietary Business Fund (PBF) of SLAL, and thus accrue to the ultimate benefit of equity holders of the Company. Under the Scheme such transfers are subject to certain constraints in order to protect policyholders.

Under the FSA realistic basis the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in the FPRL (as a reduction in FPRL where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure on non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition to FPRL. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above:

- The value of participating insurance and participating investment contract liabilities is reduced by future expected (net positive) cash flows arising on participating contracts
- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to adjust the value of participating insurance and participating investment contract liabilities

As the recourse cash flows emerge they are recognised as an addition to shareholder funds if positive or as a deduction from shareholder funds if negative.

In accordance with Group policy for overseas subsidiaries, the method used to determine participating contract liabilities for the Canadian business is based on Canadian accounting and regulatory valuation principles. In accordance with Canadian accounting principles, for most participating business the value of participating policy liabilities is set equal to the value of the assets set aside in a separate fund for this business, unless this is insufficient to cover guaranteed benefits, in which case a

higher liability is recognised. Prior to 1 January 2007, Canadian Generally Accepted Accounting Principles (GAAP) measured the majority of assets at cost or amortised cost, therefore since the Group's policy is to measure investment securities and investment property at fair value through profit or loss (FVTPL) an adjustment was made to the Canadian GAAP liability to reflect the impact of the measurement change in the backing assets. From 1 January 2007, Canadian GAAP measures assets at FVTPL with the exception of investment property and therefore an adjustment is now only made to the Canadian GAAP liability to reflect the measurement change in investment property.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns and expectations about future economic and financial developments.

(ii) Unallocated divisible surplus (UDS)

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

As a result of the policies for measuring the HWPF's assets and all its other recognised liabilities, the UDS of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future recourse cash flows on non-participating contracts) and the effect of any measurement differences between the realistic balance sheet value and IFRS accounting policy value of all assets and all liabilities other than participating contract liabilities recognised in the HWPF.

(iii) Present value of future profits (PVFP) on non-participating contracts held in a with profits fund

For with profits funds falling within the scope of the FSA's realistic capital regime an amount is recognised for the PVFP on non-participating contracts where the determination of the realistic value of liabilities for with profits contracts in that with profits fund takes account directly or indirectly, of this value. The amount is recognised as a deduction from liabilities. Where this amount can be apportioned between an amount recognised in the realistic value of with profits contract liabilities and an amount recognised in the UDS, the apportioned amounts are reflected in the measurement of participating contract liabilities and UDS respectively. Otherwise it is recognised as a separate amount reflected in liabilities comprising participating contract liabilities and the UDS.

(w) Non-participating contract liabilities

(i) Non-participating insurance contracts (life and pension business)

The insurance contract liabilities for conventional business are calculated using the gross premium method. In general terms, a gross premium valuation basis is one in which the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of premiums, expected claims and costs of maintaining contracts. Cash flows are discounted at the valuation rate of interest determined in accordance with Financial Services Authority (FSA) requirements. The relaxations to reserving requirements for non-participating insurance contracts set out in the FSA's Policy Statement PS 06/14 (Prudential changes for insurers) were adopted during 2007. The Statement covers the introduction of prudent lapse allowances where appropriate; the inclusion (where appropriate) of negative liabilities which would have previously been recognised at a zero value and changes to the attribution of expense allowances when calculating sterling reserves.

The liability for annuity contracts is calculated by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest derived from yields on the underlying assets.

In accordance with Group policy for overseas subsidiaries, the method used to determine the insurance contract liabilities for the Canadian business is based on Canadian accounting and regulatory valuation principles. The Canadian regulations set the value of policy liabilities equal to the value of a set of supporting assets just sufficient with reinvestment and disinvestments to meet all policy liabilities when due. Prior to 1 January 2007, Canadian Generally Accepted Accounting Principles (GAAP) measured the majority of assets at cost or amortised cost, therefore since the Group's policy is to measure investment securities and investment property at fair value through profit or loss (FVTPL) an adjustment was made to the Canadian GAAP liability to reflect the impact of the measurement change in the backing assets. From 1 January 2007, Canadian GAAP measures assets at FVTPL with the exception of investment property and therefore an adjustment is now only made to the Canadian GAAP liability to reflect the measurement change in investment property.

(ii) Non-participating insurance contracts (healthcare and general insurance business)

All healthcare and general insurance business insurance contracts are short-term contracts, generally of a duration no longer than a year. Claims outstanding comprise provisions representing the estimated ultimate cost of settling, including claims notified but not settled by the balance sheet date and claims incurred as a result of events up to the balance sheet date not reported as at that date.

A provision is made at the balance sheet date for the total expected cost of settlement of all claims incurred in respect of events up to that date, together with related claims handling expenses, less any amounts already paid. Unearned premiums represent that proportion of premiums received on in-force contracts that relate to unexpired risks at the reporting date and are recognised as a liability.

(w) Non-participating contract liabilities *continued*

(iii) Non-participating investment contracts (life and pensions business)

Unit linked non-participating investment contract liabilities are designated as FVTPL as they are implicitly managed on a fair value basis as their value is directly linked to the market value of the underlying portfolio of assets. The fair value of a unit linked liability is equal to the value of the (funded) units allocated to the contracts. The unit value is based on the bid value of the fund assets at the reporting date before expenses of selling or buying the underlying assets.

Liabilities for non-linked investment contracts are measured at amortised cost. Amortised cost is calculated as the fair value of contributions received at the date of initial recognition, less the effect of payments such as transaction costs, plus or minus the cumulative amortisation, using the effective interest rate (EIR) method, of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the EIR.

(x) Liability adequacy test

The Group applies a liability adequacy test at each reporting date to ensure that the insurance and participating contract liabilities (less related deferred acquisition costs) are adequate in the light of the estimated future cash flows. This test is performed by comparing the carrying value of the liability and the discounted projections of future cash flows.

If a deficiency is found in the liability (i.e. the carrying value amount of its insurance liabilities is less than the future expected cash flows) that deficiency is provided for in full. The deficiency is recognised in the income statement.

(y) Borrowings

Borrowings include bank overdrafts and certificates of deposit, commercial paper, medium term notes and mortgage backed securities issued by Standard Life Bank Limited. Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings are carried at amortised cost with any difference between the carrying value and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

(z) Subordinated liabilities

Subordinated liabilities are initially recognised at the value of proceeds received net of issue expenses. The total finance costs are charged to the income statement over the relevant term of the instrument using the effective interest rate. The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period.

(aa) Pension costs and other post retirement benefits

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

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation less the fair value of plan assets, together with adjustments for past service costs. If the fair value of plan assets exceeds the defined benefit obligation a pension surplus is only recognised to the extent that it is considered recoverable through available reductions in future contributions as the Group does not consider that there is an unconditional right to a refund. Plan assets exclude any insurance contracts or non-transferable financial instruments issued by the Group. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method whereby estimated future cash outflows are discounted using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid of similar term as the pension liability, where appropriate these interest rates are adjusted to take account of abnormal market conditions.

Actuarial gains and losses are recognised in the statement of recognised income and expense in the period in which they occur.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in staff expenses when they are due.

(bb) Deferred income

Front-end fees on service contracts, including investment management service contracts, are deferred as a liability and amortised on a straight line basis to the income statement over the period services are provided.

(cc) Provisions and contingent liabilities

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

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

(dd) Dividend distribution

Final dividends on share capital classified as equity instruments are recognised in equity when they have been approved by equity holders. Interim dividends on these shares are recognised in equity in the period in which they are paid.

(ee) Leases

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

Where the Group is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. Initial direct costs incurred in arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The Group has not entered into any material finance lease arrangements as either lessor or lessee.

(ff) Employee share-based payments

The Group operates share incentive plans for all employees, share-based long-term incentive plans for senior employees and may award annual performance shares to all eligible employees when the Group's profit exceeds certain targets. Further details of the schemes are set out in Note 43. These schemes are treated as equity-settled share-based payment schemes under IFRS 2 *Share-based payment*.

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

If the equity instruments granted vest immediately, the employees become unconditionally entitled to those equity instruments. Therefore, the Group immediately recognises the charge in respect of the services received in full in the income statement with a corresponding credit to the equity compensation reserve in equity.

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

At the time the equity instruments vest, the amount recognised in the equity compensation reserve in respect of those equity instruments is transferred to retained earnings.

(gg) Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

(hh) Securities lending and repurchase agreements

The Group undertakes securities lending agreements under which securities are loaned to third parties. Where they do not meet the criteria for derecognition under IAS 39 *Financial Instruments: Recognition and Measurement*, the loaned securities are not derecognised and continue to be classified in accordance with the Group's policy. The collateral received from securities borrowers typically consists of cash or debt securities. Non-cash collateral arising from securities lending arrangements is only recognised on the consolidated balance sheet where the relevant criteria are met. Cash collateral is reinvested and the resulting financial asset and corresponding obligation to return such collateral is recognised on the consolidated balance sheet.

Securities sold subject to repurchase agreements are not derecognised and continue to be classified in accordance with the Group's policy. These securities are only reclassified as assets pledged when the transferee has the right by contract or custom to sell or repledge the security. The counterparty liability is recognised on the consolidated balance sheet. Any difference between the sale and repurchase price is accrued over the life of the agreement as interest expense using the effective interest rate method.

(ii) Underlying profit

Underlying profit is calculated by adjusting the profit for the period for volatility that arises from different IFRS measurement bases for liabilities and backing assets, volatility arising from derivatives that are part of economic hedges but do not qualify as hedge relationships under IFRS, restructuring costs, significant corporate transaction expenses, impairment of intangibles and profit or loss arising on the disposal of a subsidiary, joint venture or associate. The Directors believe that, by eliminating this volatility from equity holder profit, they are presenting a more meaningful indication of the underlying business performance of the Group.

(jj) Earnings per share

Basic earnings per share is calculated by dividing profit attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year less the weighted average number of shares owned by the Company and employee trusts that have not vested unconditionally in employees.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year to assume the conversion of all dilutive potential ordinary shares, such as share options granted to employees.

Diluted earnings per share can also be calculated by adjusting the profit or loss for the effects of changes in income, expenses, tax and dividends that would have occurred had the dilutive potential ordinary shares been converted into ordinary shares.

Alternative earnings per share is calculated on underlying profit before non-operating items and tax. Refer to policy (ii) above for details of the adjusted items.

Notes to the Group financial statements

1. Segmental analysis

(a) Primary reporting format – business segments

The Group is managed and organised into five (2007: five) reportable business segments:

Life and pensions

Life and pensions offers a broad range of pensions, protection, savings and investment products to individual and corporate customers. Within these product classes are executive and group pension products, pooled pension funds and income protection products.

Healthcare

Healthcare primarily provides insurance cover to customers for medical expenses, accident and sickness.

Investment management

Investment management provides a range of investment products for individuals and institutional customers through a number of different investment vehicles such as mutual funds, limited partnerships and investment trusts. Asset classes offered via these vehicles include equities, bonds, cash and property. Segregated investment mandates are also provided to large investors. Investment management services are provided to other business segments.

Banking

Banking offers a range of retail mortgage and deposit products via online and telephone operations.

Other

Other includes primarily the Group Corporate Centre and the Shared Service Centre.

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1. Segmental analysis continued**(i) Segmental income statement**

12 months to 31 December 2008	Life and pensions £m	Healthcare £m	Investment management £m	Banking £m	Other £m	Elimination £m	Total £m
Revenue from external customers							
Net earned premium	(3,051)	273	4	-	-	-	(2,774)
Net investment return	(14,081)	(4)	12	630	1	(89)	(13,531)
Other segment income	541	2	162	5	5	-	715
Total revenue from external customers	(16,591)	271	178	635	6	(89)	(15,590)
Inter-segment revenue	10	3	105	1	560	(679)	-
Total segment revenue	(16,581)	274	283	636	566	(768)	(15,590)
Expenses							
Segment expenses	(16,230)	267	277	686	617	(759)	(15,142)
Finance costs	120	-	2	20	(4)	(9)	129
Total segment expenses	(16,110)	267	279	706	613	(768)	(15,013)
Share of profits from associates and joint ventures	98	-	(4)	-	7	-	101
Segment result for the year	(373)	7	-	(70)	(40)	-	(476)
Tax credit attributable to policyholders' returns							(334)
Tax credit attributable to equity holders' profits							(159)
Profit for the year							17
Other items included in the income statement are:							
Impairment losses recognised	138	-	-	4	-	-	142
Amortisation of intangible assets	9	-	-	-	1	-	10
Amortisation of deferred acquisition costs	133	30	2	-	-	-	165
Depreciation of property, plant and equipment	4	-	-	-	6	-	10

(i) Segmental income statement

12 months to 31 December 2007	Life and pensions* £m	Healthcare £m	Investment management* £m	Banking £m	Other £m	Elimination £m	Total £m
Revenue from external customers							
Net earned premium	3,377	264	5	-	-	-	3,646
Net investment return	5,068	-	27	699	9	-	5,803
Other segment income	498	3	153	7	3	-	664
Total revenue from external customers	8,943	267	185	706	12	-	10,113
Inter-segment revenue	54	-	102	1	453	(610)	-
Total segment revenue	8,997	267	287	707	465	(610)	10,113
Expenses							
Segment expenses	8,451	269	192	689	543	(592)	9,552
Finance costs	114	-	1	25	-	(18)	122
Total segment expenses	8,565	269	193	714	543	(610)	9,674
Share of profits from associates and joint ventures	161	10	6	-	4	-	181
Segment result for the year	593	8	100	(7)	(74)	-	620
Tax expense attributable to policyholders' returns							111
Tax credit attributable to equity holders' profits							(67)
Profit for the year							576
Other items included in the income statement are:							
Impairment losses recognised	16	-	-	-	-	-	16
Amortisation of intangible assets	8	-	-	-	-	-	8
Amortisation of deferred acquisition costs	99	34	2	-	-	-	135
Depreciation of property, plant and equipment	3	1	-	-	5	-	9

* There has been a reallocation of inter-segment revenue and expense between Investment management and Life and pensions from that published in the consolidated financial statements for the year ended 31 December 2007. There has been no change to each segment's result for the year.

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1. Segmental analysis continued

(i) Segmental income statement continued

Inter-segment transfers are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

The Scheme of Demutualisation of The Standard Life Assurance Company (the Scheme) provides that certain recourse cash flows arising in the Heritage With Profits Fund (HWPF) on specified blocks of UK and Irish business may be transferred out of that fund and thus accrue to the ultimate benefit of equity holders in the Company. Under the Scheme such transfers are subject to certain constraints in order to protect policyholders. If the recourse cash flows result in a negative amount, then the shareholder fund will make a transfer to the HWPF of at least that negative amount. The Scheme also provides for additional expenses to be charged by the Proprietary Business Fund (PBF) to the HWPF in respect of German branch business.

As explained in accounting policy (v) the expected future value of the defined cash flows on UK and Irish participating contracts is recognised as a reduction in the measurement of participating contract liabilities or in the unallocated divisible surplus. As these recourse cash flows arise they are no longer included in the measurement of participating contract liabilities or the unallocated divisible surplus and thus contribute to equity holder profit.

As explained in accounting policy (v) the expected future value of the recourse cash flows on UK and Irish non-participating contracts is not recognised either in the measurement of non-participating liabilities or in the unallocated divisible surplus. For regulatory reporting purposes the realistic valuation includes an adjustment to reflect the expected future value of cash flows due to equity holders. This is excluded from the International Financial Reporting Standards (IFRS) valuation. As these defined cash flows arise they contribute to equity holder profit.

As explained in accounting policy (v) the expected future value of the additional expenses to be charged on German unitised with profits contracts is recognised as a liability within the unallocated divisible surplus. As these additional expenses are charged they are no longer included in the measurement of the unallocated divisible surplus and thus contribute to equity holder profit.

In the year ended 31 December 2008 the recourse cash flows resulted in a positive amount (2007: positive), the transfer of which out of the HWPF was not subject to any constraint.

The life and pensions segment profit comprises the following:

	2008 £m	2007 £m
Recourse cash flows arising on UK and Irish unitised contracts	243	378
Recourse cash flows arising on UK and Irish non-unitised contracts	124	296
Additional expenses charged on German unitised with profits contracts	39	59
Transfer out of HWPF	406	733
Life and pensions operations outside the HWPF	(779)	(140)
Life and pensions segment result for the year	(373)	593

The life and pensions segment result is shown before deduction of tax attributable to policyholders' returns of (£334m) (2007: £111m).

(ii) Segmental balance sheet

At 31 December 2008	Life and pensions £m	Healthcare £m	Investment management £m	Banking £m	Other £m	Elimination £m	Total £m
Assets							
Segment assets	121,660	268	458	11,441	798	(1,296)	133,329
Investments in associates and joint ventures	2,895	3	15	-	185	-	3,098
Total segment assets	124,555	271	473	11,441	983	(1,296)	136,427
Unallocated assets							553
Total assets							136,980
Liabilities							
Segment liabilities	122,263	174	370	11,261	200	(1,296)	132,972
Total segment liabilities	122,263	174	370	11,261	200	(1,296)	132,972
Unallocated liabilities							267
Total liabilities							133,239
Equity							
Share capital and reserves							3,407
Minority interest							334
Total equity							3,741
Total equity and liabilities							136,980
Capital expenditure incurred during the year on:							
Intangible assets	11	6	-	-	9	-	26
Deferred acquisition costs	275	31	-	-	-	-	306
Property, plant and equipment	270	-	2	-	1	-	273

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1. Segmental analysis *continued***(ii) Segmental balance sheet** *continued*

At 31 December 2007	Life and pensions £m	Healthcare £m	Investment management £m	Banking £m	Other £m	Elimination £m	Total £m
Assets							
Segment assets	126,460	186	313	13,226	435	(977)	139,643
Investments in associates and joint ventures	3,740	106	45	-	255	-	4,146
Total segment assets	130,200	292	358	13,226	690	(977)	143,789
Unallocated assets							191
Total assets							143,980
Liabilities							
Segment liabilities	127,016	203	210	12,917	204	(975)	139,575
Total segment liabilities	127,016	203	210	12,917	204	(975)	139,575
Unallocated liabilities							732
Total liabilities							140,307
Equity							
Share capital and reserves							3,282
Minority interest							391
Total equity							3,673
Total equity and liabilities							143,980
Capital expenditure incurred during the year on:							
Intangible assets	10	6	-	1	-	-	17
Deferred acquisition costs	331	34	-	-	-	-	365
Property, plant and equipment	216	-	-	-	17	-	233

(b) Secondary reporting format – geographical segments

The geographical segments are the United Kingdom, Canada and international operations, which includes all other geographic regions.

Revenues are allocated based on the country in which the contracts are issued, or products are sold. Total assets and capital expenditure are allocated based on where the contracts or products to which they relate are issued or sold.

	Segment revenue from external customers £m	Segment assets £m	Capital expenditure on intangible assets, deferred acquisition costs and property, plant and equipment £m
At 31 December 2008			
United Kingdom	(15,741)	111,060	481
Canada	(502)	16,306	18
International	653	9,061	106
Unallocated items	-	553	-
Total	(15,590)	136,980	605
At 31 December 2007			
United Kingdom	7,926	121,588	485
Canada	1,453	15,849	15
International	734	6,352	115
Unallocated items	-	191	-
Total	10,113	143,980	615

2. Net investment return

	2008 £m	2007 £m
Interest and similar income		
Cash and cash equivalents	616	453
Loans and receivables	761	778
Held to maturity debt securities	-	3
Other	1	1
	1,378	1,235
Dividend income	1,662	1,463
Gains/(losses) on financial instruments		
Equity securities	(17,331)	1,810
Debt securities	1,477	1,726
Derivative financial instruments	1,087	(444)
	(14,767)	3,092
Impairment losses on financial assets		
Loans and receivables	(5)	-
Interest income	4	-
	(1)	-
Foreign exchange gains and losses on instruments other than at fair value through profit or loss	(60)	41
Net income from investment properties		
Rental income	599	632
Net fair value losses on investment properties	(2,342)	(660)
	(1,743)	(28)
Total net investment return	(13,531)	5,803

3. Fee and commission income

	2008 £m	2007 £m
Fee income on investment contracts at fair value	476	447
Fee income from third party funds under management	126	132
Reinsurance commission income	2	2
Other fee and commission income	18	12
Total fee and commission income	622	593

4. Expenses under arrangements with reinsurers

	2008 £m	2007 £m
Interest payable on deposit from reinsurers	276	-
Premium Adjustments	(184)	-
Expenses under arrangements with reinsurers	92	-

During 2008, Standard Life Assurance Limited (SLAL) entered into a reinsurance treaty which transferred the longevity and investment risk related to a portfolio of annuities to the reinsurer, for which an initial premium was payable to the reinsurer. In order to limit counterparty credit exposure, the reinsurer was then required to deposit back an amount equal to the initial premium. Interest is payable on the deposit at a floating rate. In respect of this arrangement, SLAL now maintains a ring fenced pool of assets. The value of these assets is periodically compared to the amount of the required reserves for the reinsured liabilities. Any excess or shortfall in the value of the assets is then paid to or made up by the reinsurer by way of repayment of deposit or the making of a further deposit when required under the reinsurance treaty. The treaty also contains the requirement for the payment or receipt of Premium Adjustments, a term defined in the treaty, to ensure that the investment risk on the ring fenced pool of assets falls on the reinsurer. They are calculated periodically under the treaty as the difference between the value of the ring fenced assets and the deposit amount. If the Premium Adjustment is payable to the reinsurer, the reinsurer is required to deposit a corresponding amount into the deposit. If the Premium Adjustment is payable to SLAL, a corresponding amount is repaid from the deposit.

As set out in the table above, expenses under arrangements with reinsurers include:

- Interest on the deposit payable to the reinsurer using the effective interest method
 - Premium Adjustments, as defined in the reinsurance treaty, payable or receivable in the year
- Accrued interest and accrued Premium Adjustments are presented in 'Deposits received from reinsurers' in the balance sheet.

5. Other administrative expenses

	Notes	2008 £m	2007 £m
Interest expense on customer accounts related to banking activities and deposits by banks		320	265
Interest expense on debt securities issued and mortgage backed floating notes		296	372
Other interest expense		23	26
		639	663
Commission expenses		452	503
Staff costs and other employee related costs	6	606	566
Operating lease rentals		11	3
Auditors' remuneration	7	7	6
Other administrative expenses		660	722
Depreciation of property, plant and equipment	17	10	9
Impairment losses on property, plant and equipment	17	137	16
Amortisation of intangible assets	13	10	8
		2,532	2,496
Acquisition costs deferred during the year	14	(307)	(365)
Amortisation of deferred acquisition costs	14	165	135
Impairment losses on deferred acquisition costs	14	1	-
Total other administrative expenses		2,391	2,266

Interest expense of £129m (2007: £122m) was incurred in respect of subordinated liabilities and is reported in finance costs. For the year ended 31 December 2008 total interest expense is therefore £768m (2007: £785m).

Other administrative expenses include £102m (2007: £nil) related to an expense incurred in respect of a unit linked fund, the Pension Sterling Fund. In January 2009 the value of units in that fund was reduced to reflect reductions in the market value of certain instruments held by the Fund. In February 2009, in order to put customers invested in that Fund back into the position they would have been before the valuation adjustment, the Group injected cash into the Fund. As the circumstances that led to the cash injection had been in existence prior to the year end, the cost has been accrued within other administrative expenses for the year ended 31 December 2008.

6. Staff costs and other employee related costs

	Notes	2008 £m	2007 £m
The aggregate remuneration payable in respect of employees was:			
Wages and salaries		481	462
Social security costs		50	48
Other pension costs	35		
Defined benefit scheme		56	40
Defined contribution scheme		11	7
Employee share-based payments	43	8	9
Total staff costs and other employee related costs		606	566

	2008	2007
The average number of staff employed by the Group during the year was:		
United Kingdom	7,250	7,278
Canada	1,944	2,030
International	765	690
Total average number of staff employed	9,959	9,998
Life and pensions	6,245	5,927
Healthcare	734	900
Banking	366	581
Investment management	762	720
Group Corporate Centre	396	216
Shared Service Centre	1,456	1,654
Total average number of staff employed	9,959	9,998

The information required to be disclosed under the Companies Act 1985 in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 88 to 99.

7. Auditors' remuneration

	2008 £m	2007 £m
Fees payable to the Company's auditor for the audit of the Company's individual and consolidated financial statements	0.4	0.5
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries pursuant to legislation	4.3	3.7
Other services pursuant to legislation	0.5	0.5
Tax advisory services	0.9	0.5
Other services	0.7	1.0
Total auditors' remuneration	6.8	6.2

In addition to the amounts included above, the auditors also provided financial due diligence and taxation advisory services amounting to £0.1m in relation to the acquisition of Vebnet (Holdings) plc, and these costs have been included in the acquisition costs shown in Note 47 (2007: £1.9m was included in the restructuring and corporate transaction expenses shown in Note 8 in respect of the proposed acquisition of Resolution plc).

Fees in respect of other services performed mainly related to accounting and regulatory advice.

During the year the Group incurred audit fees in respect of the UK staff pension scheme of £43,973 (2007: £27,300).

8. Restructuring and corporate transaction expenses

Restructuring costs incurred during the year of £73m (2007: £31m) include £24m of costs associated with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc (see below). In addition, restructuring costs include £46m of expenses in relation to the Group's Continuous Improvement Programme (CIP), mainly in relation to consultancy costs and process improvement projects (2007: £9m) and other restructuring costs of £3m (2007: £4m). The restructuring cost for the year ended 31 December 2007 also includes £18m relating to the proposed acquisition of Resolution plc.

Of the total restructuring costs of £73m, £72m (2007: £31m) is adjusted when determining underlying profit for the year, with the remaining £1m (2007: nil) relating to CIP expenses incurred by the Heritage With Profits Fund.

On 30 April 2008 Standard Life Investments (Global Liquidity Funds) plc restructured one of its sub-funds, changing the pricing structure from an amortised cost to marked-to-market basis. The total costs to the Group associated with the restructuring of the sub-fund at the date of the transaction were £39m, of which £24m are restructuring costs and £15m is recognised in net investment return since it reflects the difference between the amortised cost and marked-to-market value of assets brought directly on to the Group balance sheet.

During the year ended 31 December 2007 the Company had issued a guarantee to Standard Life Investments (Global Liquidity Funds) plc to cover the difference between amortised cost and marked-to-market value of the underlying assets of two sub-funds, should there be a need to sell assets below amortised cost to meet investor withdrawals. The guarantee was for a maximum of £60m and a provision of £10m was recognised in the year ended 31 December 2007. As a result of the restructuring, the guarantee was replaced by a revised agreement in respect of the other sub-fund with a maximum guarantee of £5m (refer to Note 41 (d)).

9. Tax (credit)/expense

The tax (credit)/expense is attributed as follows:

	2008 £m	2007 £m
Tax (credit)/expense attributable to policyholders' returns	(334)	111
Tax credit attributable to equity holders' profits	(159)	(67)
	(493)	44

The share of tax of associates and joint ventures is £3m (2007: £4m) and is included above the line '(Loss)/profit before tax' in the consolidated income statement in 'Share of profits from associates and joint ventures'.

(a) Current year tax (credit)/expense

	Notes	2008 £m	2007 £m
Current tax:			
United Kingdom		253	295
Double tax relief		(1)	(41)
Canada and international		19	22
Adjustment to tax credit in respect of prior years		(21)	(3)
Total current tax		250	273
Deferred tax:			
Deferred tax credit arising from the current period	18	(743)	(229)
Total deferred tax		(743)	(229)
Total tax (credit)/expense		(493)	44
Attributable to equity holders' profits		(159)	(67)

Unrecognised tax losses of previous years were used to reduce current and deferred tax expenses by £10m and £21m respectively (2007: £nil and £16m current and deferred tax respectively).

Deferred tax has not been provided on retained earnings of overseas subsidiaries totalling £156m (2007: £199m).

9. Tax (credit)/expense continued**(b) Tax expensed to equity**

	2008 £m	2007 £m
Current tax	1	-
Deferred tax	41	-
Aggregate tax effect of items debited directly to equity	42	-

(c) Reconciliation of tax expense

	2008 £m	2007 £m
(Loss)/profit before tax	(476)	620
Tax at 28.5% (2007: 30%)	(136)	186
Policyholder tax (net of tax at UK standard rate)	(239)	78
Permanent differences	25	(42)
Temporary timing differences	2	2
Non-taxable transfer to equity holders	(105)	(202)
Different tax rates	16	18
Adjustment to current tax expense in respect of prior years	(21)	(3)
Recognition of previously unrecognised tax credit	(25)	(4)
Deferred tax not recognised	6	14
Other	(1)	10
Reversal of write down of deferred tax assets	(4)	(13)
Adjustment to deferred tax expense in respect of prior years	(11)	-
Total tax (credit)/expense for the year	(493)	44

10. Volatility arising on different asset and liability valuation bases

Group underlying profit has been adjusted in respect of volatility that arises from different IFRS measurement bases for liabilities and backing assets. The adjustment is analysed as follows:

	2008 £m	2007 £m
Measurement of investment contract liabilities and backing assets	-	163
Measurement of subordinated liabilities and backing assets	47	100
Derivative volatility	94	39
	141	302

Derivative volatility comprises amounts in respect of volatility arising from derivatives that are part of economic hedges but do not qualify as hedge relationships under IAS 39 *Financial Instruments: Recognition and Measurement*.

11. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year is the weighted average number of shares in issue less the weighted average number of shares owned by employee share trusts that have not vested unconditionally to employees.

	2008	2007
Profit attributable to equity holders of Standard Life plc (£m)	100	465
Weighted average number of ordinary shares in issue (millions)	2,176	2,138
Basic earnings per share (pence per share)	4.6	21.7

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares – share awards and share options awarded to employees.

For share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options. Further details on the share awards and share options are set out in Note 43.

As part of the offer on the flotation of the Company, holders of demutualisation shares, employee shares or shares acquired in the preferential offer who held such shares for a continuous period of one year were eligible to receive, at the end of that one year period, one bonus share for every 20 shares retained. The number of bonus shares included as dilutive potential shares for the period 10 July 2006 to 9 July 2007 is based on the actual number issued on 10 July 2007.

	2008	2007
Profit attributable to equity holders of Standard Life plc (£m)	100	465
Weighted average number of ordinary shares for diluted earnings per share (millions)	2,180	2,177
Diluted earnings per share (pence per share)	4.6	21.4

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was 4 million (2007: 3 million). The effect of these dilutive potential ordinary shares did not impact the profit attributable to equity holders of the Company. In 2007, the dilutive effect of the bonus shares included in the weighted average number of ordinary shares above was 36 million.

11. Earnings per share continued**(c) Alternative earnings per share**

Earnings per share is also calculated based on the underlying profit before tax and certain non-operating items after tax as well as on the profit attributable to equity holders. The Directors believe that earnings per share based on underlying profit provides a better indication of operating performance.

	2008 £m	2008 Per share p	2007 £m	2007 Per share p
Underlying profit before tax attributable to equity holders	71	3.3	825	38.6
Volatility arising on different asset and liability valuation bases	(141)	(6.5)	(302)	(14.1)
Restructuring and corporate transaction expenses	(72)	(3.3)	(31)	(1.4)
Profit on part disposal of associate	-	-	17	0.7
(Loss)/profit before tax attributable to equity holders' profits	(142)	(6.5)	509	23.8
Tax credit attributable to:				
Underlying profit	100	4.6	11	0.5
Adjusted items	59	2.7	56	2.6
Loss/(profit) attributable to minority interest	83	3.8	(111)	(5.2)
Profit attributable to equity holders of Standard Life plc	100	4.6	465	21.7

12. Dividends

The Company paid a final dividend of 7.70 pence per share (final 2006: 5.4 pence) totalling £168m in respect of the year ended 31 December 2007 on 30 May 2008 (final 2006: £114m) and an interim dividend of 4.07 pence per share (interim 2007: 3.80 pence) totalling £89m (interim 2007: £83m) in respect of the year ended 31 December 2008 on 28 November 2008.

Subsequent to 31 December 2008, the Directors have proposed a final dividend for the year ended 31 December 2008 of 7.70 pence per ordinary share, £168m in total. The dividend will be paid on 29 May 2009, subject to approval at the Annual General Meeting on 15 May 2009. This dividend will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2009.

13. Intangible assets

	Notes	Internally developed software £m	Other acquired intangible assets £m	Goodwill £m	Total £m
Gross amount					
At 1 January 2007		57	-	16	73
Additions – internal development		17	-	-	17
Foreign exchange adjustment		1	-	-	1
At 31 December 2007		75	-	16	91
Additions – internal development		18	-	-	18
Additions – acquisitions		-	8	-	8
Additions – business combinations	47	7	-	19	26
Foreign exchange adjustment		3	-	-	3
At 31 December 2008		103	8	35	146
Accumulated amortisation					
At 1 January 2007		(13)	-	-	(13)
Amortisation charge for the year	5	(8)	-	-	(8)
Other		(1)	-	-	(1)
At 31 December 2007		(22)	-	-	(22)
Amortisation charge for the year	5	(9)	(1)	-	(10)
Other		(2)	-	-	(2)
At 31 December 2008		(33)	(1)	-	(34)
Carrying amount					
At 31 December 2007		53	-	16	69
At 31 December 2008		70	7	35	112

Goodwill by principal cash generating unit is:

	2008 £m	2007 £m
Healthcare	16	16
Life and pensions	19	-
	35	16

The goodwill arising on acquisitions of £35m (2007: £16m) has been subject to impairment testing under the fair value less cost to sell methodology.

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14. Deferred acquisition costs

	Notes	2008 £m	2007 £m
At 1 January			
Cost		1,313	930
Accumulated amortisation and impairment		(620)	(485)
Opening net book amount		693	445
Costs deferred	5	307	365
Impairment charge	5	(1)	-
Amortisation charge	5	(165)	(135)
Foreign exchange adjustment		58	18
Closing net book amount		892	693
At 31 December			
Cost		1,678	1,313
Accumulated amortisation and impairment		(786)	(620)
Closing net book amount		892	693

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £744m (2007: £566m). Included in deferred acquisition costs above are costs deferred on investment contracts (known as deferred origination costs) amounting to £661m (2007: £570m).

15. Investments in associates and joint ventures

	2008 £m	2007 £m
At 1 January	4,146	3,627
Share of profits from associates and joint ventures	101	181
Share of other recognised income from associates and joint ventures	2	-
Net (decrease)/increase in net investment holdings and movements between classifications of investments	(1,159)	291
Additions on assuming significant influence/joint control	34	111
Cessation of significant influence/joint control or disposal of interest held	(3)	(7)
Foreign exchange adjustment	105	35
Dividends received	(123)	(92)
Other	(5)	-
At 31 December	3,098	4,146

Share of profits from associates and joint ventures includes £130m (2007: £161m) arising from associates accounted for at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Net (decrease)/increase in investment vehicle holdings relate to the purchase and sales of units in Standard Life Investments (Global Liquidity Funds) plc. The majority of additions and disposals relate to the purchase and sale of non-principal associates and joint ventures.

(a) Investments in associates

The following are particulars of the Group's share of significant associates:

Name of associates	Country of incorporation or registration	% interest held	Year End	Nature of business	Assets £m	Liabilities £m	Revenues £m	Profit/(Loss) £m
At 31 December 2008								
Standard Life Investments (Global Liquidity Funds) plc*	Ireland	35.5	31 Dec	OEIC	2,754	8	136	134
HDFC Asset Management Company Limited**	India	40.0	31 Mar	Investment Management	16	7	19	10
At 31 December 2007								
Standard Life Investments (Global Liquidity Funds) plc	Ireland	38.3	31 Dec	OEIC	3,844	13	162	160
HDFC Asset Management Company Limited	India	40.0	31 Mar	Investment Management	30	10	14	9

* Held at fair value through profit or loss

** Recognised using equity accounting

The Group also owns certain investments where its holding exceeds 20% of the equity instruments of the investees without having significant influence over their financial and operating policies. Certain investments held by mutual funds, unit trusts and unit linked insurance funds are therefore not treated as associates and recorded in Investment securities. Their operations are not significant in relation to the financial statements of the Group.

(b) Investments in joint ventures

The following are particulars of the Group's significant joint ventures, all of which are unlisted:

Name of joint ventures	Country of incorporation or registration	% interest held	Current assets £m	Long-term assets £m	Current liabilities £m	Long-term liabilities £m	Income £m	Expenses £m
At 31 December 2008								
Castan Waterfront Development Inc.	Canada	50.0	-	21	2	-	(3)	-
First Real Properties Limited	Canada	49.0	2	81	9	6	13	8
HDFC Standard Life Insurance Company Limited	India	26.0	22	353	26	323	118	133
Heng An Standard Life Insurance Company Limited	China	50.0	13	197	8	161	64	74
At 31 December 2007								
Castan Waterfront Development Inc.	Canada	50.0	-	21	1	-	1	-
First Real Properties Limited	Canada	49.0	10	69	12	10	17	7
HDFC Standard Life Insurance Company Limited	India	26.0	18	285	14	267	107	109
Heng An Standard Life Insurance Company Limited	China	50.0	10	103	3	72	33	37

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16. Investment property

	Notes	2008 £m	2007 £m
At 1 January		10,646	11,338
Additions – acquisitions		56	365
Additions – subsequent expenditure		58	28
Disposal of a subsidiary		-	(74)
Transfers from property, plant and equipment	17	-	252
Net fair value loss		(2,342)	(792)
Disposals		(1,047)	(646)
Foreign exchange adjustment		305	183
Other		62	(8)
At 31 December		7,738	10,646
The fair value of investment property can be analysed as:			
Freehold		6,152	8,360
Long leasehold		1,506	2,193
Short leasehold		80	93
		7,738	10,646

Further information on the valuation methods and assumptions in relation to investment property is shown in Note 45 – Fair value of financial assets and liabilities.

The rental income arising from investment properties during the year amounted to £599m (2007: £632m), which is included in net investment return (set out in Note 2). Direct operating expenses (included within other administrative expenses) arising in respect of such rented properties during the year amounted to £141m (2007: £156m).

17. Property, plant and equipment

	Notes	Land and buildings £m	Equipment £m	Total £m
Cost or valuation				
At 1 January 2007		1,047	172	1,219
Additions		211	22	233
Disposals		(136)	(2)	(138)
Transfers (to)/from investment property	16	(252)	-	(252)
Revaluations	27	(26)	-	(26)
Revaluation of property held by unit linked funds	27	5	-	5
Impairment losses (recognised)/reversed*	5	(16)	-	(16)
Foreign exchange adjustment		3	3	6
Other		1	-	1
At 31 December 2007		837	195	1,032
Additions		266	19	285
Disposals		(108)	(21)	(129)
Revaluations	27	(58)	-	(58)
Revaluation of property held by unit linked funds	27	(101)	-	(101)
Impairment losses (recognised)/reversed*	5	(137)	-	(137)
Foreign exchange adjustment		3	6	9
Other		(2)	(1)	(3)
At 31 December 2008		700	198	898
Accumulated depreciation				
At 1 January 2007		-	(152)	(152)
Depreciation charge for the year	5	-	(9)	(9)
Disposals		-	2	2
Foreign exchange adjustment		-	(3)	(3)
At 31 December 2007		-	(162)	(162)
Depreciation charge for the year	5	-	(10)	(10)
Disposals		-	18	18
Foreign exchange adjustment		-	(4)	(4)
At 31 December 2008		-	(158)	(158)
Carrying amount				
At 31 December 2007		837	33	870
At 31 December 2008		700	40	740

* Impairment (losses)/reversals recognised in the income statement were (£137m) (2007: (£16m)) (refer to Note 5). In 2008, the impairment losses arose due to reductions in the market value of a number of properties below original deemed cost.

Land and buildings consists of property occupied by the Group and property that is being constructed or developed for future use as investment property. The value of property that is being constructed or developed for future use as investment property at 31 December 2008 was £515m (2007: £580m).

If land and buildings were measured using the cost model, the carrying amounts would be £755m (2007: £696m). Where the expected residual value of owner occupied property is in line with the current fair value, no depreciation is charged. Equipment primarily consists of computer equipment.

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18. Tax assets and liabilities

	Notes	2008 £m	2007 £m
Current tax recoverable	22	125	79
Deferred tax assets		428	111
Total tax assets		553	190
Current tax liabilities		174	252
Deferred tax liabilities		93	480
Total tax liabilities		267	732

All current tax assets and liabilities in 2007 and 2008 are expected to be recoverable or payable in less than one year.

(a) Recognised deferred tax

	2008 £m	2007 £m
Deferred tax assets comprises:		
Actuarial liabilities	175	102
Losses carried forward	65	28
Depreciable assets	29	18
Deferred income	41	20
Employee benefits	16	49
Provisions and other temporary timing differences	35	62
Insurance related items	225	217
Subordinated debt valuation differences	6	6
Unrealised losses on investment securities	193	-
Temporary valuation differences	35	-
Other	1	3
Gross deferred tax assets	821	505
Less: offset against deferred tax liabilities	(393)	(394)
Net deferred tax assets	428	111
Deferred tax liabilities comprises:		
Insurance related items	16	75
Unrealised gains on investment securities	178	609
Deferred acquisition costs	210	127
Deferred gains on realisation	47	48
Subordinated debt valuation differences	4	4
Temporary timing differences	4	9
Employee benefits	22	-
Deferred tax on acquired assets	2	-
Other	3	2
Gross deferred tax liabilities	486	874
Less: offset against deferred tax assets	(393)	(394)
Net deferred tax liabilities	93	480
Movements in deferred tax assets/(liabilities) comprise:		
At 1 January	(369)	(598)
Acquisitions of subsidiaries	(2)	-
Amounts credited to net profit	743	229
Amounts (charged) directly to equity	(41)	-
Foreign exchange adjustment	4	-
At 31 December	335	(369)

A deferred tax asset of £258m (2007: £28m) for the Group has been recognised in respect of losses of various subsidiaries and unrealised losses on investment securities. Deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against taxable profits and gains in future periods. The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against anticipated taxable profits and gains. The losses of the subsidiaries in Canada will expire between 2014 and 2028. The remaining losses do not have an expiry date.

(b) Unrecognised deferred tax

Due to uncertainty regarding recoverability, deferred tax has not been recognised in respect of the following assets/(liabilities):

- Cumulative losses carried forward of £121m (2007: £73m)
- Tax reserves of the German branch of Standard Life Assurance Limited of £166m (2007: £169m)
- Valuation allowance of the Canadian business of £nil (2007: £96m), and
- Unrecognised investment losses of £479m (2007: £nil)

19. Loans and receivables

The loans and receivables relating to Group at year end were as follows:

	2008 £m	2007 £m
Loans and receivables comprise:		
Loans secured by mortgages	11,835	12,929
Loans secured on policies	104	107
Other	135	21
Gross loans and receivables	12,074	13,057
Less: Allowance for impairment losses	(5)	(1)
Net loans and receivables	12,069	13,056

Loans and receivables with variable interest rates and fixed interest rates are £5,683m and £6,391m respectively (2007: £5,768m and £7,289m, respectively).

Included in loans secured by mortgages are mortgages subject to securitisations of £2,823m (2007: £5,515m).

Impairment losses of £5m (2007: nil) have been recorded in Note 2 – Net investment return.

Loans and receivables that are expected to be recovered after more than 12 months is £11,528m (2007: £12,840m).

20. Derivative financial instruments

The Group's insurance business uses derivative financial instruments in order to match contractual liabilities, to reduce the risk from potential movements in foreign exchange rates, equity indices, property indices and interest rates, to reduce credit risk or to achieve efficient portfolio management.

The Group's banking business uses derivative financial instruments in order to match or reduce the risk from potential movements in foreign exchange rates, equity indices and interest rates inherent in the banking book.

The Group designates certain derivative financial instruments as cash flow hedges, fair value hedges and net investment hedges to mitigate risk, as detailed below. Derivative financial instruments that are not designated part of a hedge relationship are held for trading under IAS 39 *Financial Instruments: Recognition and Measurement*.

	2008			2007		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Cash flow hedges	886	14	31	2,039	27	2
Fair value hedges	352	51	-	352	2	7
Net investment hedges	215	-	9	-	-	-
Held for trading	37,566	2,735	1,308	36,317	491	633
Total derivative financial instruments	39,019	2,800	1,348	38,708	520	642

Derivative assets of £2,387m (2007: £391m) are expected to be recovered after more than 12 months. Derivative liabilities of £787m (2007: £470m) are expected to be settled after more than 12 months.

20. Derivative financial instruments continued

(a) Cash flow hedges

The Group designates as cash flow hedges those currency forwards and currency swaps used to reduce the exposure to variability in cash flows arising from the foreign exchange risk associated with foreign currency borrowings. The Group also designates as cash flow hedges those interest rate swaps used to reduce the exposure to variability in cash flows arising from the interest rate risk associated with floating rate borrowings.

Foreign exchange forwards with an aggregate notional principal amount of £123m (2007: £572m) and a net fair value of £14m (2007: £19m) were designated as hedges of future cash flows arising from debt issued in foreign currency. The cash flows from these instruments are expected to be reported in the income statement in 2009. In 2008, the ineffectiveness recognised in income statements that arises from these cash flow hedges was £nil (2007: £nil).

Interest rate swaps with an aggregate notional principal amount of £763m (2007: £1,467m) and a net fair value of (£31m) (2007: £6m) were designated as hedges of future cash flows arising from debt issued in sterling. The cash flows from these instruments are expected to be reported in the income statement between 2009 and 2012. In 2008, the (losses)/gains resulting from ineffectiveness recognised in income statements that arises from these cash flow hedges was £nil (2007: £nil).

There were no transactions for which cash flow hedge accounting had to cease in 2008 or 2007 as a result of the highly probable cash flows no longer being expected to occur.

	2008			2007		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Foreign exchange derivatives:						
Forwards	123	14	-	572	19	-
Interest rate derivatives:						
Interest rate swaps	763	-	31	1,467	8	2
Total cash flow hedges	886	14	31	2,039	27	2

(b) Fair value hedges

The Group designates as fair value hedges those currency swaps used to hedge changes in the fair value of foreign currency borrowings arising from exchange rate risk and those currency swaps used to hedge changes in the fair value of foreign currency borrowings arising from exchange rate risk and interest rate risk.

The Group hedges its currency risk exposure resulting from any potential change in the fair value of foreign currency funding of Standard Life Bank plc (Standard Life Bank) using cross currency swaps. The net fair value of these swaps at 31 December 2008 was £30m (2007: £2m). The gains/(losses) on the hedging instruments were £28m (2007: £7m). The (losses)/gains on the hedged items attributable to the hedged risk were (£28m) (2007: (£7m)).

The Group hedges all of its interest rate risk exposure resulting from any potential change in the fair value of long-term fixed rate funding of Standard Life Bank using interest rate swaps. The net fair value of these swaps at 31 December 2008 was £21m (2007: (£7m)). The gains/(losses) on the hedging instruments were £28m (2007: £3m). The (losses)/gains on the hedged items attributable to the hedged risk were (£28m) (2007: (£3m)).

	2008			2007		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Foreign exchange derivatives:						
Cross currency swaps	87	30	-	87	2	-
Interest rate derivatives:						
Interest rate swaps	265	21	-	265	-	7
Total fair value hedges	352	51	-	352	2	7

(c) Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through forward foreign exchange contracts. Forward foreign exchange contracts with a notional principal of £215m (2007: £nil) were designated as hedges and gave rise to currency losses for the year of £9m (2007: £nil), which have been deferred in the foreign currency translation reserve. No ineffectiveness was recognised in income statements that arose from hedges of net investments in foreign operations. No amounts were withdrawn from equity during the year (2007: £nil), as there were no disposals of foreign operations.

	2008			2007		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Foreign exchange derivatives						
Forwards	215	-	9	-	-	-
Total net investment hedges	215	-	9	-	-	-

(d) Held for trading

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

	2008			2007		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Equity derivatives:						
Equity swaps	18	-	-	3	1	-
Dividends	3	-	3	-	-	-
Futures	1,222	15	17	374	-	2
Variance swaps	2	15	21	-	-	-
Options	1,367	452	12	1,800	135	-
Interest rate derivatives:						
Interest rate swaps	24,700	1,506	585	22,660	143	428
Futures	2,556	40	26	2,573	6	8
Options	289	37	-	298	11	-
Foreign exchange derivatives:						
Cross-currency swaps	1,081	461	-	3,056	142	48
Forwards	4,320	132	452	4,920	32	141
Options	683	20	59	76	3	-
Other derivatives:						
Property index swaps	394	30	57	258	15	3
Inflation rate swaps	466	17	52	172	3	1
Swaptions	179	-	24	7	-	-
Credit default swaps	286	10	-	120	-	2
Total derivative financial instruments held for trading	37,566	2,735	1,308	36,317	491	633

21. Investment securities

	2008 £m	2007 £m
Equity securities and interests in pooled investment funds:		
Listed	38,360	53,149
Unlisted	1,389	1,348
Equity securities and interests in pooled investment funds	39,749	54,497
Debt securities:		
At fair value through profit or loss:		
Listed	43,058	40,434
Unlisted	7,909	7,373
Debt securities	50,967	47,807
Total investment securities	90,716	102,304

Of the unlisted bonds of £7,909m (2007: £7,373m), £7,631m (2007: £6,755m) relates to Canadian bonds which are categorised as unlisted because there is no regulated stock exchange for bonds in Canada, however these securities are actively traded.

Investment securities include £50m (2007: £95m) of floating rate notes which are pledged as collateral under sale and repurchase agreements.

The amount of debt securities expected to be recovered or settled after more than 12 months is £46,185m (2007: £46,521m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

22. Other assets

	Notes	2008 £m	2007 £m
Amounts receivable on direct insurance business		138	139
Amounts receivable on reinsurance contracts		2	3
Outstanding sales of investment securities		220	107
Current tax recoverable	18	125	79
Prepayments		24	17
Accrued income		844	789
Cancellations of units awaiting settlement		54	79
Collateral pledged in respect of derivative contracts		166	48
Other		686	493
Total other assets		2,259	1,754

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

The amount of other assets expected to be recovered after more than 12 months is £48m (2007: £49m).

23. Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	462	543
Balance with central bank	506	212
Money at call and short notice	1,133	1,484
Demand and term deposits with original maturity of less than 3 months	5,163	4,789
Debt investments with original maturity of less than 3 months	2,788	2,307
Total cash and cash equivalents	10,052	9,335

	Notes	2008 £m	2007 £m
Cash and cash equivalents		10,052	9,335
Bank overdrafts	33	(101)	(215)
Total cash and cash equivalents for cash flow		9,951	9,120

Balances with central banks include mandatory reserve deposits of £6m (2007: £8m) which are not available for use in the Group's day-to-day operations and are non-interest bearing.

Cash at bank and in hand, balances with the central bank and mandatory reserve deposits are non-interest bearing. Money at call and short notice and deposits are subject to variable interest rates.

24. Share capital

(a) Authorised share capital

The authorised share capital of the Company at the year end was:

	2008 Number	2008 £m	2007 Number	2007 £m
Ordinary shares of £0.10 each	3,000,000,000	300	3,000,000,000	300
Redeemable preference shares of £1 each	50,000	-	50,000	-

(b) Issued share capital

The movement in the issued share capital of the Company during the year was:

	2008 Number	2008 £m	2007 Number	2007 £m
At 1 January	2,174,077,106	217	2,106,070,469	210
Demutualisation shares	-	-	59,432	-
Shares issued in respect of employee share plans	559,061	-	518,200	-
Shares issued in respect of share options	3,142,947	1	-	-
Shares issued in respect of bonus issue	20,240	-	67,429,005	7
At 31 December	2,177,799,354	218	2,174,077,106	217

The Scheme of Demutualisation sets a ten-year limit for those eligible members of The Standard Life Assurance Company (SLAC) who were not allocated shares at the date of demutualisation to claim their entitlements. During the year ended 31 December 2008, no further (2007: 59,432) ordinary shares were issued to eligible members in respect of their demutualisation entitlements.

24. Share capital continued

The Group operates share incentive plans, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any one year is £1,500. The Group offers to match the first £25 of shares bought each month. During the year ended 31 December 2008, the Group allotted 559,061 (2007: 518,200) ordinary shares to its employees under the share incentive plans.

The Group also operates a Long-Term Incentive Plan (LTIP) for executives and senior management. During the year ended 31 December 2008 3,142,947 (2007: nil) ordinary shares were issued on exercise of share options in respect of the LTIP.

As part of the offer on the demutualisation of SLAC and flotation of Standard Life plc, holders of demutualisation shares, employee shares or shares acquired in the preferential offer who retained their shares for a continuous period of one year from 10 July 2006 were entitled to one bonus share for every 20 shares. In 2007, the Company allotted 67,429,005 shares in respect of the bonus issue. Shareholders who are entitled to bonus shares but were not allocated shares on 10 July 2007 have three years from 10 July 2007 to claim their entitlements. During the year ended 31 December 2008 a further 20,240 ordinary shares were issued to shareholders entitled to receive bonus shares.

All ordinary shares in issue in the Company rank *pari passu* and carry the same voting rights and the rights to receive dividends and other distributions declared or paid by the Company.

25. Share premium reserve

The premium arising on the shares issued during the year was:

	2008 £m	2007 £m
At 1 January	792	799
Shares issued in respect of bonus issue	-	(7)
At 31 December	792	792

26. Retained earnings

	Notes	2008 £m	2007 £m
At 1 January		776	298
Profit for the year attributable to equity holders		100	465
Dividends and appropriations		(220)	-
Transfer from equity compensation reserve for vested employee share-based payments	27	8	-
Actuarial gains/(losses) on defined benefit pension schemes	35	161	(3)
Aggregate tax items recognised in equity		(51)	(4)
Transfer from merger reserve	27	-	20
At 31 December		774	776

27. Reconciliation of movements in other reserves

Notes	Revaluation of land and buildings £m	Cash flow hedges £m	Foreign currency translation £m	Net investment hedge £m	Merger reserves £m	Equity compensation reserve £m	Special reserve £m	Reserve arising on Group reconstruction £m	Total £m
At 1 January 2008	4	(3)	46	-	3,194	18	303	(2,065)	1,497
Fair value gains/(losses) on cash flow hedges	-	(37)	-	-	-	-	-	-	(37)
Fair value gains/(losses) transferred to income statement on cash flow hedges	-	(1)	-	-	-	-	-	-	(1)
Net investment hedge	-	-	-	(17)	-	-	-	-	(17)
Revaluation of land and buildings	17	(58)	-	-	-	-	-	-	(58)
Revaluation of property held by unit linked funds	-	(101)	-	-	-	-	-	-	(101)
Reallocation to unit linked funds	-	101	-	-	-	-	-	-	101
Exchange differences on translating foreign operations	-	-	479	-	-	-	-	-	479
Dividends and appropriations	12	-	-	-	-	-	(37)	-	(37)
Reserves credit for employee share-based payment schemes	43	-	-	-	-	10	-	-	10
Vested employee share-based payments – shares issued	43	-	-	-	-	(8)	-	-	(8)
Vested employee share-based payments – shares purchased	-	-	-	-	-	(2)	-	-	(2)
With profits funds: associated UDS movement recognised in equity	32	39	-	(275)	-	-	-	-	(236)
Amounts attributable to third party interest in consolidated funds recognised in equity	28	22	-	-	-	-	-	-	22
Aggregate deferred tax items recognised in equity	-	11	-	-	-	(1)	-	-	10
Aggregate current tax items recognised in equity	-	-	(6)	5	-	-	-	-	(1)
Share of other recognised income from associates and joint ventures	2	-	-	-	-	-	-	-	2
At 31 December 2008	9	(30)	244	(12)	3,194	17	266	(2,065)	1,623
Balance at 31 December 2008 comprises:									
Total reserve before with profit fund adjustment	33	(30)	563	(12)	3,194	17	266	(2,065)	1,966
Total with profit fund adjustment	(24)	-	(319)	-	-	-	-	-	(343)
At 31 December 2008	9	(30)	244	(12)	3,194	17	266	(2,065)	1,623

The 'with profits adjustment' represents the cumulative amounts transferred to the unallocated divisible surplus as they represent movements attributable to participating policyholders, which would otherwise have been included in other reserves.

	Notes	Revaluation of land and buildings £m	Cash flow hedges £m	Foreign currency translation £m	Merger reserves £m	Equity compensation reserve £m	Special reserve £m	Reserve arising on Group reconstruction £m	Total £m
At 1 January 2007		-	1	(90)	3,214	11	500	(2,065)	1,571
Fair value gains/(losses) on cash flow hedges		-	24	-	-	-	-	-	24
Fair value gains/(losses) transferred to income statement on cash flow hedges		-	(30)	-	-	-	-	-	(30)
Revaluation of land and buildings	17	(26)	-	-	-	-	-	-	(26)
Revaluation of property held by unit linked funds		5	-	-	-	-	-	-	5
Reallocation to unit linked funds		(5)	-	-	-	-	-	-	(5)
Exchange differences on translating foreign operations		-	-	175	-	-	-	-	175
Transfer to retained earnings	26	-	-	-	(20)	-	-	-	(20)
Dividends and appropriations	12	-	-	-	-	-	(197)	-	(197)
Reserves credit for employee share-based payment schemes	43	-	-	-	-	12	-	-	12
Other vested employee share-based payments	43	-	-	-	-	(5)	-	-	(5)
With profits funds: associated UDS movement recognised in equity	32	30	-	(41)	-	-	-	-	(11)
Aggregate deferred tax items recognised in equity		-	2	2	-	-	-	-	4
At 31 December 2007		4	(3)	46	3,194	18	303	(2,065)	1,497
Balance at 31 December 2007 comprises:									
Total reserve before with profit fund adjustment		67	(3)	90	3,194	18	303	(2,065)	1,604
Total with profit fund adjustment		(63)	-	(44)	-	-	-	-	(107)
At 31 December 2007		4	(3)	46	3,194	18	303	(2,065)	1,497

Merger Reserve: On demutualisation of The Standard Life Assurance Company (SLAC), the demutualisation shares issued by the Company qualified for merger relief under Section 131 of the UK Companies Act 1985. Merger relief permits, where shares are issued at a premium, the difference between the issue value and nominal value of the shares issued to be transferred to a reserve other than the share premium account. The difference between the issue value and nominal value of the demutualisation shares was transferred to the merger reserve following the dividend in specie. £1,872m of merger reserves attached to the demutualisation shares was replaced with merger relief on the ordinary shares of the operating subsidiaries acquired by the Company.

Reserve arising on Group reconstruction: On demutualisation of SLAC, the value of the demutualisation shares issued was equal to the fair value of the assets and liabilities of the Group. Merger accounting principles were applied to the demutualisation transaction and therefore, all assets and liabilities were transferred at their book value at the time of demutualisation in the consolidated financial statements. The reserve arising on group reconstruction represents the difference between the fair value and book value of the assets and liabilities of the Group at the time of demutualisation of SLAC on 10 July 2006.

Special reserve: On 21 July 2006 the Court of Session confirmed a £500m reduction in the share premium account of the Company. Following the reduction, a special reserve was created for the same amount. The special reserve forms part of the Company's distributable profits for the purpose of Section 263 of the Companies Act 1985.

Of the dividends paid during the year of £257m, £37m (2007: £197m) has been treated as a deduction from the special reserve.

28. Minority interest and third party interest in consolidated funds

The movement in minority interest during the year was:

	2008 £m	2007 £m
At 1 January	391	307
Foreign exchange differences on translating foreign operations	49	15
(Decrease)/increase in net assets attributable to minority interest	(83)	111
Net contributions	-	(40)
Distributions	(23)	(2)
At 31 December	334	391

The movement in third party interest in consolidated funds during the year was:

	2008 £m	2007 £m
At 1 January	1,501	961
Foreign exchange differences on translating foreign operations	107	18
Change in liability for third party interest in consolidated funds	(598)	(78)
Net contributions and movements between classifications of investments	656	638
Distributions	(41)	(38)
Revaluation of property under development	(22)	-
At 31 December	1,603	1,501

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions

Insurance and investment contract liabilities include unitised, non-unitised, conventional and annuity business. Unitised contracts are those where the contractual benefits are determined with reference to units allocated to the contract; non-unitised contracts consist primarily of bonds where the benefits are linked to chosen indices although no units are allocated; annuity contracts are those where regular payments are made depending on the survival of life or lives or for a certain period of time and all other contracts are classed as conventional business.

The following sections give details of these main classes of business for each European long-term business fund – Heritage With Profits Fund (HWPF), Proprietary Business Fund (PBF), the UK Smoothed Managed With Profits Fund (UK SMWPF), the German Smoothed Managed With Profits Fund (G SMWPF), the German With Profits Fund (GWPF), together with the business of The Standard Life Assurance Company of Canada (SLCC).

(a) Heritage With Profits Fund (HWPF)

The business in this fund largely comprises business written by The Standard Life Assurance Company (SLAC) prior to its demutualisation.

(a)(i) UK insurance and investment contract liabilities – terms

This section describes the terms of business held within this fund, including the investment element of those participating contracts written in the PBF for which the HWPF is the appropriate participating fund (e.g. With Profits Bonds and participating pension contracts with a 0% investment guarantee). It also gives details of significant options and guarantees that have the potential to increase the benefits paid to policyholders. Under some options and guarantees the benefits paid depend on the behaviour of financial variables such as interest rates and equity returns. The significant options and guarantees are disclosed below.

Unitised pensions business

This class of business comprises single or regular premium contracts under which a percentage of the premium is used to allocate units in one or more internal linked funds, or on a participating basis. Most of this business is classified as investment contracts although there are some contracts that are classified as insurance, for example those with guaranteed minimum pensions. The major unitised pension products include Individual and Group Personal Pension business, Executive Pensions and Stakeholder.

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions *continued*

(a) Heritage With Profits Fund (HWPF) *continued*

(a)(i) UK Insurance and investment contract liabilities – terms *continued*

Provision for additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts.

Costs are recovered out of policies invested in internal linked funds by use of a fund management charge. Under Stakeholder contracts, this fund management charge has a maximum limit.

The significant options and guarantees under these contracts are the following:

- Participating contracts where, subject to specified conditions, it is guaranteed either that the unit price will rise at an annual rate of at least 4% per year or that the unit price will not fall, and, that there will be no unit price adjustment (UPA) at specified retirement dates or death, and
- Certain participating Trustee Investment Plan contracts where, subject to specified conditions and limits, it is guaranteed that there will be no UPA when units are encashed

Conventional pensions business

Conventional pensions business comprises contracts where a minimum level of benefit is set at the outset and applies at the date(s) specified in the policy, for example pure endowment contracts. Regular bonuses may be added to this initial minimum over the term of the policy and in addition, a final bonus may be paid. These contracts are classified as insurance contracts.

Guaranteed annuity options providing for payment of a minimum annuity, in lieu of a cash sum, are available under pure endowment contracts. Under some of these contracts the guarantee applies only at the maturity date.

Under other contracts, the option also applies for a specified period preceding the maturity date, in which case the sum assured and bonuses are reduced by specified factors and different guaranteed annuity rates apply.

Unitised life business

Unitised life business comprises single or regular premium endowment and whole life contracts under which a percentage of the premium is used to allocate units in one or more internal linked funds or on a participating basis. Some of this business is classified as insurance contracts, for example Homeplan and With Profits Bonds. Others are classified as investment contracts, for example Capital Investment Bonds.

The significant options and guarantees under these contracts are the following:

- Participating contracts where, subject to specified conditions, it is guaranteed on death and maturity either that the unit price will rise at an annual rate of at least 3% a year or that the unit price will not fall, and, that there will be no UPA at maturity, and
- For participating bonds it is guaranteed that no UPA will apply on regular withdrawals up to certain specified limits

The death benefit under regular premium contracts is the greater of the bid value of units allocated and sum assured under the contract. Some contracts also contain critical illness cover providing for payment of a critical illness sum assured on diagnosis of certain defined serious illnesses. Under single premium contracts, the death benefit normally equals 101% or 100.1% of the bid value of units depending on the type of contract and when it is taken out.

Under contracts effected in connection with house purchase the death benefit is guaranteed. Under other contracts, at any time after the first ten years, the Group may review the status of the contract and, if it deems it necessary, the sum assured may be reduced, within the limits permitted.

Under some contracts effected in connection with house purchase, provided the original contract is still in force the following options can normally be exercised at any time before the 55th birthday of the life assured:

- Future insurability option under which a new contract can be effected on then current premium rates, in connection with a further loan, up to the level of life and basic critical illness cover available on the original contract, without any further evidence of health, and
- Term extension option on then current premium rates under which the term of the contract may be extended by a whole number of years if the lender agrees to extend the term of the loan

Non-unitised life business

The non-unitised life business largely comprises single premium policies where the maturity value is linked to increases in the FTSE 100 Index subject to minimum maturity values established when the policies commenced. These bonds are classified as investment contracts.

Conventional life business

Conventional life business consists of single or regular premium endowment, whole life and term assurance contracts where guaranteed benefits are payable on death and under some products on permanent and total disability or on diagnosis of a specified critical illness. These contracts are classified as insurance contracts. Under participating contracts, regular bonuses may be added to the guaranteed sum assured over the term of the policy and in addition, a final bonus may be paid on death and maturity. Certain endowment assurances have minimum surrender value provisions and minimum paid-up values.

Annuities

This class of business consists of single premium contracts that provide guaranteed annuity payments and are classified as insurance contracts. The payments depend on the survival of a life or lives with or without a guaranteed period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in the UK Retail Price Index (RPI). Further details are provided below of those contracts which provide a guaranteed rate of increase and which are valued on the regulatory basis.

For those annuities in payment which increase at a predefined rate the total liability at 31 December 2008 is £2,606m (2007: £3,111m) and this represents about 26% (2007: 27%) of the total UK annuity business held within this fund. These are valued on the regulatory basis with allowance for the predefined rate of increase.

There is a subset of annuities where the RPI-linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall.

The total liability at 31 December 2008 for RPI-linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,891m (2007: £1,885m) and this represents about 19% (2007: 16%) of the total UK annuity business held within this fund. These are valued on the regulatory basis with allowance for a positive rate of RPI escalation.

As shown in the sensitivity analysis for the HWPF (refer to Note 39), there is no impact on shareholder equity for either of the market movements scenarios. As explained in the limitations this is because although shareholders are potentially exposed to the full cost if the assets of the fund are insufficient to meet policyholder obligations, the assumption changes given are not severe enough for such an event to occur.

For some participating deferred annuity policies, at maturity the annuity income can be converted to cash on guaranteed minimum terms.

The Participating Pension Annuity is an annuity contract under which changes to the level of annuity are based on a declared rate of return but reductions in the level of the annuity are limited.

(a)(ii) UK insurance and investment contract liabilities – methods

Calculation of liabilities

The Financial Services Authority's realistic reporting regime seeks to place a realistic and market consistent value on both assets and liabilities for participating insurance and investment contracts. In particular, the liabilities reflect discretionary benefits such as future bonuses as well as both the intrinsic value and the time value of options and guarantees and allow for possible future management actions.

The realistic liabilities are based on the aggregate value of individual policy asset shares that reflect the actual premium, expense and charge history of each policy. The net investment return credited to the asset shares is consistent with the return achieved on the assets notionally backing participating business; any mortality deductions are based on published mortality tables adjusted where necessary for experience variations; for those asset shares on an expense basis the allowance attributed to the asset share is as far as practical the appropriate share of the actual expenses incurred or charged to the HWPF; for those on a charges basis the allowance is consistent with the charges for an equivalent unit linked policy. The calculation of asset shares is described in more detail in the Principles and Practices of Financial Management (PPFM) for the HWPF.

Other components of the realistic liability reflect policy related liabilities such as policy guarantees, options and future bonuses, which are calculated using a stochastic model that simulates future investment returns, asset mix and bonus strategies. The liabilities recorded in the balance sheet are also reduced by an offset in respect of the present value of future profits on non-participating insurance and investment contracts written in the HWPF where these do not form part of the recourse cash flow formula.

The liabilities for non-participating conventional insurance contracts are calculated using the gross premium method. The method brings into account full premiums receivable under the contracts, estimated maintenance costs and contractually guaranteed benefits.

The liabilities for annuity contracts are calculated by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest derived from the yields on the underlying assets.

For contracts with guaranteed insurability options, the calculated liabilities reflect an assumption that the options are foregone by those experiencing the select mortality of newly underwritten lives. For Lifetime Protection Series term assurance business, the liabilities include an allowance for whichever options the policyholder has exercised.

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions continued

(a) Heritage With Profits Fund (HWPF) continued

(a)(ii) UK insurance and investment contract liabilities – assumptions continued

For unithised non-participating insurance contracts and investment contracts the liability is based on the value of the underlying assets supporting the contracts. For non-unithised non-participating investment contracts, the liability is measured at amortised cost using the effective interest rate method. The effective interest rate is that which equates the value of the expected future cash flows over the life of the contract to the original investment value. The estimation of cash flows incorporates all contractual terms relating to the instrument.

Participating contracts allocations

Regular bonuses are declared at the discretion of the Group in accordance with the PPFM of the HWPF and are set at levels which aim to achieve a gradual build-up in guaranteed participating policy benefits whilst not unduly constraining investment freedom and the prospects for final bonuses. In setting these rates, the financial position (both current and projected) of the HWPF is taken into account, were it necessary, regular bonus rates would be set to zero. Regular bonus rates are set for each relevant class of participating policy and/or internal fund and reflect its characteristics, including any guarantees.

For some contracts, final bonuses may also be paid. These bonuses are not guaranteed and can be withdrawn at any time.

Participating contracts payouts

The Group's aim is that, subject to meeting all contractual obligations and maintaining an adequate financial position, payouts on a participating policy (including any final bonus applying) should fairly reflect the experience of the HWPF applicable to such a policy, after any adjustments for smoothing, and any distribution of the residual estate deemed appropriate by SLAL's board.

When setting payout levels, the Group seeks to ensure fair treatment between those participating policyholders who choose to withdraw and those who remain.

Asset shares are used as a tool to determine fair treatment. The calculation of asset shares varies between products, for example calculations can be on the basis of representative policies or on an individual policy basis. The calculation of asset shares is described in more detail in the Group's PPFM for the HWPF.

The methodology and parameters used in payout calculations may, of necessity, involve some measure of approximation. The Group reviews regularly the methodology and parameters used, and sets parameters on bases appropriate for the participating class and/or internal fund concerned.

In normal circumstances the Group seeks to offer some smoothing of investment returns to participating policyholders at the time of claims due to maturity for life policies or for pension policies where the Group has no right to reduce benefits as defined in the relevant contractual terms and conditions. The Group may, at its discretion, also provide some smoothing of investment returns for death claims and some types of withdrawal at the time of payment. The Group aims to operate smoothing of investment returns in such a way as to be neutral for participating policyholders as a whole over time. The Group monitors the anticipated cost of smoothing on a regular basis and, in some circumstances, it may be appropriate to reflect the costs in asset shares and/or adjust the approach to smoothing.

When calculating asset shares, the Group may at its discretion make fair deductions to reflect its assessment of the cost of guarantees. In April 2004 the Group announced that it would take an allowance for the assessed costs of guarantees when determining final bonuses payable on claims, calculating policy switch values and calculating surrender and transfer values. These allowances vary between types of policies, reflecting the nature of the guarantees provided. These allowances are kept under review. A deduction is also taken from participating asset shares, determined on an expense basis, of 0.5% pa as a contribution to the capital of the HWPF.

Mortgage endowment policies

In accordance with the Scheme of Demutualisation (the Scheme) (Schedule 4) eligible policies covered by the Mortgage Endowment Promise may receive 'top up' amounts, as defined in the Scheme.

(a)(iii) UK insurance and investment contract liabilities – assumptions

Most guarantees on participating contracts and future bonuses are valued prospectively using a stochastic model, which generates future investment returns. Within the projections, allowance is made for future bonus reflecting projected investment conditions and the Group's HWPF PPFM. For guarantees on participating contracts not valued using the stochastic model, the liability is calculated by applying the ratio of guarantee costs to the asset share for the product most similar in nature with appropriate adjustments.

The economic assumptions for the calculation of the present value of future profits on non-participating insurance and investment contracts are shown in the table below:

	2008	2007
Risk Discount Rate	4.52%-4.74%	5.05%-5.79%
Investment returns		
Equities	3.52%	4.68%
Property	3.52%	4.68%
FI – annuity/protection	3.74%	4.55%-5.85%
FI – other business	3.52%	4.68%
Expense inflation	2.58%	4.07%

The table above shows the changes in the basis between 2007 and 2008. The risk discount rates are calculated on a market consistent basis and are set equal to the risk free rate plus a margin to allow for the non-market risks inherent in the cash flows being discounted.

The investment returns for 2008 are the risk free rate of returns that are used to value the non-participating business on a market consistent basis.

The non-economic assumptions include expenses, mortality and withdrawals.

The expense and mortality assumptions are best estimate assumptions determined from the Group's recent analyses. They are consistent with the assumptions for non-participating insurance contracts with the explicit margins for prudence removed.

A withdrawal investigation is carried out each year and assumptions are set with reference to recent levels taking into account any trends evident. However, in general the results for participating business are not particularly sensitive to the overall level of withdrawals. For non-participating insurance business appropriate allowances are made for withdrawals on certain term assurance contracts.

For non-participating insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. These assumptions are determined as appropriate estimates at the date of valuation. The basis is considered prudent in each aspect. In particular, options and guarantees have been provided for on prudent bases.

The principal assumptions for the main UK non-participating insurance contracts are as follows:

Valuation interest rates

The valuation interest rates used are determined in accordance with the Financial Services Authority's Integrated Prudential Sourcebook. The process used to determine the valuation interest rates used in the calculation of the liabilities comprises three stages: determining the current yield on the assets held after allowing for risk and tax, hypothecating the assets to various types of policy and determining the discount rates from the hypothecated assets.

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions *continued*

(a) Heritage With Profits Fund (HWPF) *continued*

(a)(iii) UK insurance and investment contract liabilities – assumptions *continued*

For equity assets, the current earnings and dividends are considered and, if necessary, a deduction is made to reflect sustainability. Similarly, a deduction to the yields on property assets is made where necessary, to allow for the possibility of rental defaults. For corporate bonds, a deduction is made for the risk of default. The yield for each category of asset is taken as the average adjusted yield weighted by the market value of each asset in that category. The valuation interest rates used are:

Non-participating	2008	2007
1. Assurances		
Life	3.00%	3.20%
Other	3.85%	4.05%
2. Annuities		
Individual/group		
Non-linked		
Life	4.10%	4.15%
Pensions: reinsured externally	7.20%	N/A
Pensions: not reinsured externally	7.60%	5.20%
Deferred annuities	4.60%	4.30%
Linked to RPI		
Linked to RPI: reinsured externally	1.30%	N/A
Linked to RPI: not reinsured externally	1.60%	1.50%
Deferred annuities linked to RPI	1.30%	1.05%

Mortality rates

The future mortality assumptions are based on historical experience with an allowance for future mortality improvement in annuities. The Group's own mortality experience is regularly assessed and analysed, and the larger industry-wide investigations are also taken into account.

Mortality tables used	2008	2007
1. Assurances		
Assurances (excluding Lifetime Protection Series)	77.1% AMC00	90% AMC00
Lifetime Protection Series	Males: 69.0% TMS00/TMN00 Females: 69.0% TFS00/TFN00	Males: 87.2% TM92 Females: 87.2% TF92
2. Annuities		
Individual and group in deferment	75.6% AMC00	90% AMC00
Individual after vesting	Males: 95.7% RMC00 Females: 104.4% RFC00	Males: 95.7% RMC00 Females: 102.3% RFC00
Group after vesting	Males: 112.5% RMV00 Females: 115.2% WA00	Males: 112.5% RMV00 Females: 116.4% WA00

In the valuation of annuities and deferred annuities issued in the United Kingdom allowance is made for future improvements in the rates of mortality. The improvement factors assumed for males are in line with the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1.5% pa. The improvement factors assumed for females are in line with 75% of the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1% pa and are subject to an additional underpin so that 100% of the CMIR17 improvements apply. For contingent spouses' benefits an assumption is also made with regard to the proportions married, based on the Group's historic experience.

Expenses

The assumptions for future policy expense levels are determined from the Group's recent expense analyses. No allowance has been made for potential expense improvement, and the costs of projects to improve expense efficiency have been ignored. The assumed future expense levels incorporate an annual inflation rate allowance of 2.58% (2007: 4.07%) for UK business derived from the expected RPI implied by current investment yields and an additional allowance for earnings inflation.

For non-participating immediate and deferred annuity contracts and conventional non-participating insurance contracts, an explicit allowance for maintenance expenses is included in the liabilities. An allowance for investment expenses is reflected in the valuation rate of interest.

In calculating the liabilities for unitised regular premium non-participating insurance contracts, the administration expenses are assumed to be identical to the expense charges made against each policy. Similar assumptions are made, where applicable, in respect of mortality, morbidity and the risk benefit charges made to meet such costs.

Republic of Ireland

The contracts issued in the Republic of Ireland have features similar to those in the UK and have similar options and guarantees, including guaranteed sums assured on some conventional life business, no UPA at maturity or on regular withdrawals on some unitised participating contracts and guaranteed annuity options on some pension business.

The liabilities are calculated using a methodology and basis consistent with the UK approach but using assumptions appropriate to the Irish market. The value of options and guarantees on the Irish business are measured using a methodology consistent with the UK with due allowance for any appropriate interactions across the fund as a whole. However, the basis used is appropriate for the Irish market.

Germany

The contracts investing in the HWPF mainly consist of unitised participating endowment assurances and deferred annuities, under which a percentage of each premium is applied to purchase units in the fund. Certain unit prices in the HWPF are guaranteed not to decrease. The death benefit under endowment assurances is the greater of the sum assured on death or 105% of the current surrender value. The death benefit under deferred annuities is the greater of the sum assured on death, 100% of the current surrender value and, for regular premium paying contracts and certain single premium contracts, a refund of premiums.

Provided all premiums have been received to date, the maturity value, and for certain contracts the surrender benefits, are subject to guaranteed minimum amounts (except for the investment linked contract). For some participating unitised policies it is guaranteed that there will be no UPA on claims on or after the surrender option date. Some of these policies guarantee that the premium required for a given level of benefit will not exceed a specified amount. Deferred annuities have a guaranteed annuity at the selected benefit date and the annuity start date. In addition, certain contracts are subject to guaranteed annuity amounts.

The liabilities are calculated using a methodology basis consistent with the UK approach but using assumptions appropriate to the German market. The value of options and guarantees on the German business are measured using a methodology consistent with the UK with due allowance for any appropriate interactions across the fund as a whole. However, the basis used is appropriate for the German market.

(b) Proprietary Business Fund (PBF)

Both non-participating and participating business has been written in this fund, with most business currently being reinsured to Standard Life Investment Funds Limited, with the exception of protection business. For participating contracts written in this fund, the participating investment element is transferred to the appropriate with profits fund. Therefore, all the contract liabilities held in the fund are non-participating.

(b)(i) UK insurance and investment contract liabilities – terms

This section describes the terms of UK business held in this fund. It also gives details on significant guarantees on annuity business that have the potential to increase the benefits paid to policyholders.

Unitised pensions business

This class of business comprises single or regular premium contracts under which a percentage of the premium is used to allocate units in one or more internal linked funds. The major unitised pension products include Individual and Group Personal Pension business, Executive Pensions, Stakeholder and Self Invested Personal Pensions, which are classified as investment contracts.

Provision for additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts.

The costs of policies invested in internal linked funds are recovered by use of a fund management charge. Under Stakeholder contracts, this fund management charge has a maximum limit.

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions continued

(b) Proprietary Business Fund (PBF) continued

(b)(i) UK insurance and investment contract liabilities – terms continued

Unitised life business

Unitised life business mainly comprises single premium whole life contracts under which a percentage of the premium is used to allocate units in one or more internal linked funds. This business comprises principally Capital Investment Bonds, which are classified as investment contracts.

The death benefit normally equals 101% or 100.1% of the bid value of units depending on the type of contract and when it is taken out.

Conventional life business – protection

Conventional life business consists of term assurance contracts where guaranteed benefits are payable on death and under some products on permanent and total disability or on diagnosis of a specified critical illness. These contracts are classified as insurance contracts.

Annuities

This class of business consists of single premium contracts that provide guaranteed annuity payments and are classified as insurance contracts. The payments depend on the survival of a life or lives with or without a guaranteed period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in the UK RPI.

For those annuities in payment which increase at a predefined rate the total liability at 31 December 2008 is £84m (2007: £51m) and this represents about 6% (2007: 6%) of the total UK annuity business held in this fund. These are valued on the regulatory basis with allowance for the predefined rate of increase.

If the market moves in line with the adverse market conditions as shown in Note 39e(iii) – Sensitivity analysis (i.e. change in yields on 15 year gilt fixed interest bonds of -1%), then on a net of reinsurance basis there is no impact on shareholder equity from those annuities with a predefined rate of increase.

There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall.

The total liability at 31 December 2008 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £72m (2007: £46m) and this represents about 5% (2007: 5%) of the total UK annuity business held within this fund. These are valued on the regulatory basis with allowance for a positive rate of RPI escalation.

The RPI annuities are primarily backed by index linked securities and so if the market moves in line with the adverse scenarios as shown in the Sensitivity analysis, then there is no impact on shareholder equity from these annuities on a net of reinsurance basis.

(b)(ii) UK insurance and investment contract liabilities – methods

Calculation of liabilities

For unitised investment contracts the liability is based on the value of the underlying assets supporting the contracts.

The liabilities for conventional life insurance contracts are calculated using the gross premium method. The method brings into account full premiums receivable under the contracts, estimated renewal and maintenance costs and contractually guaranteed benefits, and includes an allowance for any options the policyholder has exercised.

The liabilities for annuity contracts are calculated by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest derived from the yields on the underlying assets.

(b)(iii) UK insurance and investment contract liabilities – assumptions

The principal assumptions for the main UK non-participating insurance contracts are as follows:

Valuation interest rates

The valuation interest rates used are determined in accordance with the Financial Services Authority's Integrated Prudential Sourcebook. The process used to determine the valuation interest rates used in the calculation of the liabilities broadly comprises three stages: determining the current yield on the assets held after allowing for risk and tax, hypothecating the assets to various types of policy and determining the discount rates from the hypothecated assets.

For equity assets, the current earnings and dividends are considered and, if necessary, a deduction is made to reflect sustainability. Similarly, a deduction to the yields on property assets is made, where necessary, to allow for the possibility of rental defaults. For corporate bonds, a deduction is made for the risk of default. The yield for each category of asset is taken as the average adjusted yield weighted by the market value of each asset in that category.

The valuation interest rates used are:

Non-participating	2008	2007
1. Assurances		
Life	2.35%	3.25%
Other	3.00%	4.10%
2. Annuities		
Individual/group		
Life	4.85%	4.40%
Pensions	4.85%	4.40%
Linked to RPI	1.40%	1.10%

Mortality rates

The future mortality assumptions are based on historical experience with an allowance for future mortality improvement in annuities. The Group's own mortality experience is regularly assessed and analysed, and the larger industry-wide investigations are also taken into account.

Mortality tables used	2008	2007
1. Assurances		
Assurances (excluding Lifetime Protection Series)	77.1% AMC00	90% AMC00
Lifetime Protection Series	Males: 69.0% TMS00/TMN00 Females: 69.0% TFS00/TFN00	Males: 87.2% TM92 Females: 87.2% TF92
2. Annuities		
Individual after vesting	Males: 90.9% RMC00 Females: 99.2% RFC00	Males: 95.7% RMC00 Females: 102.3% RFC00
Group after vesting	Males: 106.8% RMV00 Females: 109.4% WA00	Males: 112.5% RMV00 Females: 116.4% WA00

In the valuation of annuities and deferred annuities issued in the United Kingdom allowance is made for future improvements in the rates of mortality. The improvement factors assumed for males are in line with the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1.5% pa. The improvement factors assumed for females are in line with 75% of the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1% pa and are subject to an additional underpin so that 100% of the CMIR17 improvements apply. For contingent spouses' benefits an assumption is also made with regard to the proportions married, based on the Group's historic experience.

Expenses

The assumptions for future policy expense levels are determined from the Group's recent expense analyses. No allowance has been made for potential expense improvement, and the costs of projects to improve expense efficiency have been ignored. The assumed future expense levels incorporate an annual inflation rate allowance of 2.58% (2007: 4.07%) for UK business derived from the expected RPI implied by current investment yields and an additional allowance for earnings inflation.

For non-participating immediate and deferred annuity contracts and conventional non-participating insurance contracts, an explicit allowance for maintenance expenses is included in the liabilities. An allowance for investment expenses is reflected in the valuation rate.

In calculating the liabilities for unitised regular premium non-participating insurance contracts, the administration expenses are assumed to be identical to the expense charges made against each policy. Similar assumptions are made, where applicable, in respect of mortality, morbidity and the risk benefit charges made to meet such costs.

Withdrawals

For non-participating insurance business appropriate allowances are made for withdrawals on certain term assurance contracts.

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions *continued*

(b)(iv) Canadian business – terms, methods and assumptions

The only Canadian business written by the PBF is in respect of stacking policies and structured settlement assignment policies as detailed below:

- The issuing of new stacking business, in conjunction with, and indemnity reinsured with Standard Life Assurance Company of Canada (SLCC)
- Managing the portfolio of stacking business – a second position insurance on accumulation contracts and vested annuities, which had been issued by The Standard Life Assurance Company (SLAC) in conjunction with, and subsequently indemnity reinsured with SLCC, up to the time of demutualisation
- The issuing of structured settlement annuities to SLCC, in the case of third party structured settlement assignment policies issued by SLCC. These annuities are indemnity reinsured with SLCC
- Managing the block of third party structured settlement assignment policies issued between 1 January 2005 and 10 July 2006 by SLAC. In each case, SLAC had purchased an annuity benefit from SLCC to exactly match the liability it had accepted under the assignment, and
- Managing the portfolio of structured settlement annuity contracts which had been issued by SLAC as part of its regular operations until 31 December 2004 at which point this portfolio was totally indemnity reinsured with SLCC

(b)(v) European business – terms, methods and assumptions

Republic of Ireland

The contracts issued in the Republic of Ireland have features similar to those in the UK. The contracts issued are mainly non-participating business. The options and guarantees are similar to those in the UK.

The liabilities are calculated using a methodology and basis consistent with the UK approach but using assumptions appropriate to the Irish market. The value of options and guarantees on the Irish business are measured using a methodology consistent with the UK.

Germany

The German contracts issued in this class mainly consist of unitised participating deferred annuities, which are written in the PBF with the participating element being transferred to the German With Profits Fund or German Smoothed Managed With Profits Fund. Certain unit prices in the German With Profits Fund are guaranteed not to decrease. The unit linked deferred annuity is also in this class. Under this contract a percentage of the premium is used to allocate units in one or more internal linked funds.

The death benefit under all the deferred annuities is the greater of the sum assured on death, 100% of the current surrender value and, for regular premium paying contracts and certain single premium contracts, a refund of premiums.

Provided all premiums have been received to date, the maturity value for certain contracts are subject to guaranteed minimum amounts. In addition, certain contracts are subject to guaranteed annuity amounts.

The liabilities are calculated using a methodology basis consistent with the UK approach but using assumptions appropriate to the market. The value of options and guarantees on the German business are measured using a methodology consistent with the UK.

(c) Other With Profits funds

(c)(i) UK Smoothed Managed With Profits Fund (UK SMWPF) – terms, methods and assumptions

This fund holds the investment element of UK Stakeholder pension contracts written post demutualisation and so the business is classified as investment contracts. The terms of this business and the method used to calculate the liability in respect of this business are described below.

The Group's aim is that, subject to meeting all contractual obligations and maintaining adequate financial strength, payouts on a participating policy (including any final bonus applying) should fairly reflect the experience of the UK SMWPF applicable to such a policy, after any adjustments for smoothing.

When setting payout levels, the Group seeks to ensure fair treatment between those participating policyholders who choose to withdraw and those who remain.

Asset shares are used as a tool to determine fair treatment. The calculation of asset shares is described in more detail in the Principles and Practices of Financial Management for the UK SMWPF.

The methodology and parameters used in payout calculations may, of necessity, involve some measure of approximation. The Group reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the participating class and/or internal fund concerned.

In normal circumstances the Group seeks to offer some smoothing of investment returns on all claims. The Group may, at its discretion, cease smoothing of payouts or differentiate the smoothing approach for different types of claim, if it is appropriate to do so in the interest of policyholders or to protect the fund. The Group aims to operate smoothing of investment returns in such a way as to be neutral for policyholders as a whole over time. Investors in the UK SMWPF do not participate in the profits of the Group.

(c)(ii) German Smoothed Managed With Profits Fund (G SMWPF) – terms, methods and assumptions

The German smoothed managed product is a deferred annuity. A percentage of each premium is applied to allocate units in the G SMWPF. Investors in the G SMWPF do not participate in the profits of the Group. The death benefit is the greater of the sum assured on death, 100% of the current surrender value and a refund of premiums. Neither surrender nor maturity benefits are guaranteed.

The liabilities are calculated using a methodology consistent with the UK approach but using assumptions appropriate to the German market.

(c)(iii) German With Profits Fund (GWPF) – terms, methods and assumptions

The German contracts in this class consist of unitised participating deferred annuities, which are written in the Proprietary Business Fund with the participating element being transferred to the GWPF. Certain unit prices in the GWPF are guaranteed not to decrease. The death benefit under all the deferred annuities is the greater of the sum assured on death, 100% of the current surrender value and, for regular premium paying contracts and certain single premium contracts, a refund of premiums.

Provided all premiums have been received to date, the maturity value for the contracts is subject to guaranteed minimum amounts. In addition, contracts are subject to guaranteed annuity amounts.

The liabilities are calculated using a methodology consistent with the UK approach but using assumptions appropriate to the German market.

The value of options and guarantees on the German business are measured using a methodology consistent with the UK. However, the basis used is appropriate for the German market.

(d) The Standard Life Assurance Company of Canada (SLCC)

(d)(i) Business written in Canada

Annuities

These contracts are similar to those issued in the UK and provide a guaranteed annuity payment based on the survival of a life or for a specified period. The majority of the portfolio are life contingent annuities and are classified as life insurance. However, there are some term certain annuities classified as investment contracts. Most of the annuity portfolio is written on a non-participating basis. The benefits may increase each year at a pre-defined rate or in line with increases in the Canadian Consumer Price Index (CPI) and will not decrease in periods of deflation.

For those annuities which increase at a predefined rate the total liability at 31 December 2008 is £463m and these represent about 12% of the total Canadian annuity business. The liability for annuities linked to CPI is approximately £298m. This represents about 7.6% of the total Canadian annuity business.

The annuity liabilities, including these guarantees, are valued using the Canadian Asset Liability Method. The liability is set as the maximum reserve required under a number of projected economic scenarios including changes in the interest rate environment and inflation rates. For CPI-linked annuities, a 1% increase in the CPI would increase liabilities by £31m. However, inflation risk on these annuities is mitigated by investments in assets linked to inflation.

Universal Life insurance

The main Universal Life product written by the Canadian business is named Perspecta and is a non-participating life insurance product. Perspecta is a whole life assurance contract, under which premiums may be invested on both an index linked and non-linked basis. Premiums invested on a non-linked basis are placed on deposit at rates of interest guaranteed for periods from one day to 20 years. The rate offered is determined with reference to the financial conditions at the time of premium payment. The contract provides life cover, and in addition, on death the value of the index linked funds is guaranteed never to be less than 75% of premiums deposited into those funds, adjusted for expense charges and any withdrawals. The liability for these policies is £851m at 31 December 2008.

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions continued

(d) The Standard Life Assurance Company of Canada (SLCC) continued

(d)(i) Business written in Canada continued

Perspecta contracts issued up to November 2003 provided the following interest rate guarantees:

- 0% for the Daily Interest Fund

For each term investment fund (TIF), the greater of 90% of the Government of Canada Bond rate for the same term, less 1.75%, and:

- 0% for the 1-year TIF
- 1% for the 3-year TIF
- 2% for the 5-year TIF
- 3% for the 10, 15 and 20-year TIF

Furthermore, it was guaranteed that at least one TIF at a minimum guaranteed interest rate of 3% would be offered as long as the policy is in force.

Perspecta contracts issued after November 2003 provide lower interest rate guarantees for terms of at least three years, there is no guarantee that a term with a 3% minimum guaranteed rate will be offered and the TIF investment option can be withdrawn.

In addition, on all Perspecta policies the value of the investment account may increase on guaranteed terms at specified policy anniversaries. The level of increase depends upon various conditions, including when the contract was effected.

Perspecta policyholders have the option to switch into TIFs some or all of their investments in the other investment options and can increase their premiums up to statutory limits. The guarantees that then apply are those set when the contract was effected.

These options and guarantees are valued using a stochastic model that has been approved by the Appointed Actuary in Canada. A reduction of 1% in the yield curve would increase the value of the guarantee by £20m. At 31 December 2008, the liability for all the TIFs (i.e. pre and post November 2003) is £53m.

Accumulation contracts

This category comprises savings products that are classified as non-participating investment contracts. The major individual product is Ideal Solution for Savings and the major group product is SLX. Deposits can be invested on a non-linked basis at a guaranteed interest rate for a given period. New market conditions apply if the plan renews after maturity.

Also included in this category are unit linked products sold on an individual or group basis. The individual product is non-participating and offers a death benefit guarantee of the greater of the fund value and 100% of the net deposits.

Provided that the monies have been invested for a minimum of ten years, the maturity benefit is the greater of the fund value and 75% of deposits at the annuity commencement date less any cash values previously paid out. Otherwise the maturity benefit is the fund value. The cost of the guarantee has been calculated in accordance with local regulations and results in a provision of £6m being required.

The group version of this product differs in that it does not offer a guarantee upon death or maturity.

Registered Retirement Income Fund (RRIF) and Life Income Fund (LIF) products

RRIF and LIF products are non-participating investment account contracts into which single premiums are invested on a linked or non-linked basis. Non-linked premiums are placed on deposit at rates of interest guaranteed for a selected term. The rate offered depends on financial conditions at the time of deposit. Proceeds at the end of a guarantee period may be reinvested at the then current rates. Regular withdrawals are made from the account to provide an income during retirement. The policyholder may vary the amounts withdrawn subject to the regulatory minimum. The unit linked version offers guarantees on death and maturity similar to the individual product described above.

Conventional life business

Conventional life business consists of participating or non-participating single or regular premium endowment, whole life and term assurance contracts where the guaranteed benefit is payable on death. Participating whole life and endowment assurance contracts contain scales of minimum guaranteed surrender values and paid-up policy amounts. Participating whole of life contracts issued prior to 1985 include a guaranteed annuity rate option where the lump sum death benefit can be converted into an annuity on guaranteed terms or retained by SLCC whereupon the value accumulates at an annual interest rate of at least 2.5%. For some participating whole life policies it is guaranteed that the interest on policy loans will not exceed 6%. There are some participating policies where it is guaranteed that the annual interest rate credited will be at least 4%.

(d)(ii) Canadian business – methods

The participating insurance contracts are set aside in a distinct fund from the other non-participating liabilities, with an undertaking on how the earnings of the fund will be distributed and how the participating liabilities will be valued in future. The liability in respect of participating contracts is set equal to the value of the fund, being the best estimate of the amount that will be distributed. This value is of the order of double the value of the liabilities in respect of guaranteed benefits, calculated in accordance with methods prescribed by Canadian regulations. The liabilities in respect of non-participating business are determined in accordance with methods prescribed by Canadian regulations, adjusted where appropriate to comply with UK accounting principles.

Under Canadian regulations, liabilities are determined according to the Canadian Asset Liability Method (CALM). SLCC's assets and liabilities are projected under a number of different economic scenarios. These scenarios include the current yield curve as at the valuation date and a number of various rising and falling interest rate environments. Under each scenario the assets required to support the liabilities are the value of assets which will achieve zero surplus at the end of the projection period. The liability is set equal to greatest value of the required assets.

(d)(iii) Canadian business – assumptions

The Canadian economic environment at 31 December 2008 is used to determine the expected interest rates for the current valuation. The expected experience scenario of risk free rates is derived from the yield curve of Canadian federal bonds at that date, as summarised below:

Yield curve – by duration	2008	2007
6 months	0.85%	3.95%
1 year	0.85%	3.95%
2 years	1.08%	3.77%
3 years	1.19%	3.86%
5 years	1.67%	3.90%
7 years	2.06%	4.00%
10 years	2.65%	4.03%
20 years	3.51%	4.23%
30 years	3.42%	4.23%

The following table shows other key investment returns used in the asset and liability projections under CALM:

Investment returns	2008	2007
Equities	6.85%	6.92%
Property	6.91%	7.06%

These investment returns are net of investment expenses and are prudent assumptions as they include risk margins determined in line with Canadian standards of practice. A further drop in the asset values of 30% for equities and 25% for property is applied, consistent with Canadian standards of practice, to allow for adverse deviations in projecting cash flows arising from capital gains on non-fixed income assets.

29. Insurance contract liabilities, investment contract liabilities and reinsurance assets – terms, methods and assumptions continued

d)(iii) Canadian business – assumptions continued

Mortality assumptions have a significant impact on the liabilities and are shown below:

Mortality tables used	2008	2007
1. Assurances	65%-120% of base table (where base table is 58%-71% of CIA 86-92)	65%-120% of base table (where base table is 66%-79% of CIA 86-92)
Perspecta Universal Life and Term Life		
Participating and non-participating life, closed to new business	58%-82% of CIA 86-92	61%-84% of CIA 86-92
2. Annuities	65%-105% of IAM83M/IAM83F with internally developed projection scale CAN1921-2004 M/F (2009)	69%-111% of IAM83M/IAM83F with internally developed projection scale CAN1921-2004 M/F (2007)
Individual after vesting		
Group after vesting	93%-123% of GAM94M/GAM94F with internally developed projection scale CAN1921-2004 M/F (2009)	93%-129% of GAM94M/GAM94F with internally developed projection scale CAN1921-2004 M/F (2007)

Mortality assumptions are derived from studies performed during 2008, with data to 2007, using a blend of industry and SLCC's experience. The rates are expressed as a percentage per the tables shown. For assurance business the percentages vary depending on the underwriting classification and the duration of the contracts. For annuity business the percentages vary depending on the gender of the annuitant.

Margins for adverse deviation are added and vary depending on the nature of the products and the strength of the underwriting criteria. These margins are consistent with Canadian actuarial standards of practice for use in local regulatory reporting.

(e) Healthcare business – terms, methods and assumptions

The contracts issued by Standard Life Healthcare Limited mainly consist of individual and corporate private medical insurance products that include a range of benefit options. All contracts are written on annual premium income basis. A provision for unearned premiums is calculated on a daily basis as the most accurate method for calculating the proportion of premium accounted for in periods up to the accounting date that is attributable to subsequent periods.

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims, whether reported or not, together with any adjustment to claims from previous years.

Outstanding claims comprise provisions for the claims incurred up to, but not paid at, the balance sheet date, whether reported or not.

Commission payable is deferred on the same basis as unearned premiums.

(f) Reinsurance – terms, methods and assumptions

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements within the Group and externally.

On 14 February 2008 SLAL, a wholly owned subsidiary of the Group reinsured a portfolio of annuity contracts held within HWPF with Canada Life International Re (the reinsurer).

In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium of £6.3bn (referred to as 'the deposit'). Interest is payable on the deposit at a floating rate. In respect of this arrangement SLAL holds a ring fenced pool of assets. The value of these assets is periodically compared to the amount of the required reserves for the reinsured liabilities. Any excess or shortfall in the value of the assets is then paid to or made up by the reinsurer by way of repayment of deposit or the making of a further deposit when required under the reinsurance treaty. The treaty also contains the requirement for the payment or receipt of Premium Adjustments, a term defined in the treaty, to ensure that the investment risk on the ring fenced pool of assets falls on the reinsurer. They are calculated periodically under the treaty as the difference between the value of the ring fenced assets and the deposit amount. If the Premium Adjustment is payable to the reinsurer, the reinsurer is required to deposit a corresponding amount into the deposit. If the Premium Adjustment is payable to SLAL a corresponding amount is repaid from the deposit. A floating charge over the ring fenced pool of assets has been granted to the reinsurer.

'Expenses under arrangements with reinsurers' includes interest on the deposit payable to the reinsurer using the effective interest method, and Premium Adjustments receivable in the period. Accrued interest and accrued Premium Adjustments are presented in 'Deposits received from reinsurers'.

The majority of the remaining business ceded externally is placed on a quota-share basis with retention limits varying by product line and territory.

Amounts recoverable from all reinsurers are estimated in a manner consistent with the methods and assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

30. Insurance contract liabilities, non-participating investment contract liabilities, participating investment contract liabilities and reinsurance assets

	Notes	2008 £m	2007 £m
Non-participating contract liabilities			
Non-participating insurance contracts	30(a)	19,635	20,980
Non-participating investment contracts	30(b)	52,273	58,762
		71,908	79,742
Participating contract liabilities			
Participating insurance contracts	30(a)	17,625	19,446
Participating investment contracts	30(a)	15,674	17,491
Unallocated divisible surplus	32	864	951
		34,163	37,888

Non-participating insurance contracts include £160m (2007: £161m) relating to Standard Life Healthcare and £3m (2007: £3m) relating to general insurance, conventional term assurances (Lifetime Protection Series), life contingent annuities, Perspecta Universal Life in Canada, and a small amount of linked Homeplan business.

The Heritage With Profits Fund (HWPF) was established as part of the demutualisation transaction on 10 July 2006. Under the Scheme of Demutualisation (the Scheme) certain non-participating contracts were transferred to the HWPF. The present value of future profits (PVFP) on these non-participating contracts can be apportioned between the component related to contracts whose future cash flows under the Scheme are expected to be transferred out of the HWPF to equity holders, and the component related to contracts whose future cash flows will remain in the HWPF to be applied either to meet amounts that may be charged to the HWPF under the Scheme or distributed over time as enhancements to final bonuses payable on the remaining policies invested in the fund.

These components are apportioned in arriving at the amount of participating contract liabilities and unallocated divisible surplus as follows:

	2008 £m	2007 £m
Participating contract liabilities before apportionment	32,413	37,117
Apportionment of non-participating PVFP	886	(180)
	33,299	36,937
Participating insurance contracts	17,625	19,446
Participating investment contracts	15,674	17,491
Participating contract liabilities after apportionment	33,299	36,937
Unallocated divisible surplus before apportionment	1,955	2,373
Apportionment of non-participating PVFP	(1,091)	(1,422)
Unallocated divisible surplus after apportionment	864	951

30. Insurance contract liabilities, non-participating investment contract liabilities, participating investment contract liabilities and reinsurance assets *continued*

(a) Insurance contract liabilities, participating investment contracts and reinsurance assets

The movement in insurance contract liabilities, participating investment contracts and reinsurance assets during 2008 was as follows:

	Participating insurance contract liabilities £m	Non- participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurers' share of liabilities (reinsurance asset) £m	Net 2008 £m
At 1 January 2008	19,446	20,980	17,491	57,917	(476)	57,441
Annuity reinsurance impact	49	(1)	64	112	(6,573)	(6,461)
Expected change	(1,078)	(341)	(1,047)	(2,466)	234	(2,232)
Methodology/modelling changes	93	(73)	(117)	(97)	51	(46)
Effect of changes in:						
Economic assumptions	402	(1,357)	455	(500)	757	257
Non-economic assumptions	(61)	8	(9)	(62)	(44)	(106)
Effect of:						
Economic experience	(2,314)	(728)	(1,591)	(4,633)	15	(4,618)
Non-economic experience	33	(308)	149	(126)	2	(124)
New business	45	706	-	751	(1)	750
Total change in contract liabilities	(2,831)	(2,094)	(2,096)	(7,021)	(5,559)	(12,580)
Foreign exchange adjustment	1,010	749	279	2,038	(41)	1,997
At 31 December 2008	17,625	19,635	15,674	52,934	(6,076)	46,858

Following demutualisation it is necessary to recognise within the participating liabilities the residual estate in the HWPF as a liability since this will in due course be distributed to existing HWPF policyholders if it is not otherwise required to meet liabilities chargeable to the HWPF in accordance with the Scheme. The movement for the year therefore includes the movement in the residual estate.

As described in Note 31 Standard Life Assurance Limited (SLAL) entered into a reinsurance arrangement with Canada Life International Re on 14 February 2008 in respect of certain annuity contracts. For the gross participating insurance and investment contract liabilities the impact of the annuity reinsurance transaction shown reflects the change in the residual estate which therefore impacts the value of the planned enhancements (on an FSA realistic basis) included within these liabilities as covered by the Scheme. The increase in the reinsurance asset associated with the transaction represents the increase in the value of the reinsurance assets with external reinsurers due to this new arrangement.

Due to a change in the estimate of the amount required to compensate the HWPF for tax payable on certain income items participating contract liabilities reduced by £75m which is reflected within the change in non-economic assumptions above. There was a related increase of £14m in the tax expense attributable to equity holders' profits.

Non-economic experience changes in the year primarily represents higher than expected claims.

Economic experience changes in the year reflect lower than anticipated investment returns during the year.

	Participating insurance contract liabilities £m	Non- participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurers' share of liabilities (reinsurance asset) £m	Net 2007 £m
At 1 January 2007	20,225	20,202	18,563	58,990	(740)	58,250
Expected change	(480)	(332)	(731)	(1,543)	2	(1,541)
Methodology/modelling changes	(72)	(29)	38	(63)	5	(58)
Effect of changes in:						
Economic assumptions	(60)	(94)	74	(80)	(9)	(89)
Non-economic assumptions	87	(267)	69	(111)	318	207
Effect of:						
Economic experience	(2)	42	(37)	3	(5)	(2)
Non-economic experience	(623)	(290)	(728)	(1,641)	5	(1,636)
New business	60	885	154	1,099	(5)	1,094
Total change in contract liabilities	(1,090)	(85)	(1,161)	(2,336)	311	(2,025)
Foreign exchange adjustment	311	858	89	1,258	(47)	1,211
Change in unearned premium reserve	-	5	-	5	-	5
At 31 December 2007	19,446	20,980	17,491	57,917	(476)	57,441

(b) Non-participating investment contract liabilities

The change in non-participating investment contract liabilities was as follows:

	2008 £m	2007 £m
At 1 January	58,762	50,931
Contributions	10,170	11,517
Initial charges and reduced allocations	(50)	(67)
Account balances paid on surrender and other terminations in the year	(6,584)	(6,685)
Investment return credited and related benefits	(10,907)	2,073
Foreign exchange adjustment	1,314	1,333
Recurring management charges	(333)	(344)
Other	(99)	4
At 31 December	52,273	58,762

Refer to Note 39 – Risk management for an indication of the term to contracted maturity/repricing date for insurance and investment contract liabilities. Reinsurance contracts are generally structured to match liabilities on a class of business basis. This has a mixture of terms. The reinsurance assets are therefore broadly expected to be realised in line with the settlement of liabilities (as per the terms of the particular treaty) within a reinsured class of business.

31. Annuity reinsurance

On 14 February 2008 Standard Life Assurance Limited (SLAL), a wholly owned subsidiary of the Company, reinsured a portfolio of annuity contracts held within its Heritage With Profits Fund (HWPF) with Canada Life International Re (the reinsurer), a reinsurer not related to the Company.

Prior to this SLAL had transferred the longevity risk in respect of these contracts to Standard Life Investment Funds (SLIF), a wholly owned subsidiary of SLAL, by a reinsurance agreement. SLIF had in turn retroceded certain of its obligations under this reinsurance agreement back to SLAL's Proprietary Business Fund (PBF) by a separate reinsurance agreement. On 14 February 2008 SLAL recaptured from SLIF its obligations in respect of the annuity contracts which were then reinsured to the reinsurer. The amount payable by SLIF to the HWPF related to this recapture was determined such that the economic benefits arising from entering into the reinsurance agreement with the reinsurer were shared equally between the HWPF and the Company.

In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium of £6.3bn (referred to as 'the deposit'). Interest is payable on the deposit at a floating rate. The liability to repay the deposit is presented in 'Deposits received from reinsurers'. In respect of this arrangement SLAL holds a ring fenced pool of assets. These assets are presented in the relevant balance sheet line items. The value of these assets is periodically compared to the amount of the required reserves for the reinsured liabilities. Any excess or shortfall in the value of the assets is then paid to or made up by the reinsurer by way of repayment of deposit or the making of a further deposit when required under the reinsurance treaty. The treaty also contains the requirement for the payment or receipt of Premium Adjustments, a term defined in the treaty, to ensure that the investment risk on the ring fenced pool of assets falls on the reinsurer. They are calculated periodically under the treaty as the difference between the value of the ring fenced assets and the deposit amount. If the Premium Adjustment is payable to the reinsurer, the reinsurer is required to deposit a corresponding amount into the deposit. If the Premium Adjustment is payable to SLAL, a corresponding amount is repaid from the deposit. A floating charge over the ring fenced pool of assets has been granted to the reinsurer.

'Expenses under arrangements with reinsurers' includes interest on the deposit payable to the reinsurer using the effective interest method, and Premium Adjustments receivable in the period. Accrued interest and accrued Premium Adjustments are presented in 'Deposits received from reinsurers'.

At 31 December 2008 a reinsurance asset of £5.6bn and a deposit liability of £6.0bn arising from this transaction were recognised.

The impact of this transaction at the transaction date was to increase profit before tax by £105m, being the release of the component of the liability for reinsured contracts held outside the HWPF offset by the payment to the HWPF from SLIF under the recapture arrangements.

32. Movement in components of unallocated divisible surplus (UDS)

The movement in the UDS was as follows:

	2008 £m	2007 £m
At 1 January	951	1,208
Change in UDS recognised in the income statement	(184)	(247)
Change in UDS not recognised in the income statement	236	11
Foreign exchange adjustment	(139)	(21)
At 31 December	864	951

33. Borrowings

	Notes	2008 £m	2007 £m
Certificates of deposit, commercial paper and medium term notes	33(a)	573	1,843
Securitisations – mortgage backed floating rate notes	33(b)	2,411	3,983
Bank overdrafts	23	101	215
Other		142	77
Total borrowings		3,227	6,118

(a) Certificates of deposit, commercial paper and medium term notes

The Group has issued certificates of deposit through its subsidiary Standard Life Bank plc (Standard Life Bank). The Group has also issued commercial paper and medium term notes through Standard Life Funding B.V. a wholly owned subsidiary of Standard Life Bank. Standard Life Bank has guaranteed the liabilities of its subsidiary in relation to the issuance of this debt. The guarantee is in respect of notes issued and is for a maximum of US\$2bn and €4bn in relation to the US commercial paper and Euro commercial paper programmes respectively, and €4bn in respect of the medium term note programme. This guarantee is internal to the Group and is considered a financial guarantee contract under IAS 39 *Financial Instruments: Recognition and Measurement*.

	Average interest rates		Carrying amount	
	2008 %	2007 %	2008 £m	2007 £m
Due within 1 year				
Standard Life Bank certificates of deposit – GBP	4.13%	6.28%	228	989
Standard Life Bank certificates of deposit – EUR	-	4.77%	-	60
Standard Life Funding B.V. commercial paper – GBP	6.20%	6.61%	144	240
Standard Life Funding B.V. commercial paper – USD	-	5.51%	-	139
Standard Life Funding B.V. commercial paper – EUR	5.26%	4.99%	84	313
Standard Life Funding B.V. medium term notes – GBP	-	6.56%	-	9
			456	1,750
Due between 1 and 5 years				
Standard Life Funding B.V. medium term notes – GBP	-	6.38%	-	4
			-	4
Due after 5 years				
Standard Life Funding B.V. medium term notes – EUR	4.10%	5.03%	117	89
			117	89
Total certificate of deposits, commercial paper and medium term notes			573	1,843

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

33. Borrowings continued

(b) Securitisations – mortgage backed floating rate notes

Loans are issued by the Group, which are subject to securitisations (refer to Note 19). Under this arrangement, the beneficial interest in these mortgages is transferred to special purpose entities (SPEs). The issue of mortgage backed floating rate notes by the SPEs funded the purchase of the mortgages.

Although the Group does not directly or indirectly own any of the share capital of the SPEs, the nature of these entities, which are in substance controlled by the Group, means that the Group retains substantially all of the risks and rewards of the securitised mortgages.

The Group is not obliged to support any losses suffered by the note holders and does not intend to provide such support. The notes were issued on the basis that note holders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective SPEs, including funds due from customers in respect of the securitised mortgages, are sufficient and that note holders have no recourse whatsoever to the Group. This has been clearly stated in the legal agreements with note holders.

The mortgage backed floating rate notes at year end are as follows:

	Average interest rates		Carrying amount	
	2008 %	2007 %	2008 £m	2007 £m
Lothian Mortgages No. 1 plc – USD – Maturity 2017	-	5.49%	-	79
Lothian Mortgages No. 1 plc – GBP – Maturity 2035	-	6.85%	-	572
Lothian Mortgages No. 2 plc – GBP – Maturity 2038	-	6.69%	-	202
Lothian Mortgages No. 2 plc – USD – Maturity 2038	-	5.53%	-	34
Lothian Mortgages No. 2 plc – EUR – Maturity 2038	-	5.10%	-	559
Lothian Mortgages No. 3 plc – USD – Maturity 2019	-	5.36%	-	38
Lothian Mortgages No. 3 plc – GBP – Maturity 2039	6.47%	6.71%	730	789
Lothian Mortgages No. 4 plc – EUR – Maturity 2040	5.12%	4.81%	175	263
Lothian Mortgages No. 4 plc – GBP – Maturity 2040	6.25%	6.56%	571	571
Lothian Mortgages Master Issuer plc – USD – Maturity 2028	0.61%	5.05%	59	122
Lothian Mortgages Master Issuer plc – USD – Maturity 2050	3.71%	5.31%	35	25
Lothian Mortgages Master Issuer plc – EUR – Maturity 2050	5.16%	4.85%	460	348
Lothian Mortgages Master Issuer plc – GBP – Maturity 2050	6.25%	6.58%	381	381
Total mortgage backed floating rate notes			2,411	3,983

The difference between the fair value and carrying amount of the mortgage backed floating rate notes is shown in Note 45.

34. Subordinated liabilities

	2008 £m	2007 £m
Subordinated guaranteed bonds:		
6.75% £500,000,000 Fixed rate perpetual	502	502
6.375% €750,000,000 Fixed/floating rate 12 July 2022	741	561
Subordinated guaranteed notes:		
6.14% £265,000,000 Fixed rate perpetual	285	257
Mutual Assurance Capital Securities:		
6.546 % £300,000,000 Fixed rate perpetual	314	314
5.314 % €360,000,000 Fixed/floating rate perpetual	362	274
Total subordinated liabilities	2,204	1,908

The difference between the fair value and carrying value of the subordinated liabilities is shown in Note 45.

Subordinated liabilities are considered current if the contractual repricing or maturity dates are within one year. The principal amount of subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liability of £75m (2007: £66m) is expected to be settled within 12 months.

The classification of amounts due under the subordinated loan arrangements is determined by the interaction of these arrangements with the internal subordinated loan note issued by Standard Life Assurance Limited (SLAL) to the Company, as set out below.

Subordinated guaranteed bonds

The subordinated guaranteed bonds were issued on 12 July 2002. The payment of principal and interest in respect of the bonds has been irrevocably and unconditionally guaranteed by SLAL. The claims of the bondholders to payment under the guarantee will rank below the claims of all senior creditors of SLAL including policyholders. This guarantee is internal to the Group and is considered a financial guarantee contract under IAS 39 *Financial instruments: recognition and measurement*.

The sterling denominated bonds are perpetual securities and as such have no fixed redemption date. However, the bonds are redeemable at par at the option of the Company on 12 July 2027 and on every fifth anniversary thereafter. If the sterling bonds are not redeemed on 12 July 2027, the interest rate payable will be reset to 2.85% over the gross redemption yield on the appropriate five year benchmark gilt on the reset date. The Company can elect to defer the payment of interest on the sterling bonds. Interest will accrue on any interest deferred at the then current rate of interest on the bonds. Any interest deferred becomes immediately due and payable on: the date of declaration or payment of dividends, interest or other payment in respect of any pari passu ranking securities or securities that rank junior to the sterling bonds; or the date any of the securities are purchased by the Company, SLAL or a subsidiary of the Company; the date fixed for any payment under a guarantee that ranks junior to the sterling bonds; the date of any redemption or purchase of sterling bonds, or the commencement of winding up of the Company or SLAL.

The maturity date for the euro denominated bonds is 12 July 2022 and all outstanding obligations under the instruments become immediately due and payable on this date. There are specific conditions surrounding the solvency of SLAL, which allow the repayment of the outstanding obligations to be deferred to the second anniversary of the maturity date. The Company does have the option to redeem at par the bonds on 12 July 2012 and on any interest payment date thereafter until maturity. From 12 July 2012 the euro bonds will bear interest quarterly in arrears at a floating rate determined by the three month euro deposit rate.

Subordinated guaranteed notes

On 29 June 2005, Standard Life Funding B.V. (SLF BV), a wholly owned subsidiary of Standard Life Bank, issued £265m of undated subordinated notes (the subordinated notes). In terms of a Subordinated Deed of Guarantee, Standard Life Bank guarantees the payment of all sums payable by SLF BV under the subordinated notes. The rights and claims of all subordinated note holders are subordinated to the claims of all senior creditors of both SLF BV and Standard Life Bank.

The subordinated notes are perpetual securities and as such have no fixed redemption date. However, the notes are redeemable at par at the option of the issuer on 29 June 2015 but if they are not redeemed on 29 June 2015, then interest rate payable will be reset to 2.80% over the gross redemption yield on the appropriate benchmark gilt on the reset date.

Mutual Assurance Capital Securities (MACS)

The MACS were issued on 4 November 2004. The payment of principal and interest in respect of the MACS is irrevocably and unconditionally guaranteed by SLAL. The claims of the holders of the MACS to payment under the guarantee will rank below the claims of all senior creditors of SLAL including policyholders.

The MACS are perpetual securities and as such have no fixed redemption date.

The sterling denominated MACS started accruing interest from 4 November 2004 and bear interest at a rate of 6.546% per annum payable annually in arrears on 6 January each year, commencing on 6 January 2006. From and including 6 January 2020 and every fifth anniversary thereafter, these MACS will bear interest annually in arrears based on the aggregate of a margin plus the gross redemption yield of the specific gilts.

The euro denominated MACS started accruing interest from 4 November 2004 and bear interest at a rate of 5.314% per annum payable annually in arrears on 6 January, commencing on 6 January 2006. From and including 6 January 2015, these MACS will bear interest quarterly in arrears, commencing 6 April 2015, at a floating rate of interest to be calculated quarterly based on the aggregate of a margin plus the rate for three month euro deposits.

The payment of interest can be deferred at the option of the Company on an interest payment date and is mandatory deferred on any interest payment date on which the Company does not satisfy certain specified solvency conditions. SLAL has corresponding mandatory deferral rights in relation to payments under the guarantee. Any interest deferred becomes immediately due and payable on the date the payment of interest is resumed by the Company or SLAL, the date fixed for the redemption or purchase of MACS by the Company, the commencement of winding up of the Company or the date of any declaration or payment of securities that rank junior to MACS or the date any of these junior securities are purchased by the Company, SLAL or a subsidiary of the Company.

The obligation to pay any deferred interest must be satisfied with cash raised from the issue of ordinary shares or the sale of treasury shares.

34. Subordinated liabilities continued

Internal subordinated loan note

SLAL issued a subordinated loan note to the Company on 10 July 2006. The loan note at all times ranks senior to ordinary share capital and junior to Innovative Tier 1 capital of SLAL. There is no fixed redemption date for the note, but interest payments cannot be deferred and must be paid on the date they become due and payable. The note is ranked junior to the subordinated guarantee bonds and MACS, therefore any interest deferred on the sterling guaranteed bonds or MACS becomes immediately due and payable on the date of interest payment in respect of the note. This removes the discretionary nature of the interest payments on the sterling guaranteed bonds and MACS.

35. Pension and other post retirement benefit provisions

The Group operates defined benefit and defined contribution schemes for staff employed by the Group.

Defined contribution plans

In the UK, since 16 November 2004, new employees have been eligible to join a defined contribution scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. In Canada employees have the option to have their current year of service credited on a defined contribution basis, the contributions under this option are equivalent to the amount that the Group would have otherwise determined using the projected unit credit valuation method under the defined benefit scheme.

Defined benefit plans

The Group operates defined benefit schemes for its employees in Europe and Canada. The plans operating in Europe are within the UK, Ireland and Germany with the scheme in the UK having the largest number of members.

Changes to the UK defined benefit scheme

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

- (i) Maintaining a link to final salary for benefit accrued to 31 December 2007, with future service benefits accruing on a defined contribution basis, or
- (ii) Linking benefits accrued to 31 December 2007 to movements in the Retail Price Index, with future service to be credited on defined benefit basis, as earned and revalued thereafter in line with the same index

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

Contributions to plans

The following table shows the actual contributions made to the plans in 2007 and 2008:

	Defined benefit		Defined contribution	
	2008 £m	2007 £m	2008 £m	2007 £m
United Kingdom – normal funding	34	40	8	5
United Kingdom – additional contributions	20	20	-	-
Canada	3	3	3	2
Ireland	3	1	-	-

Expected contributions to the plans in 2009 are as follows:

	Defined benefit 2009 £m	Defined contribution 2009 £m
United Kingdom – normal funding	36	8
United Kingdom – additional contributions	20	-
Canada	2	4
Ireland	2	-

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

Canada – post-retirement medical benefits

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

	One percentage point increase 2008 £m	One percentage point increase 2007 £m	One percentage point decrease 2008 £m	One percentage point decrease 2007 £m
Effect on the aggregate of the service cost and interest cost	-	1	-	(1)
Effect on defined benefit obligation	2	5	(1)	(4)

(a) Analysis of amounts recognised in the income statement

The amounts recognised in the income statement for defined contribution and defined benefit schemes are as follows:

	Notes	2008 £m	2007 £m
Current service cost		(64)	(57)
Interest cost on benefit obligation		(91)	(76)
Expected return on plan assets		88	91
Past service cost		-	(5)
Expense recognised in the income statement	6	(67)	(47)

Contributions made to defined contribution plans are included within 'Current service cost', with the balance attributed to the Group's defined benefits schemes.

(b) Actuarial gains and losses recognised in the statement of recognised income and expense

The actuarial gains/(losses) recognised in the statement of recognised income and expense is as follows:

	2008 £m	2007 £m
Actual return less expected return on plan assets	107	(25)
Experience gains and losses arising on schemes' liabilities	12	1
Changes in assumptions underlying schemes' liabilities	195	21
Surplus not recognised	(153)	-
Actuarial gains/(losses) in the statement of recognised income and expense	161	(3)

The above surplus has not been recognised as the Group does not consider that it has an unconditional right to a refund. The cumulative amount of actuarial gains recognised in the statement of recognised income and expense since 16 November 2003, the date of adoption of IFRS, is £126m (2007: losses of £35m).

The actuarial gains for the year ended 31 December 2008 of £161m (2007: losses of £3m) were recognised directly in retained earnings (see Note 26).

35. Pension and other post retirement benefit provisions *continued***(c) Analysis of amounts recognised in the balance sheet**

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

	2008				2007			
	United Kingdom £m	Canada £m	Ireland £m	Total £m	United Kingdom £m	Canada £m	Ireland £m	Total £m
Present value of funded obligation	(1,309)	(105)	(62)	(1,476)	(1,375)	(119)	(45)	(1,539)
Present value of unfunded obligations	-	(32)	-	(32)	-	(44)	-	(44)
Fair value of plan assets	1,462	123	44	1,629	1,212	133	39	1,384
Adjustment for unrecognised past service costs	-	(5)	-	(5)	-	-	-	-
Surplus not recognised	(153)	-	-	(153)	-	-	-	-
Net liability on the balance sheet	-	(19)	(18)	(37)	(163)	(30)	(6)	(199)

The Group also recognises a net liability of £5m (2007: £4m) arising from a scheme with a total defined benefit obligation of £5m (2007: £4m) administered for the benefit of employees in Germany giving a net liability on the balance sheet of £42m (2007: £203m).

(d) Defined benefit obligation

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

	2008 £m	2007 £m
At 1 January	1,587	1,491
Foreign exchange differences	30	26
Current service cost	53	50
Interest cost	91	76
Actuarial gains	(207)	(22)
Past service cost	(6)	5
Benefits paid	(35)	(39)
At 31 December	1,513	1,587

The defined benefit obligation is as follows:

	2008 £m	2007 £m
Wholly unfunded	37	48
Wholly funded	1,476	1,539
At 31 December	1,513	1,587

(e) Plan assets

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

	2008 £m	2007 £m
At 1 January	1,384	1,271
Expected return on plan assets	88	91
Actuarial gains/(losses)	107	(25)
Contributions by employer	60	64
Foreign exchange difference on foreign plans	23	22
Benefits paid	(33)	(39)
At 31 December	1,629	1,384

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

	2008				2007			
	United Kingdom £m	Canada £m	Ireland £m	Total £m	United Kingdom £m	Canada £m	Ireland £m	Total £m
Equities	709	56	19	784	779	72	20	871
Bonds – government	85	49	22	156	209	37	17	263
Bonds – corporate	259	4	-	263	10	10	-	20
Property	39	6	1	46	47	12	2	61
Other	370	8	2	380	167	2	-	169
Total	1,462	123	44	1,629	1,212	133	39	1,384

The expected return on plan assets in the UK is set with reference to the scheme's investment guidelines. Derivative instruments are used to modify the profile of the assets of the scheme to better match the scheme's liabilities and to execute specific strategies as defined within the scheme's investment guidelines.

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

	2008			2007		
	United Kingdom %	Canada %	Ireland %	United Kingdom %	Canada %	Ireland %
Expected return on plan assets	6.20	7.00	5.90	6.39	7.00	6.20

The actual return on plan assets during 2008 was £195m (2007: £66m).

35. Pension and other post retirement benefit provisions continued

(f) Principal assumptions

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

	2008			2007		
	United Kingdom %	Canada %	Ireland %	United Kingdom %	Canada %	Ireland %
Rate of increase in salaries*	4.35-5.35 ²	3.50	4.83	4.45-5.45	3.50	4.55
Rate of increase in pensions	3.35	1.33	2.00	3.45	1.33	2.25
Discount rate	6.10	7.25	5.70	5.75	5.50	5.50
Inflation assumption	3.35	2.00	2.00	3.45	2.00	2.25

* The rate of increase in salaries for the UK staff pension scheme is relevant only for service accrued to December 2008 attributed to members who chose option (i).

The valuation of scheme liabilities is sensitive primarily to both the assumed discount and inflation rates and in particular to the difference between these two rates. A reduction of ten basis points in the discount rate used to value the UK scheme would increase the defined benefit obligation by £33m (2007: £38m).

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

			Expectation of life				
			Male, age today		Female, age today		
Table	Improvements	Normal Retirement Age (NRA)	NRA	40	NRA	40	
United Kingdom	PC(M/F)L00	'Double entry' table, CMI cohort projections with underpin	60	27	30	28	30
Canada	UP94 proj to 2015	scale AA	63	21	21	23	23
Ireland	PFA(M/F)92	Projected to 2025	60	25	27	28	30

(g) History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of the defined benefit obligation	1,513	1,587	1,491	1,437	1,207
Fair value of the plan assets	1,629	1,384	1,271	1,051	735
Surplus/(deficit) in the plans	111	(203)	(220)	(386)	(472)
Surplus not recognised	153	-	-	-	-
Experience adjustments on plan liabilities	207	22	19	(115)	(65)
Experience adjustments on plan assets	107	(25)	(31)	137	23

36. Deferred income

	2008 £m	2007 £m
At 1 January	340	257
Additions during the year	100	128
Released to the income statement as fee income	(65)	(47)
Foreign exchange adjustment	7	2
At 31 December	382	340

The amount of deferred income expected to be settled after more than 12 months is £322m (2007: £281m).

37. Customer accounts related to banking activities and deposits by banks

	2008 £m	2007 £m
Current/demand accounts	2,828	2,542
Term deposits	2,172	2,089
Deposits by banks	1,991	1,449
Total customer accounts related to banking activities and deposits by banks	6,991	6,080

On 9 July 2008 Standard Life Bank launched its 5bn Euro covered bond programme with issues of £1.5bn and £0.6bn on 9 July and 26 November 2008 respectively. This programme will provide additional diversity of funding for Standard Life Bank, thereby helping to mitigate liquidity risk going forward. The covered bond issued was retained by Standard Life Bank to be used as collateral in funding operations. To date, £1,257m of funding has been generated by this deal. This has been used primarily to repay maturing funding within the Lothian securitisation programme.

Current/demand accounts are subject to variable interest rates and term deposits are subject to fixed interest rates.

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

The amount of term deposits expected to be settled after more than 12 months is £40m (2007: £63m). All other amounts are expected to be settled within 12 months.

38. Other liabilities

	2008 £m	2007 £m
Contingent commissions	46	37
Amounts payable on direct insurance business	290	356
Amounts payable on reinsurance contracts	19	15
Outstanding purchases of investment securities	92	120
Accruals	262	275
Provisions	22	22
Creation of units awaiting settlement	66	45
Cash collateral held in respect of stock lending requirements	2,928	3,657
Cash collateral held in respect of derivative contracts	718	52
Other	693	521
Total other liabilities	5,136	5,100

Deposits received from reinsurers of £53m as at 31 December 2007 were previously included in other liabilities and are now presented as a separate line in the balance sheet.

Provisions comprise obligations in respect of compensation, litigation, staff entitlements and reorganisations. Additional provisions made during the year were £7m (2007: £10m). £5m (2007: nil) of this additional provision relates to Standard Life Bank's obligation under the Financial Services Compensation Scheme. Refer to Note 41 – Contingencies.

The amount of other liabilities expected to be settled after more than 12 months is £129m (2007: £167m).

39. Risk management

(a) Overview

The Group recognises the need to manage long-term value creation, cash flow and risk in a holistic manner in order to make informed decisions to create and protect value in the Group's activities. The Group is proactive in understanding and managing the risks to its objectives at every level and ensuring that capital is delivered to areas where most value can be created for the risks taken.

The Group has developed and embedded an Enterprise Risk Management Framework (ERM framework) to enable the risks of the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically. The ERM framework is built around a robust governance structure. The 'Three Lines of Defence' are an important part of this structure providing clearly defined roles and responsibilities:

First line:

Day-to-day risk management is delegated from the Board to the Group Chief Executive (GCE) and, through a system of delegated authorities and limits, to business managers.

Second line:

Risk oversight is provided by the Group's Chief Risk Officer (CRO) and established risk management committees which are described below. These management committees are supported by the specialist risk management and compliance functions across the Group.

Third line:

Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Group Audit, Risk and Compliance Committee. This Board committee is supported by the Group Internal Audit function.

During 2008, the Group has further enhanced the ERM framework, addressing and strengthening all the key elements and aligning it with external 'best practice' models. Enhancements in 2008 included the strengthening of the Group Policy Framework which provides a consistent high level approach to managing the key risks faced by the Group, and assists in ensuring that all business units operate effectively, efficiently, and in compliance with all applicable laws and regulations.

The GCE and the Group's senior management are responsible for the implementation of the ERM framework and for ensuring that it is operating effectively across the Group. The Group risk profile is assessed regularly against the Board approved risk appetite, and reviewed by the relevant executives and Group risk committees. Risk appetites and limits are established following due consideration of:

- The nature of current risk exposures in business units
- Gross exposures and concentrations of risk across the Group, and
- The Group's overall corporate strategy

The GCE has established the Enterprise Risk Management Committee (ERMC) to provide him with support in the management of risks across the Group. The ERMC is responsible for overseeing compliance with the Group's ERM Framework and is supported by Group Risk Forums and Group Risk Management. In 2008 the decision was taken to reconstitute the ERMC, which consists of the members of the Group Executive, the Chief Risk Officer, Group Strategy and Corporate Finance Director. The ERMC meets at least monthly, and usually in conjunction with the Group Executive. The ERMC has proven to be a highly effective and responsive executive forum for the management of risk over the course of a particularly challenging year.

The Group's risk profile is assessed regularly and reviewed by the relevant executives and the Group risk management committees.

(b) The Group structure

Significant business units are required to report risk information to the ERMC and CRO in accordance with the Group's policies. The definition of 'business unit' is not constrained by the Group's legal structure and in practice risks are monitored and controlled along the reporting lines that the Group believes are most appropriate given the materiality, purpose and strategic significance of each of its operations.

Furthermore, the Group's structure is such that where an event gives rise to a loss, that loss may not always be fully attributable to equity holders.

This possibility arises in particular in respect of participating business where losses will be attributed to policyholders, or the estate of the relevant funds, where it is permitted and believed reasonable to do so. The various provisions of the Scheme of Demutualisation (the Scheme) must also be taken in to account when considering losses attributable to the Heritage With Profits Fund (HWPF).

Consequently, within this Note, quantitative information has been grouped and summarised to highlight both the degree of risk borne by the Group's principal business units and by policyholders and equity holders. Information is classified as follows:

UK and Europe life and pensions

Subdivided and summarised (where appropriate) to highlight risks borne by each long-term business fund (including the HWPF) and subsidiaries. The effect of risk on the recourse cash flows arising in the HWPF, which are described in Note 1(i), is also highlighted where appropriate.

Canada

Subdivided and summarised to highlight the risks of both the insurance and segregated fund business.

Standard Life Bank

Consists of the activities of Standard Life Bank plc.

Other

Including the activities of Standard Life plc, Standard Life Investments Limited (Standard Life Investments), Standard Life Healthcare and other operations.

Amounts and values are, where appropriate, reconciled to the consolidated balance sheet in Section (j).

(c) Risk identification and assessment

The Group classifies the risks to which it is exposed as follows:

- Demographic and expense risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk

Each of these classifications is defined (in a manner consistent with that used with the ERM framework) and described in the following sections.

Concentrations of risk are monitored using various complementary measures, including the consideration of the impact of risk on European Embedded Value (EEV), profit after tax and underlying cash flows, as well as relevant regulatory assessments.

The sensitivity factors used in the analysis on International Financial Reporting Standards (IFRS) profit after tax and equity in Sections (d) and (e) are consistent with those applied in the EEV Sensitivity analysis, which is shown in Note 15 of the Supplementary financial information.

(d) Demographic and expense risk

The Group defines demographic and expense risk as the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected, which for the purpose of risk management includes liabilities of insurance and investment contracts. This class of risk includes both risks that meet the definition of insurance risk under IFRS 4 *Insurance Contracts* and other financial risks.

Demographic and expense risk is managed by assessing certain characteristics based on experience and statistical data and by making certain assumptions on the risks associated with the policy during the period that it is in-force. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes. In analysing demographic and expense risk exposures, the Group considers:

- The historic experience of relevant demographic and expense risks
- The potential for future experience to differ from that expected or observed historically
- The financial impact of variance in expectations, and
- Other factors relevant to their specific markets, for instance, obligations to treat customers fairly

Reinsurance and other risk transfer mechanisms are used to manage risk exposures and are taken into account in the Group's assessment of demographic and expense risk exposures.

The main elements of demographic and expense risk that give rise to the exposure are discussed in Section (d)(i). Due to the types of products sold by UK and Europe life and pensions and Canadian operations, the Group has exposure to improving annuitant mortality and to unexpected variances in persistency in the respective jurisdictions.

39. Risk management continued

(d)(i) Elements of demographic and expense risk

(d)(i)(i) Components of insurance risk as defined by IFRS 4

Longevity

The Group defines longevity risk as the risk that the policyholder lives longer than expected and therefore gives rise to a loss. This risk is relevant for contracts where payments are made until the death of the policyholder, for example annuities. This may arise from current experience differing from that expected, more volatility of experience than expected, or the rate of improvement in mortality being greater than anticipated.

Experience can vary as a result of statistical uncertainty or as a consequence of systemic (and previously unexpected) changes in the life expectancy of the insured portfolio. The profitability of such business will reduce should policyholders live longer than the Group's expectations and reported profits will be impacted as and when such variances are recognised in liabilities.

Morbidity

The Group defines morbidity risk as the risk that paid claims dependent on the state of health of a policyholder are either higher, more volatile, continue for a longer duration or start earlier than those assumed. This risk will be present on disability income, healthcare and critical illness contracts. This includes the risk of anti-selection that results in a requirement to pay claims that the Group had not expected (for example due to non-disclosure).

Income protection contracts have the risk that claim duration may be longer than anticipated.

Mortality

The Group defines mortality risk as the risk that paid death claims are at a higher rate or are more volatile than assumed. This risk will exist on any contracts where the payment on death is greater than the reserve held. This includes the risk of anti-selection that results in a requirement to pay claims that the Group had not expected (for example due to non-disclosure).

(d)(i)(ii) Other financial risks

Persistency – withdrawals and lapse rates

The Group defines persistency risk as the risk that business lapses or becomes paid-up at a different rate than assumed. This risk may arise if persistency rates are greater or less than assumed or if policyholders selectively lapse when it is beneficial for them. If the benefits payable on lapse or being paid-up are greater than the reserve held then the risk will be of a worsening of persistency and if benefits are paid out that are lower than the reserve then the risk will be that fewer policyholders will lapse or become paid-up.

Persistency risk also reflects the risk of a reduction in expected future profits, and risks arising from early retirements, surrenders (partial or in full) and similar policyholder options.

Variances in persistency will affect equity holder profits to the extent that charges levied against policies are dependent upon the number of policies in force and/or the average size of those policies. The policies primarily relate to unit linked, unitised with profits and the Canadian operations' segregated fund business. Profits may also be at risk if it is considered necessary, or prudent, to increase liabilities on certain lines of business.

Expenses

The Group defines expense risk as the risk that expense levels will be higher than assumed. This can arise from an increase in the unit costs of the Group or its business units or an increase in expense inflation, either Group specific or relating to economic conditions. This risk will be present on contracts where the Group cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.

Equity holder profits are directly exposed to the risk of expenses being higher than otherwise expected. They can further be affected if it is considered necessary or prudent to increase provisions to reflect increased expectations of future costs of policy administration.

(d)(ii) Sensitivity analysis – demographic and expense risk

Recognition of profits after tax and the measurement of equity are dependent on the methodology and key assumptions used to determine the Group's insurance and investment contract liabilities, as described in Note 29.

The following table illustrates the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the Group's most significant demographic and expense risk exposures, including exposure to persistency risk. The values have, in all cases, been determined by varying the relevant assumption as at the balance sheet date and considering the consequential impacts assuming other assumptions remain unchanged.

	Longevity		Expenses		Persistency		Morbidity/mortality	
2008	+5%	-5%	+10%	-10%	+10%	-10%	+5%	-5%
Increase/(decrease) on profit after tax and equity	£m	£m	£m	£m	£m	£m	£m	£m
UK and Europe life and pensions								
Heritage With Profits Fund								
Recourse cash flows	(18)	17	(8)	7	(1)	1	(5)	5
Proprietary Business Fund								
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-
Standard Life Investment Funds								
Non-participating insurance contract liabilities	(60)	57	(1)	1	-	-	-	-
Deferred acquisition costs	-	-	(2)	-	(4)	-	-	-
Canada								
Non-participating insurance contract liabilities	(32)	30	(10)	9	10	(10)	(7)	6
Non-participating investment contract liabilities	-	-	(1)	1	-	-	-	-
Total	(110)	104	(22)	18	5	(9)	(12)	11
2007								
Increase/(decrease) on profit after tax and equity								
UK and Europe life and pensions								
Heritage With Profits Fund								
Recourse cash flows	(15)	15	(13)	11	(1)	1	(4)	4
Proprietary Business Fund								
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-
Standard Life Investment Funds								
Non-participating insurance contract liabilities	(146)	137	(1)	1	-	-	-	-
Canada								
Non-participating insurance contract liabilities	(30)	28	(10)	9	9	(9)	(6)	6
Non-participating investment contract liabilities	-	-	(1)	1	-	-	-	-
Total	(191)	180	(25)	22	8	(8)	(10)	10

1. When the sensitivities presented in the table above are applied to other with profits funds, there are no significant impacts on net liabilities after reinsurance, equity or profits for either investment or insurance contracts.
2. Amounts in the table above are presented net of tax.

39. Risk management continued

(d) Demographic and expense risk continued

(d)(ii) Sensitivity analysis – demographic and expense risk continued

For the HWPF these tables illustrate the impact of demographic and expense risk on the recourse cash flows (the principal means by which surplus arising within the HWPF is transferred to equity holders). The recourse cash flows:

- Have been determined in accordance with the Scheme and the HWPF's Principles and Practices of Financial Management (PPFM), and
- Take into account the need to consider the impact of risk on the financial position of the HWPF before any recourse cash flows can be transferred to the Shareholder Fund of Standard Life Assurance Limited (SLAL)

The terms of the Scheme provide for the retention of recourse cash flows under certain circumstances to support the financial position of the HWPF. The equity holder is also exposed to the market risk that the assets of the HWPF may be insufficient in total to meet obligations. Should such a situation arise, the equity holder would be exposed to the full potential cost of any shortfall. The assumption changes illustrated are not sufficiently severe for such an event to occur.

Standard Life Investment Funds (SLIF) currently bears longevity risk, as a consequence of the reinsurance arrangement that exists between its long-term business fund and the HWPF, where the longevity risk arising on immediate annuity business acquired prior to demutualisation falls on SLIF. However, following a comprehensive review of the options to manage longevity exposure within the annuity book, in the context of the Group's overall risk profile, it was concluded that the best return to equity holders and with profits policyholders would be achieved by reinsuring a major block of the pre-demutualisation business to Canada Life International Re (refer to Section (f) in Note 29). Therefore, on 14 February 2008 SLAL recaptured from SLIF its obligations in respect of these annuity contracts which were then reinsured to Canada Life International Re. The sensitivity of the Group's IFRS profits to longevity risk has been significantly reduced as a result of this transaction. (For more information on this reinsurance transaction refer to Note 31).

SLIF also bears longevity risk in respect of its reinsurance arrangement with the SLAL Proprietary Business Fund (PBF), where all the UK and Irish annuity business written post demutualisation is reinsured to SLIF. Under certain conditions (more severe than those illustrated) part or all of the longevity risk of SLIF would be passed back to the PBF.

The sensitivities shown for Canada reflect the diverse nature of the business. The changes principally reflect currency movements and alterations in business mix.

Limitations

The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those shown in the table. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the balance sheet date. The results of the sensitivity analysis may vary as a consequence of the passage of time or as a consequence of changes in underlying market or financial conditions. The sensitivity analysis in respect of longevity risk has been performed on the relevant annuity business and presents, for a +5% longevity test, the impact of a 5% reduction in the underlying mortality rates (and vice versa). It has also been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rates.

(e) Market risk

The Group defines market risk as the risk that arises from the Group's exposure to market movements which could result in the value of income, or value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.

The Group ensures that risks remain within the approved market risk appetite through the use of a number of specific controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints
- Clearly defined investment benchmarks for policyholder and equity holder funds
- Stochastic and deterministic asset/liability modelling, and
- Active use of derivatives to improve the matching characteristics of assets and liabilities

(e)(i) Elements of market risk

(e)(i)(i) Equity and property risk

The Group is exposed to fluctuations in the equity securities and property markets, changes in the value of its holdings and the return on those holdings. The Group manages its exposure to equity and property risk on a combined basis.

The proper diversification of equity securities and properties is ensured by the specification of portfolio limits by each of the relevant business units. Portfolio holdings for equity securities may be expressed as limits on deviations from benchmarks, stock and sector levels, either in absolute amounts or as tracking errors.

Portfolio limits for property holdings will specify the proportion of the value of the total property portfolio represented by:

- Any one property or group of properties
- Geographic area
- Property type, and
- Development property under construction

Note 45 presents information on the methods used to determine fair values for each major category of financial instrument measured at fair value and for properties.

(e)(i)(ii) Interest rate risk

The Group is exposed to changes in the shape and level of yield curves, changes in correlation of interest rates between different financial instruments (basis risk) and prepayment options embedded in loans and advances to customers.

Insurance and investment contract liabilities exposed to interest rate risk principally comprise participating and non-participating non-unit linked liabilities. Other financial liabilities subject to interest rate risk include customer accounts relating to banking activities, derivative financial instruments, subordinated liabilities and borrowings. The financial assets which are subject to the most significant exposure to interest rate risk include assets backing participating insurance and investment business and loans and advances to customers.

The Group is also exposed to interest rate risk as a result of off balance sheet credit commitments and guarantees as detailed in Note 42. Under such arrangements, the Group is contractually obliged to extend financing facilities to such counterparties at agreed terms and conditions. These commitments are subject to the counterparties continuing to satisfy certain conditions and are normally renewed on an annual basis.

As a result of the diversity of the products offered by the Group and the different regulatory environments in which it operates, the Group employs different methods of asset and liability management across its business units.

(e)(i)(iii) Foreign currency risk

The Group's investments are generally held in the currency of its operational geographical locations, principally to assist with matching of liabilities. However, assets may be held in other currencies, for example, if such investments are considered to be in accordance with the expectations of particular groups of policyholders. The Group may also hold assets in different currencies where doing so would improve the risk profile of the portfolio through diversification.

Standard Life Bank may raise funds in currencies other than sterling and uses derivative instruments to hedge all such currency exposures back into sterling. Financial derivatives may also be employed to manage other currency exposures within the Group.

(e)(i)(iv) Risks associated with derivative financial instruments

Derivative financial instruments are utilised to match contractual liabilities for efficient portfolio management by either reducing investment risk or reducing cost, or for the transfer of risk between business units. The derivative financial instruments that the Group transacts include interest rate swaps, options, equity swaps, futures, foreign exchange forwards and cross-currency swaps, or any contract or asset having the effect of such a derivative. Derivative financial instruments used are listed on a regulated market or are with an approved counterparty. In employing derivatives, the relevant business unit must always have sufficient cash equivalents or underlying assets to cover any potential obligation or exercise right. Further information on derivative financial instruments can be found in Note 20.

(e)(ii) Market risk concentrations

The Group manages market risk concentrations principally by ensuring that exposures are divided among a number of asset classes, instruments and geographies appropriate to the liabilities and objectives of the relevant business unit.

Benchmarks are established for assets held within business units appropriate to the purpose for which those assets are held. Business units are responsible for setting adequately diversified benchmarks with respect to risk appetite, as defined by the Group.

The detail below provides information on the diversity of the Group's investments, including investment securities, investment property, loans and receivables and cash and cash equivalents by asset class as at 31 December 2008 and 31 December 2007. The information shown excludes the financial assets held by third parties which are included in the consolidated balance sheet as a result of the consolidation of investment vehicles the Group controls. The Group is not exposed to market risk on these financial assets since the risk is attributable to the third parties and there is a corresponding liability included in the consolidated balance sheet which represents the interests of the third parties (shown as 'Third party interests in consolidated funds').

Financial assets and investment property of Standard Life Group

	2008 £m	2007 £m
UK and Europe life and pensions	98,975	105,093
Canada	17,104	16,707
Standard Life Bank	11,422	13,206
Other	1,869	1,011
Total	129,370	136,017

39. Risk management continued

(e) Market risk continued

(e)(ii) Market risk concentrations continued

This information has been grouped and summarised to highlight both the degree of risk borne by the Group's principal business units and by policyholders and equity holders. To facilitate this, a further subdivision of the assets of the UK and Europe life and pensions and Canadian operations is shown below.

Financial assets and investment property of UK and Europe life and pensions

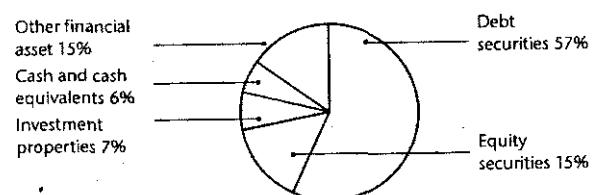
	2008 £m	2007 £m
Heritage With Profits Fund	51,473	51,120
Proprietary Business Fund	450	399
Standard Life Investment Funds	2,191	1,250
Other with profits funds	285	204
Shareholder Fund	2,027	2,300
Unit linked business	42,549	49,820
Total	98,975	105,093

Financial assets and investment property of Canada

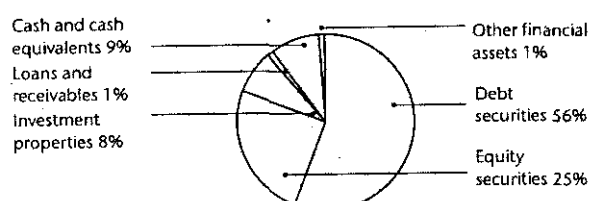
	2008 £m	2007 £m
Non-segregated funds	9,216	8,757
Segregated funds	7,888	7,950
Total	17,104	16,707

UK and Europe life and pensions: Heritage With Profits Fund Financial assets and investment property £51,473m (2007: £51,120m)

Heritage With Profits Fund by asset class 2008



2007



The assets of the Heritage With Profits Fund (HWPF) are principally managed to support the liabilities of the HWPF and are appropriately diversified by both asset class and geography. The above charts for HWPF exclude the assets backing unit linked policies as the market risk on these contracts is borne principally by the policyholder. Refer to Notes 29 and 30 for details of the corresponding non-unit linked liabilities, principally annuity and participating contract liabilities.

As referred to in Section (d)(ii), in 2008 the Group entered into a reinsurance contract with Canada Life International Re to transfer the mortality and market risk of certain annuities from the Group to that organisation (for further detail on this transaction, refer to Note 31 Annuity reinsurance). The assets of the HWPF include £6bn of assets (primarily debt securities) deposited back under the terms of the transaction and £5.4bn of other financial assets representing the value of business reinsured, with corresponding liabilities recognised in respect of each.

The other contractual obligations of the fund were primarily determined at the time of the demutualisation of SLAC, and are principally:

- Conventional and unitised with profit policies, and
- Annuities in payment

The HWPF also recognises liabilities in respect of a number of other less material contract types, and some new business, which is mostly incremental, continues to accrue.

The key considerations in asset and liability management of the HWPF are:

- The economic liability and how this varies with market conditions
- That assets supporting participating business are invested in a manner consistent with the participating policyholders' expectations and the HWPF's PPFM, and
- The need to ensure that regulatory reserving and capital requirements are met

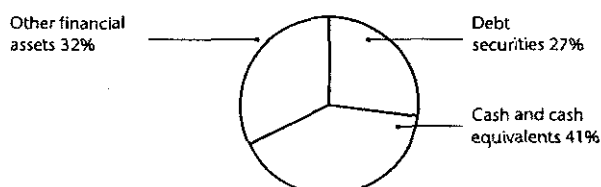
In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

Equity holders receive recourse cash flows and certain other defined payments in accordance with the Scheme and other relevant agreements. The recourse cash flows calculations are based on several different components of which some are sensitive to market movements. Investment returns are specifically excluded from the calculations and are borne by the HWPF, and will ultimately impact the returns to the HWPF participating policyholders. The equity holders' principal exposure arises in respect of unitised business where fluctuations in income from charges, calculated by reference to the market value of relevant funds, may be experienced.

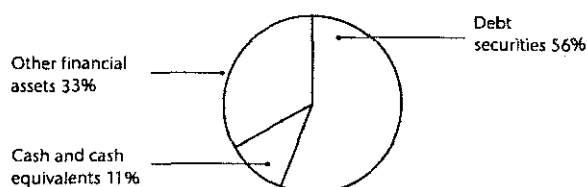
The terms of the Scheme provide for the retention of recourse cash flows under certain circumstances to support the financial position of the HWPF. The equity holder is also exposed to the market risk that the assets of the fund may be insufficient in total to meet obligations and the equity holders would be exposed to the full potential cost of any shortfall should such a situation arise.

UK and Europe life and pensions: Standard Life Assurance Limited Shareholder Fund Financial assets and investment property £2,027m (2007: £2,300m)

Shareholder Fund by asset class 2008



2007



As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.

The equity holder is fully exposed to market risk of the assets held within the Standard Life Assurance Limited (SLAL) Shareholder Fund.

Cash is held by the Shareholder Fund to support the normal business activity of SLAL, including the provision of capital to the SLAL Proprietary Business Fund (PBF), a long-term business fund, and subsidiaries of SLAL.

A diversified range of debt securities and other financial instruments is held within the Shareholder Fund to support SLAL's subordinated liabilities. Although assets are invested to match the subordinated liabilities, and derivative instruments are used to improve matching characteristics, accounting volatility arises as a consequence of the liability being held at amortised cost.

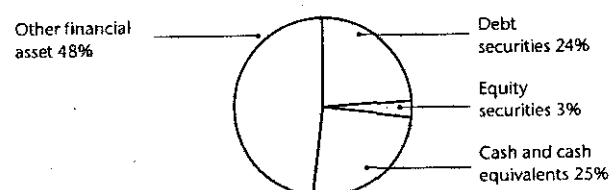
39. Risk management continued

(e) Market risk continued

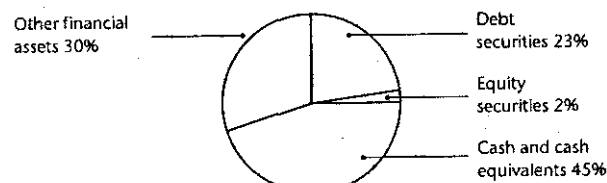
(e)(ii) Market risk concentration continued

UK and Europe life and pensions: Standard Life Assurance Limited Proprietary Business Fund Financial assets and investment property £450m (2007: £399m)

Proprietary Business Fund by asset class 2008



2007

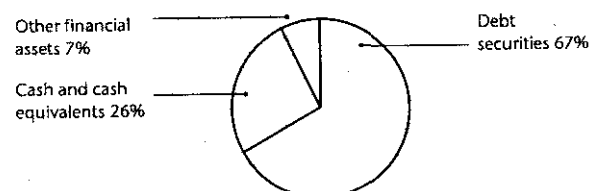


As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.

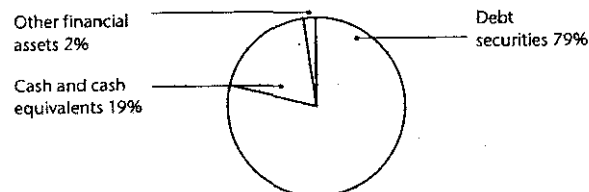
If adverse market fluctuations are such that they result in insufficient assets being available within the PBF to meet contractual obligations, equity holders may be exposed to the full extent of the shortfall. The assets of this fund are primarily held to support the normal business activities of the fund including the establishment of reserves and provisions for business written directly by the fund and not reinsured.

UK and Europe life and pensions: Standard Life Investment Funds Financial assets and investment property £2,191m (2007: £1,250m)

Standard Life Investment Funds by asset class 2008



2007

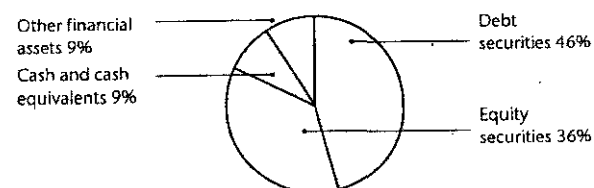


The increase in financial assets compared to the prior year is primarily attributable to the ongoing expansion of annuity business in SLIF. The asset distribution reflects the benchmark for assets held to match annuitant and other liabilities of SLIF as well as its surplus assets.

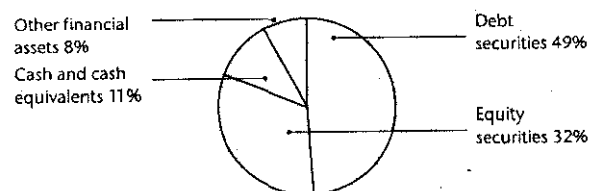
Equity holders are exposed to market risk in a similar way to their exposure in the SLAL PBF, that is, if market fluctuations result in insufficient assets being available to meet obligations, capital support would be sought from SLAL and subsequently from equity holders if required. The assets of Standard Life Investment Funds (SLIF) are primarily held for the purposes of supporting the normal business activities of the fund, including the establishment of reserves for obligations accepted under reinsurance (as SLIF does not write any direct business) and to satisfy capital requirements.

UK and Europe life and pensions: Other with profits funds Financial assets and investment property £285m (2007: £204m)

Other with profits funds by asset class 2008



2007



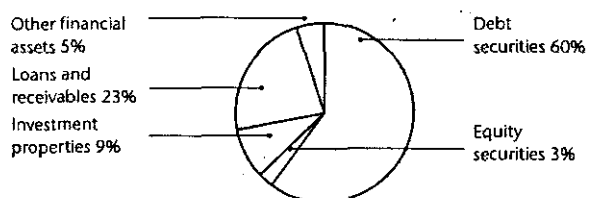
Following the demutualisation of SLAC, new participating business is written in the PBF, with the exception of certain increments on contracts in-force prior to demutualisation, which are written in the HWPF. For the new participating business written in the PBF, the investment element is passed to the appropriate with profits fund, for example for new members of certain group schemes the investment element is passed to HWPF and for other new business the investment element is passed to the appropriate long-term business funds established specifically for that purpose. Two of these with profits funds have been established to accept business written principally through the German branch of SLAL, the other accepts business written in the UK. Over 80% of the assets shown are attributable to German branch business.

Equity holders are exposed to the market risk that the assets of the with profit funds may be insufficient to meet the obligations of the funds and the equity holders would be exposed to the full potential cost of any shortfall should such a situation arise.

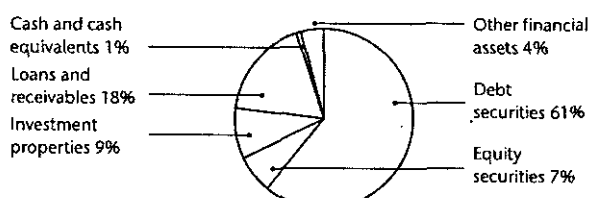
Canada: Non-segregated funds

Financial assets and investment property £9,216m (2007: £8,757m)

Non-segregated funds by asset class 2008



2007



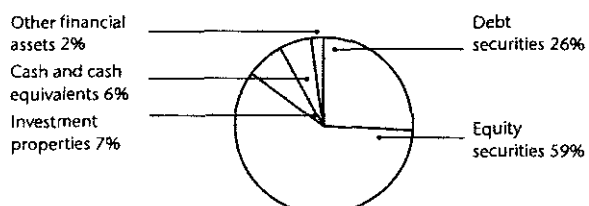
Equity holders are exposed to market risks from Canada – non-segregated fund business including losses from mismatches between financial assets and liabilities.

Group wide: Unit linked and segregated funds

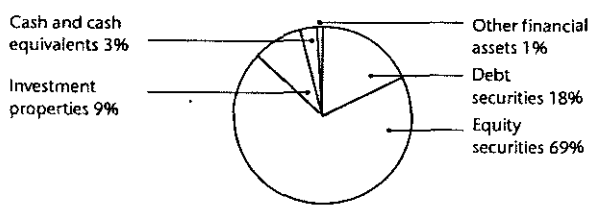
Financial assets and investment property £50,437m (2007: £57,770m)

Segregated fund and unit linked assets are largely managed in accordance with the mandates of particular funds, and losses occurring as a result of market risk are normally attributed to those funds. The exposure of equity holders to market risk is predominantly limited to variations in charges arising as a consequence of changes in the value of assets under management.

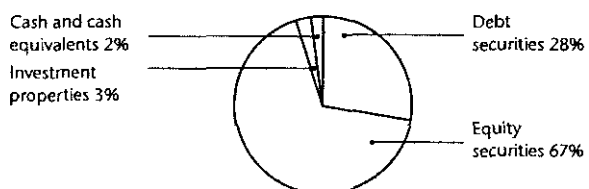
Unit linked business by asset class 2008



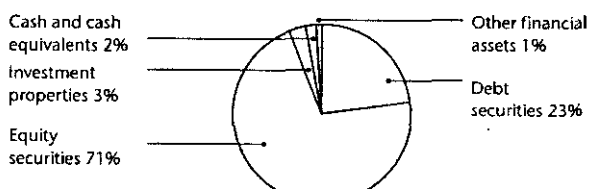
2007



Segregated funds by asset class 2008



2007



Equity holders also have exposure to variations in costs of meeting guarantees to policyholders, and changes in fund charges, made in respect of certain contracts, which may arise as a consequence of changes in the value of underlying assets.

39. Risk management continued

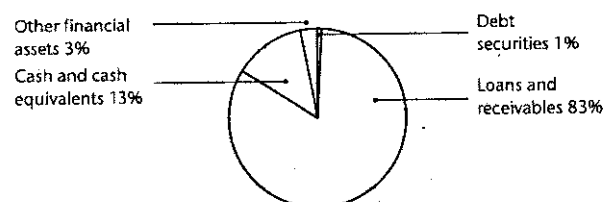
(e) Market risk continued

(e)(ii) Market risk concentration continued

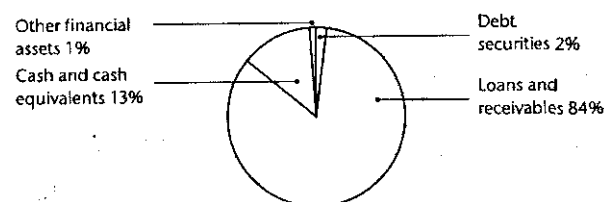
Standard Life Bank

Financial assets £11,422m (2007: £13,206m)

Standard Life Bank by asset class 2008



2007



The primary exposure to market risk within Standard Life Bank arises as a consequence of mortgage and savings products issued by Standard Life Bank with either fixed interest rates or variable rates linked or related to Bank of England base rate, funded with London Inter Bank Offer Rate (LIBOR) related liabilities.

The reduction in financial assets primarily reflects the measures that Standard Life Bank has established with the aim of managing mortgage exposures in the light of market conditions.

Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the shape of yield curves, by changes in correlation of interest rates between different financial instruments (basis risk) and by prepayment options embedded in loans and advances to customers.

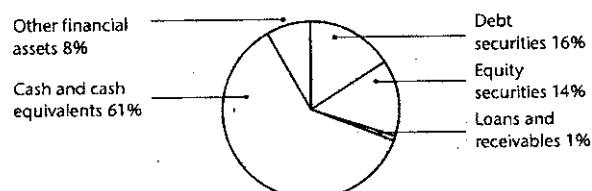
Standard Life Bank uses interest rate sensitivity analysis and interest rate gap analysis to monitor and control interest rate risk. Interest rate sensitivity analysis assesses the impact on estimated asset/liability market values and earnings under a range of deterministic shocks to the interest rate curve. Dedicated quantitative risk management models and software are used to implement these measures for internal management purposes. Interest rate gap analysis assesses the difference in carrying value between assets and liabilities repricing in various gap periods. Part of the Group's return on financial instruments is obtained from the controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities next reset to market rates. Each of these measures is reviewed on a monthly basis.

Other business units

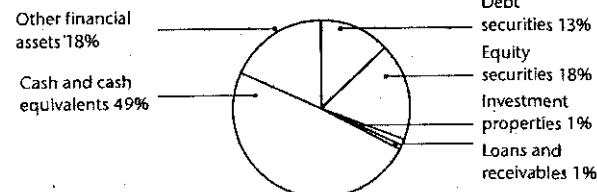
Financial assets and investment property £1,869m (2007: £1,011m)

The financial assets of 'Other' business units comprise primarily those held to support the liabilities, capital requirements and strategic activities of Standard Life Investments and Standard Life Healthcare, as well as other investments of the Group.

Other by asset class 2008



2007



The increase in financial assets held by 'Other' business units primarily reflects policyholder deposits of customers of Standard Life International Limited.

(e)(iii) Sensitivity analysis – market risk

The Group's profit after tax and equity are sensitive to variations in respect of the Group's most significant market risk exposures. The sensitivity analysis in respect of each of the business units is shown in the table on the following page. The analysis has been performed by calculating the sensitivity of profit after tax and equity to changes in equity security and property prices and to changes in interest rates as at the balance sheet date. For each sensitivity 'test', the impact of a reasonably possible change in a single sensitivity factor is shown, while the other sensitivity factors remain unchanged.

Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

Changes in equity security and property prices and/or fluctuations in interest rates will affect non-participating unit linked liabilities and the associated assets by the same amount. Therefore, whilst the profit impact on unit linked and segregated fund business has been included in the sensitivity analysis, the change in unit linked liabilities and the corresponding asset movement has not been shown.

Earnings over a period may be reduced as a consequence of the impact of market movements on charges levied on these contracts. For example, if the tests had been applied as at 1 January, the profit during the year would have varied due to the different level of funds under management. In illustrating the impact of equity/property risk the assumption has been made, where relevant, that expectations of corporate earnings and rents remain unchanged and thus yields rise accordingly. The sensitivities take into account the likely impact on individual Group companies of local regulatory standards under such a scenario.

The recourse cash flows have been determined in accordance with the Scheme and the Heritage With Profits Fund (HWPF) PPFM and consider the extent to which equity holders participate in the investment returns and surpluses of the HWPF. The Scheme, and in particular the Capital Support Mechanism, requires the financial state of the HWPF to be considered before recourse cash flows are transferred to the Shareholder Fund and, under certain circumstances, the payment of recourse cash flow can be withheld to support the financial strength of the HWPF. Therefore, the HWPF has been treated as a whole for the purpose of this sensitivity analysis.

The analysis does not show the effect of the sensitivity factors on the third party assets and liabilities held by third parties and the liability for 'Third party interests in consolidated funds' since the total net impact on profits after tax and equity will be nil.

39. Risk management continued**(e) Market risk continued****(e)(iii) Sensitivity analysis – market risk continued**

	Equity/property				Interest			
	+10%		-10%		+1%		-1%	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Increase/(decrease) in profit after tax								
UK and Europe life and pensions								
Heritage With Profits Fund:								
Recourse cash flow	-	-	-	-	-	-	-	-
Proprietary Business Fund:								
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-
Assets backing	-	-	-	-	(6)	(1)	7	1
Standard Life Investment Funds:								
Non-participating insurance contract liabilities	-	-	-	-	61	47	(93)	(149)
Deferred acquisition costs	-	-	(7)	-	-	-	-	-
Financial assets	-	-	-	-	(120)	(87)	148	148
	-	-	(7)	-	(59)	(40)	55	(1)
Shareholder Fund:								
Financial assets	-	-	-	-	(91)	(125)	87	109
	-	-	-	-	(91)	(125)	87	109
Canada								
Non-participating insurance contract liabilities	36	9	(39)	(11)	200	234	(284)	(245)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-
Participating insurance contract liabilities	(14)	(14)	14	14	20	12	(24)	(12)
Assets backing – participating insurance	14	14	(14)	(14)	(20)	(12)	24	12
Assets backing – non-participating insurance	42	36	(42)	(36)	(175)	(208)	212	207
Assets backing – non-participating investment	-	-	-	-	(70)	(73)	84	73
Other assets and liabilities	23	20	(23)	(20)	(31)	(29)	38	29
	101	65	(104)	(67)	(76)	(76)	50	64
Standard Life Bank								
Customer accounts relating to banking activities and deposits by banks	-	-	-	-	(44)	(39)	44	39
Borrowings	-	-	-	-	(14)	(31)	14	30
Subordinated liabilities	-	-	-	-	(2)	(2)	2	2
Loans and receivables	-	-	-	-	68	70	(68)	(69)
Investments securities	-	-	-	-	5	1	(5)	(1)
Derivative financial instruments	-	-	-	-	32	18	(33)	(19)
Other assets	-	-	-	-	-	3	-	(3)
	-	-	-	-	45	20	(46)	(21)
Other								
Other assets and liabilities	7	1	(7)	(1)	-	4	-	(4)
	7	1	(7)	(1)	-	4	-	(4)
Total	108	66	(118)	(68)	(187)	(218)	153	148

1. When the sensitivities presented in the table above are applied to other with profits funds, there are no significant impacts on net liabilities after reinsurance, equity or profits for either investment or insurance contracts.

2. The amounts in the table above are presented net of tax.

3. A positive number represents a credit to the income statement.

A movement in equity security and property prices of +20%/-20% as at 31 December 2008 would have an impact on profit after tax for Canada, as follows:

- Non-participating insurance contract liabilities +£75m/-£82m
- Participating insurance contract liabilities -£29m/+£29m
- Assets backing participating insurance contract liabilities +£29m/-£29m
- Assets backing non-participating insurance contract liabilities +£85m/-£85m, and
- Other assets and liabilities +£46m/-£46m

A movement in equity security and property prices of -20% as at 31 December 2008 would have an impact of -£15m on profit after tax in respect of deferred acquisition costs of SLIF within UK and Europe life and pensions. A movement in equity/property prices of +20%/-20% as at 31 December 2008 would have an impact on profit after tax for other assets and liabilities within the 'Other' business units of +£13m/-£13m respectively. A movement in equity/property prices of +20%/-20% as at 31 December 2008 would have no other impact on profit after tax for UK and Europe life and pensions or the 'Other' business units, or any impact for Standard Life Bank.

The impact on total equity is equal to that in the table above in respect of each of the scenarios shown, with the exception of the impact presented for Standard Life Bank. The cash flow hedging performed by Standard Life Bank results in an additional impact of +£9m and -£9m (2007: +£13m and -£13m) on equity, to that shown above, given a movement in interest rates of +1% and -1% respectively.

As at 31 December 2008, a movement in credit spreads of 50 basis points would result in a reduction to net profit after tax loss of £108m of which £64m arises as a consequence of an accounting mismatch which would be excluded from underlying profit. A further reduction of net profit after tax of £14m would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

Limitations

The sensitivity analysis is non-linear and larger or smaller impacts should not be derived from these results. The sensitivity analysis represents the impact on profits at the year end that the changes in market conditions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed. The results of the sensitivity analysis may also have been different from those illustrated had the sensitivity factors been applied at a date other than the balance sheet date.

For Canada's non-participating investment business the liability does not change in the circumstances considered, as it is measured on an amortised cost basis. Given that the backing assets are measured at FVTPL, their value is sensitive to the circumstances considered. The risk shown for Canada is largely due to a mismatch between these measurement bases.

For Canada's non-participating insurance contract liabilities, the Canadian Asset Liability Method seeks to find asset cash flows that match the expected future liability cash flows. The value placed on the actuarial liabilities is the value of the assets that provide the matching cash flows. The Appointed Actuary's assumption for future cash flows from equity securities and property is not based on current dividend or rental yields, but is a long-term assumption based on historic average yields. In the event of a one-off fall in equity security and property values, the Appointed Actuary would not necessarily increase the assumed yields, and the assumed future cash flows from these assets would fall. Therefore additional assets would be required to cover the expected future liability cash flows.

For the with profits funds, and in particular the HWPF, the risk to equity holders is that the assets of the fund are insufficient to meet the obligations to policyholders. For the HWPF, whilst equity holders are only entitled to the recourse cash flows in respect of this business, there can be potential exposure to the full cost if the assets of the fund are insufficient to meet policyholder obligations. The factors used in the sensitivity analysis presented in the table are not sufficiently severe for such an event to occur.

When assessing the impact of the sensitivity tests on the recourse cash flows, and in particular the risk that the assets of the HWPF may be insufficient to meet the obligations to policyholders, dynamic management actions have been assumed in a manner consistent with the relevant PPFM.

(f) Credit risk

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

39. Risk management continued

(f) Credit risk continued

The Group's credit risk exposure mainly arises from its investments in the following financial instruments:

- Cash and cash equivalents
- Derivative financial assets
- Debt securities
- Loans and receivables
- Reinsurance assets
- Other financial instruments and liabilities

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

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum exposure limits are set with reference to credit ratings issued by Standard & Poor's and Moody's.
Derivative financial assets	Maximum exposure limits, net of collateral, are set with reference to long-term credit ratings issued by Standard & Poor's and Moody's. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of margin deposits are also set by reference to the counterparty's rating. Refer to (f)(iii) for further details on collateral.
Debt securities	Limits are set on the proportion of the total portfolio of debt securities which may be placed with counterparties rated below certain credit rating levels.
Loans and receivables	Portfolio limits are set by individual business units. These limits specify the proportion of the value of the total portfolio of mortgage loans and mortgage bonds that are represented by a single, or group of related counterparties, geographic area, employment status or economic sector, risk rating and loan to value percentage.
Reinsurance assets	The Group's policy is to place reinsurance only with highly rated counterparties. The policy restricts the Group from assuming concentrations of risk with few individual reinsurers by specifying certain limits on ceding and the minimum conditions for acceptance and retention of reinsurers.
Other financial instruments and liabilities	Appropriate limits are set for other financial instruments and liabilities to which the Group may have exposure at certain times, for example, commission terms paid to intermediaries.

As a result of the policy outlined above, at 31 December 2008 credit exposure is primarily concentrated in UK and Canadian Government Securities, supnationals and appropriately rated counterparties.

Financial assets held by custodians are properly segregated from the proprietary assets of the custodian and are free of the entitlements of creditors of the custodian in accordance with market conventions.

(f)(i) Credit exposure of financial assets that are neither past due nor impaired

The following tables provide information by business area regarding the quality of financial assets exposed to credit risk that are neither past due nor impaired at the balance sheet date, by classifying those financial assets according to Standard & Poor's credit ratings of the counterparties. The analysis also provides information on the concentration of credit risk.

AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB are classified as below BBB. Issues that are not rated by Standard & Poor's, and are rated by another agency, are categorised on a basis consistent with the Standard & Poor's rating. If a financial asset is not rated by an external agency or 'internally rated', it is classified as not rated. Financial assets classified as 'internally rated' are those which are assigned an internal performance risk grade under the internal rating system adopted by the Group. For example, in respect of loans and advances, the risk grade is based on credit score and other related factors.

For reinsurance assets, where the counterparty is part of a group and a rating only exists for the parent of the group, the rating of the parent company has been used.

The total amounts in the tables below represent the Group's maximum exposure to credit risk at the year end without taking into account any collateral held.

UK and Europe life and pensions: Heritage With Profits Fund
Total credit exposure £40.4bn (2007: £33.8bn)

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated		Internally rated		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Debt securities	21,845	22,247	1,826	1,666	3,337	3,013	817	1,002	176	149	790	515	336	60	29,127	28,652
Loans and receivables	-	-	-	-	-	-	-	-	-	-	32	42	218	253	250	295
Cash and cash equivalents	362	313	2,001	3,030	737	1,184	42	-	-	-	6	-	-	-	3,148	4,527
Derivative financial assets	9	-	551	227	632	18	-	-	-	-	451	12	-	-	1,643	257
Reinsurance assets	93	112	5,632	77	-	-	-	-	-	-	-	-	7	13	5,732	202
Other assets ¹	-	1	-	-	-	-	-	-	-	-	455	(135)	-	-	455	(134)
	22,309	22,673	10,010	5,000	4,706	4,215	859	1,002	176	149	1,734	434	561	326	40,355	33,799

¹ As a result of the split presentation of UK and Europe life and pensions, other assets include 'intra-fund' balances. These amounts are not rated. Included within assets at 31 December 2008 are amounts which are due to the Shareholder Fund in respect of recourse cash flows.

The equity holders' exposure to credit risk arising from investments held in the Heritage With Profits Fund (HWPF) is similar in principle to that described for market risk exposures in Section (e).

The financial assets of the HWPF include £6bn of assets (primarily debt securities) deposited back under the terms of the external annuity reinsurance transaction noted previously (Section d(ii)), the transaction having been structured in this manner specifically to mitigate credit risks associated with reinsurer default credit losses and defaults within the portfolio of assets are borne by the external reinsurer.

UK and Europe life and pensions: Standard Life Assurance Limited – Proprietary Business Fund
Total credit exposure £0.4bn (2007: £0.4bn)

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated		Internally rated		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Debt securities	102	91	1	-	2	-	-	-	1	-	-	-	-	-	106	91
Cash and cash equivalents	8	58	59	113	44	10	-	-	-	-	-	-	-	-	111	181
Derivative financial assets	-	-	-	-	3	-	-	-	-	-	-	-	-	-	3	-
Reinsurance assets	1	4	-	1	-	-	-	7	-	-	-	-	3	3	4	15
Other assets	-	-	-	-	-	-	-	-	-	-	198	90	-	-	198	90
	111	153	60	114	49	10	-	7	1	-	198	90	3	3	422	377

The equity holder is exposed to credit risk of the assets held within the Proprietary Business Fund (PBF) in a similar manner to that for market risk, as described in Section (e).

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39. Risk management continued**(f) Credit risk continued****(f)(i) Credit exposure of financial assets that are neither past due nor impaired continued****UK and Europe life and pensions: Standard Life Investment Funds****Total credit exposure £2.2bn (2007: £1.2bn)**

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	823	516	145	100	331	245	114	76	20	10	30	35	-	-	1,463	982
Cash and cash equivalents	108	15	299	197	170	23	-	-	-	-	-	-	-	-	577	235
Derivative financial assets	-	-	36	5	60	1	-	-	-	-	-	-	-	-	96	6
Other assets	-	-	-	-	-	-	-	-	-	-	51	24	-	-	51	24
	931	531	480	302	561	269	114	76	20	10	81	59	-	-	2,187	1,247

The equity holder is exposed to credit risk of the assets held within Standard Life Investment Funds in a similar manner to that for market risk, as described in Section (e).

UK and Europe life and pensions: Other with profits funds**Total credit exposure £0.2bn (2007: £0.1bn)**

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	86	91	12	1	26	4	1	-	2	1	3	3	-	-	130	100
Cash and cash equivalents	9	1	14	16	2	6	-	-	-	-	-	-	-	-	25	23
Derivative financial assets	-	-	9	-	5	-	-	-	-	-	-	-	-	-	14	-
Other assets	-	-	-	-	-	-	-	-	-	-	13	17	-	-	13	17
	95	92	35	17	33	10	1	-	2	1	16	20	-	-	182	140

The equity holder is exposed to the credit risk of the assets held within the other with profits funds in a similar manner to market risk, as described in Section (e).

UK and Europe life and pensions: Standard Life Assurance Limited – Shareholder Fund.
Total credit exposure £2.0bn (2007: £2.3bn)

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	353	161	37	201	89	579	42	270	14	23	-	38	-	-	535	1,272
Cash and cash equivalents	98	15	711	244	26	-	-	-	-	-	-	-	-	-	835	259
Derivative financial assets	-	-	342	79	44	-	-	-	-	-	-	-	-	-	386	79
Other assets	-	-	-	-	-	-	-	-	-	-	262	686	-	-	262	686
	451	176	1,090	524	159	579	42	270	14	23	262	724	-	-	2,018	2,296

The equity holder is fully exposed to credit risk of the assets held within the SLAL Shareholder Fund in a similar manner to that for market risk, including credit risk arising on assets held to support the subordinated debt liability. The assets of this fund are managed and invested to support the activities of the fund.

During the year the Shareholder Fund acquired, as a consequence of the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, a unit trust which invests primarily in cash and asset backed securities. These assets are reflected in the above analysis.

The fund is also exposed to changes in the value of the contractual arrangements intended to mitigate and manage certain credit risks associated with the securities lending programme managed by SLTM Limited (a subsidiary of Standard Life Investments).

Canada: Non-segregated funds

Total credit exposure £8.0bn (2007: £7.4bn)

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	1,441	1,358	1,459	1,550	2,136	1,948	237	289	76	79	-	-	71	81	5,420	5,305
Loans and advances	-	-	-	-	-	-	-	-	-	-	80	73	2,036	1,532	2,116	1,605
Cash and cash equivalents	17	11	2	85	4	35	-	-	-	-	-	-	-	-	23	131
Reinsurance assets	-	-	251	148	18	-	-	-	-	-	68	107	-	-	337	255
Other assets	-	-	-	-	-	-	-	-	-	-	98	118	-	-	98	118
	1,458	1,369	1,712	1,783	2,158	1,983	237	289	76	79	246	298	2,107	1,613	7,994	7,414

The equity holder is exposed to credit risk of the assets held within Canadian non-segregated funds.

As at 31 December 2008 67% (2007: 69%) of the Canadian non-segregated funds credit exposure was to entities rated A or above. Of the remaining exposure, 25% (2007: 21%) was to internally rated loans and advances to customers which are collateralised via the taking of a first charge over the property. Canada also has off balance sheet commitments in respect of financial instruments including stand by letter of credit and commitments to extend credit of £109m as at 31 December 2008 (2007: £84m).

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39. Risk management continued**(f) Credit risk continued****(f)(i) Credit exposure of financial assets that are neither past due nor impaired continued****Group wide unit linked and segregated funds****UK and Europe life and pensions: Unit linked business****Total credit exposure £15.6bn (2007: £12bn)**

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	6,932	6,083	1,307	788	2,049	1,337	731	659	116	126	92	135	5	4	11,232	9,132
Loans and receivables	-	-	29	-	85	3	-	-	-	-	-	-	-	-	114	3
Cash and cash equivalents	176	162	977	1,004	1,288	368	-	-	-	-	-	11	-	-	2,441	1,545
Interests in pooled investment funds	-	-	687	594	136	94	-	-	-	-	164	170	-	-	987	858
Derivative financial assets	-	-	143	40	193	-	-	-	-	-	-	1	-	-	336	41
Other assets	-	-	-	-	-	-	-	-	-	-	454	374	-	-	454	374
	7,108	6,245	3,143	2,426	3,751	1,802	731	659	116	126	710	691	5	4	15,564	11,953

Canada: Segregated funds**Total credit exposure £2.4bn (2007: £2bn)**

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt Securities	996	811	541	483	568	486	85	50	7	3	1	1	-	-	2,198	1,834
Loans and advances	12	-	8	-	13	-	2	-	-	-	-	-	-	28	35	28
Cash and cash equivalents	71	24	39	82	23	27	-	-	-	-	-	-	-	-	133	133
Other assets	-	-	-	-	-	-	-	-	-	-	37	47	-	-	37	47
	1,079	835	588	565	604	513	87	50	7	3	38	48	-	28	2,403	2,042

The implications of credit risk exposures arising within segregated funds and unit linked contracts are in effect the same as those outlined under market risk in Section (e). The exposure of equity holders to credit risk arising from the financial assets held by the unit linked and segregated funds is predominantly limited to variations in charges arising as a consequence of changes in the value of the financial assets.

Standard Life Bank
Total credit exposure £11.2bn (2007: £13.1bn)

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Treasury Bills	60	158	-	-	-	-	-	-	-	-	-	-	-	-	60	158
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-	-	-	9,298	10,971	9,298	10,971
Loans and advances to banks	156	60	-	542	117	290	-	-	-	-	-	106	-	-	273	998
Certificates of deposit	-	-	287	44	175	71	-	-	-	-	122	-	-	-	584	115
Floating rate notes	-	-	39	50	20	60	-	-	-	-	-	-	-	-	59	110
Derivative financial assets	-	-	215	133	82	-	-	-	-	-	-	-	-	-	297	133
Cash and cash equivalents	350	213	203	333	-	-	-	-	-	-	-	-	-	-	553	546
Other assets	-	-	-	-	-	-	-	-	-	-	79	42	-	-	79	42
Total	566	431	744	1,102	394	421	-	-	-	-	201	148	9,298	10,971	11,203	13,073

As at 31 December 2008, 83% (2007: 85%) of Standard Life Bank's credit exposure was to internally rated loans and advances to customers which are collateralised via the taking of a first charge over the property. Of the remaining exposure, 15% (2007: 14%) was to entities rated A and above.

Although Standard Life Bank's mortgage arrears levels have increased they remain significantly below industry average at 0.4% (2007: 0.18%), primarily as a result of close monitoring and high credit quality of loans and advances to customers.

At 31 December 2008 Standard Life Bank also had off balance sheet commitments to lend to mortgage customers of £2,165m (2007: £2,237m).

Other
Total credit exposure £1.6bn (2007: £0.8bn)

	Credit rating												Internally rated		Total	
	AAA		AA		A		BBB		Below BBB		Not rated					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	188	108	29	12	57	3	12	-	-	1	5	6	-	-	291	130
Loans and receivables	-	-	-	-	-	-	-	-	-	-	16	-	-	15	16	15
Cash and cash equivalents	60	19	342	329	643	133	104	-	-	-	-	-	-	-	1,149	481
Reinsurance assets	-	-	3	4	-	-	-	-	-	-	-	-	-	-	3	4
Derivative financial assets	-	-	-	-	2	-	-	-	-	-	-	1	-	-	2	1
Other assets	-	-	-	-	-	-	-	-	-	-	142	22	-	123	142	145
Total	248	127	374	345	702	136	116	-	-	1	163	29	-	138	1,603	776

As at 31 December 2008, 65% (2007: 62%) of assets held by the 'Other' business units was in cash and cash equivalents rated A and above.

The increase in cash and cash equivalents reflects policyholder deposits of customers of Standard Life International Limited as noted in Section (e).

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39. Risk management continued

(f) Credit risk continued

(f)(i) Credit exposure of financial assets that are neither past due nor impaired continued

The 'Other' business units also had off balance sheet financial instrument commitments made by Private Equity Funds (refer to Note 42(b)) of £942m at 31 December 2008 (2007: £752m). These include amounts committed by limited partnerships to raise funding during 'investment periods'.

At 31 December 2008, £601m (2007: £198m) of the financial assets exposed to credit risk included in the consolidated balance sheet were held by third parties. The credit quality of this amount was £345m (57%) (2007: £110m; 55%) rated AAA, £104m (17%) (2007: £38m; 19%) rated AA, £70m (12%) (2007: £29m; 15%) rated A, £14m (3%) (2007: £3m; 2%) rated BBB or below BBB and £66m (11%) (2007: £18m; 9%) not rated. Of the amount not rated, £2m (2007: £1m) was considered past due by less than three months. None of these financial assets were considered to be impaired.

Within the wider securities lending programme (refer to Section (h)), Citibank N.A. as agent, manages a portfolio of cash collateral having a value of £2.9bn and a corresponding liability. Standard Life Investments has indemnified the liability to cash collateral providers and the risks of this indemnity are borne by the equity holders. Standard Life Investments has entered into a contractual arrangement with Standard Life Assurance Limited (SLAL) which has resulted in transferring the risk of default on the part of the portfolio of cash to SLAL. Collateral indemnities of other securities lending activity are provided by Citibank N.A.

(f)(ii) Credit exposure to financial assets that are past due or impaired

UK and Europe life and pensions

At 31 December 2008, the total carrying value of other assets of UK and Europe life and pensions was £1,526m (2007: £1,148m). Of this amount, other assets of £74m (2007: £86m) were past due by less than three months, £7m (2007: £2m) were past due by between three and six months, £3m (2007: £2m) were past due by between six and 12 months, and £5m (2007: £1m) were past due by over one year. The majority of the other assets which were past due as at 31 December 2008 and at 31 December 2007 were held in the HWPF. These balances are in respect of financial assets which are not rated. Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

The objective evidence that is taken into account in determining whether any impairment of debt securities has occurred includes the following:

- A default against the terms of the instrument has occurred
- The issuer is subject to bankruptcy proceedings or is seeking protection from creditors through bankruptcy, individual voluntary arrangements or similar process, and
- The fair value of the instrument is less than 30% of its original cost and it is considered that a permanent impairment has taken place

As at 31 December 2008, £35m of the financial assets held by UK and Europe life and pensions are considered to be impaired (2007: £nil), comprising other assets which are not rated of £4m (£2m were held in the HWPF and £2m were in respect of unit linked business) and debt securities of £31m. The impaired debt securities comprise £9m in the HWPF (of which £2m are rated A, £6m rated below BBB and £1m which are not rated), £12m in respect of unit linked business (of which £1m are rated A, £2m are rated BBB, £2m are rated below BBB and £7m which are not rated), £9m in the Shareholder Fund rated below BBB and £1m in SLIF which are not rated. An allowance account is not used to record separately any impairment of assets by credit losses. Instead the carrying amount of an asset subject to any impairment charge is directly reduced by the amount of the impairment.

Canada

At 31 December 2008, the total carrying value of loans and advances by Canada was £2,172m (2007: £1,638m). Of this amount, £0.4m (2007: £5m) was past due by less than three months and the balance is internally rated. At 31 December 2008, £1m (2007: £11m) of collateral was held in respect of loans and advances which are past due. At 31 December 2008, £21m (2007: £nil) of loans and advances were individually impaired (these are not rated) and the estimated gross fair value of collateral held against loans and advances that were impaired was £21m (2007: £nil). This also equates to the balance sheet carrying value. The objective evidence that is taken into account in determining whether any impairment of loans and advances has occurred includes the following:

- Loans and advances to customers that are contractually 90 days in arrears with uncertainty as to collectability or asset not well secured
- Performing and non-performing loans with provision
- Reasonable doubt as to collectability of full amount of principal and interest, and
- A significant decline in the value of a security underlying a mortgage unless reasonably assumed that mortgage terms and conditions will be met

An allowance account is not used by Canada to record separately any impairment of assets by credit losses. Instead the carrying amount of an asset subject to any impairment charge is directly reduced by the amount of the impairment. Canada follows a similar process as that described below in respect of Standard Life Bank to determine if any of its other financial assets are impaired, and at 31 December 2008 none (2007: £nil) of its financial assets, excluding loans and advances, were considered to be past due or impaired.

Standard Life Bank

At 31 December 2008, the carrying value of loans and advances to customers by Standard Life Bank was £9,517m (2007: £11,105m), which are internally rated. This included £92m (2007: £67m) of loans and advances which were past due by less than 30 days. Standard Life Bank does not consider loans and advances to customers less than 30 days past due to be impaired, unless additional information is available which provides evidence to indicate the contrary.

Loans and advances to customers are determined to be impaired where the account is more than 30 days (one payment) in arrears. In addition, other forms of objective evidence are considered where available, such as:

- The borrower is subject to bankruptcy proceedings
- The borrower is seeking protection from creditors through bankruptcy, individual voluntary arrangements or similar process, and
- The voluntary surrender of collateral by the borrower

There are other forms of objective evidence of impairment but in practice they are not appropriate to this asset class. The remaining loans and advances to customers including those that are past due (up to 30 days in arrears) and those that are neither past due nor impaired are assessed on a collective basis.

For those loans and advances where such evidence exists, Standard Life Bank individually determines the value of impairment loss as the difference between the carrying amount and present value of the estimated future cash flows. Those loans and advances against which objective evidence of impairment does not exist are assessed collectively to establish the value of the impairment loss as a result of a loss event having occurred but for which no objective evidence is currently available.

At 31 December 2008, £127m (2007: £67m) of loans and advances to customers were individually impaired (these are internally rated). The total allowance for impairment for the year for loans and advances is £5.0m (2007: £1.2m) of which £3.8m (2007: £0.9m) represents the individually impaired loans and the remaining amount of £1.2m (2007: £0.3m) represents the collective allowance for impairment. Individual or collective impairment allowances are not currently considered necessary for financial assets other than loans and advances to customers because all other exposures are investment graded, with counterparty credit quality subject to an ongoing monitoring process including monthly reporting to and review by Standard Life Bank's Asset and Liability Committee (ALCO).

At 31 December 2008, the estimated gross fair value of collateral held against loans and advances to customers that were past due but not impaired was £92m (2007: £67m).

The fair value of individually impaired loans and advances to customers after taking into consideration the cash flows from collateral held is £127m (2007: £67m).

Following restructuring, which can include extended payment arrangements, modification and deferral of payments, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of Standard Life Bank's management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled £1m at 31 December 2008 (2007: £1m).

Loans and advances to customers are collateralised via the taking of a first charge over the property. Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets. During 2008, Standard Life Bank obtained £8m (2007: £2m) of assets by taking possession of property collateral held as security against loans and advances to customers. Repossessed properties are sold as soon as practicable on the open market, with the proceeds used to reduce the outstanding indebtedness. Repossessed properties are included in the total loans and advances to customers.

Standard Life Bank follows a similar process to that described above in determining if any of its other financial assets are impaired and at 31 December 2008 none (2007: £nil) of its financial assets, excluding loans and advances to customers, were deemed to be past due or impaired.

Other

At 31 December 2008, £7m (2007: £50m) of other assets which totalled £149m (2007: £195m), were deemed to be past due, the majority of which for less than three months. This amount is in respect of financial assets that are not rated.

An allowance account is not used to record separately any impairment of assets by credit losses. Instead the carrying amount of an asset subject to any impairment charge is directly reduced by the amount of any impairment. As at 31 December 2008, none (2007: £nil) of the financial assets held were deemed to be impaired, either collectively or on an individual basis.

39. Risk management continued

(f)(iii) Collateral accepted and pledged in respect of financial instruments

Collateral is accepted from and provided to certain market counterparties in respect of derivative financial instruments to mitigate counterparty risk in the event of default. The use of collateral in these circumstances is governed by formal bilateral agreements between the parties. The amount of collateral required by either party is calculated daily based on the value of derivative transactions in accordance with these agreements and collateral is moved on a daily basis to ensure there is full collateralisation. Any collateral moved under the terms of these agreements is transferred outright. With regard to either collateral pledged or accepted the Group may request the return of, or be required to return, collateral to the extent it differs from that required under the daily margin calculations. Furthermore alternative collateral, such as securities, may be provided if acceptable to both parties.

Where there is an event of default under the terms of the agreements, any collateral balances will be included in the close-out calculation of net counterparty exposure.

Assets pledged as collateral for liabilities

At 31 December 2008, the Group had pledged £166m (2007: £48m), cash and £1,874m (2007: £287m) of securities as collateral for derivative financial liabilities.

Assets accepted as collateral

At 31 December 2008, the Group had accepted £3,687m (2007: £3,746m) of cash and £5,607m (2007: £7,447m) of securities as collateral. Included within these amounts is collateral which has been accepted in relation to securities lending.

None of the above securities were sold or repledged at the year end. Where there is an event of default under the terms of the agreements, any collateral balances will be included in the close-out calculation of net counterparty exposure.

(f)(iv) Credit risk on loans and receivables and financial liabilities designated as fair value through profit or loss

(f)(iv)(i) Loans and receivables

The Group holds a portfolio of unquoted bonds, which meet the definition of loans and receivables under IAS 39 *Financial Instruments: Recognition and Measurement* and on initial recognition were designated as fair value through profit or loss (FVTPL). The Group's exposure to unquoted bonds at 31 December 2008 was £349m (2007: £575m). The fair value of these bonds is calculated using a valuation technique which refers to the current fair value of other similar financial instruments in addition to other unobservable market data. During the year, fair value movements of a £14m gain (2007: £32m gain) in relation to these bonds were recognised in the income statement. The table below shows the movement during the period and cumulatively in the fair value of the unquoted bonds attributable to changes in credit risk and changes in market conditions that give rise to market risk.

	Cumulative fair value at 1 January			Fair value movement through the income statement during the year			Additions during the year			Maturities/disposals during the year			Fair value at 31 December		
	Attributable to credit risk £m	Attributable to market risk £m	Total £m	Attributable to credit risk £m	Attributable to market risk £m	Total £m	Attributable to credit risk £m	Attributable to market risk £m	Total £m	Attributable to credit risk £m	Attributable to market risk £m	Total £m	Attributable to credit risk £m	Attributable to market risk £m	Total £m
2008															
UK and Europe life and pensions	(9)	187	178	(24)	15	(9)	-	-	-	-	(11)	(11)	(33)	191	158
Canada	-	397	397	(19)	42	23	-	12	12	-	(241)	(241)	(19)	210	191
Total	(9)	584	575	(43)	57	14	-	12	12	-	(252)	(252)	(52)	401	349
2007															
UK and Europe life and pensions	(1)	183	182	(8)	(3)	(11)	-	11	11	-	(4)	(4)	(9)	187	178
Canada	-	306	306	-	43	43	-	91	91	-	(43)	(43)	-	397	397
Total	(1)	489	488	(8)	40	32	-	102	102	-	(47)	(47)	(9)	584	575

As described in Section (e) above, the Group risk management framework defines market risk as the risk that arises from the Group's exposure to market movements, which could result in the income, or value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts. The movement in the fair value of the bonds in the tables above that has been attributed to credit risk is the component that is not attributable to changes in market conditions that give rise to market risk. For financial liabilities at fair value through profit or loss, the Group does not hold any credit related derivatives for the purpose of mitigating the maximum exposure to credit risk.

(f)(iv)(ii) Financial liabilities

The Group has designated unit linked non-participating investment contract liabilities as FVTPL. These liabilities are implicitly managed on a fair value basis as their value is directly linked to the market value of the underlying portfolio of assets. The Group is not exposed to credit risk in respect of these liabilities since the unit holders bear the financial risks associated with these contracts.

Therefore, the movement, during the period and cumulatively, in the fair value of the unit linked non-participating investment contract liabilities is only attributable to market risk.

(g) Liquidity risk

The Group defines liquidity risk as the risk that the Group or individual business units, although solvent, do not have sufficient financial resources available to meet their obligations as they fall due, or can secure them only at excessive cost. The Group manages liquidity risk primarily by:

- Monitoring, assessment and oversight of invested assets within the Group
- Use of diversified instruments across a range of durations
- Central co-ordination of strategic planning and funding requirements
- Operation of contingency funding plans
- Regular cash flow assessments against forecasted funding requirements
- Monitoring capital requirements and capital available to the Group and business units, and
- Maintenance of a portfolio (currently undrawn) of committed bank facilities

Liquidity risk is managed by each business unit in consultation with the central Group treasury function. Each business unit is responsible for the definition and management of its contingency funding plans. Contingency funding plans operate on a continuous basis and are fully documented. Each business unit maintains a portfolio of high quality liquid assets to enable payment of expected claims as and when they fall due.

The liquidity of Standard Life Bank is supported by funding from a diverse range of third party sources including:

- Retail deposits
- Commercial paper and medium term loans note issues
- Collateralised borrowings
- Long-term securitisation programmes, and
- Committed bank facilities

Standard Life Bank manages its funding requirements by monitoring future cash flows to ensure that requirements can be met, including replenishment of funds as they mature or are borrowed by customers.

During 2008 Standard Life Bank, in common with the banking industry as a whole, has been impacted by the global credit crisis and its associated impact on liquidity. In response, Standard Life Bank has continued to enhance its liquidity management processes, including contingency planning and sensitivity testing, and reporting to ensure sufficient liquidity is available to fund maturing liabilities and manage the balance sheet under current market conditions.

(g)(i) Maturity analysis

The cash flows payable by the Group under its financial liabilities have been analysed by remaining contractual and/or expected maturities at the balance sheet date for each business area in the following ways:

Expected cash flows – insurance and investment contract liabilities

The tables showing the expected cash flows payable under the insurance and investment contract liabilities of UK and Europe life and pensions, Canada and Other provide an analysis of the amounts recognised on the balance sheet by their expected maturity at that date.

Contractual cash flows – financial liabilities excluding insurance and participating investment contract liabilities and derivative financial instruments settled on a gross basis

The analysis presents the contractual cash flows payable by the Group under these instruments by remaining contractual maturity as at 31 December 2008. The amounts shown are the contractual undiscounted cash flows, whereas the Group manages inherent liquidity risk based on expected discounted cash flows. The Group's derivative financial instruments that will be settled on a net basis include interest rate swaps, credit default swaps and equity futures.

Contractual cash flows – derivative financial instruments settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis include foreign exchange forward contracts and cross-currency swaps. The analysis presents the Group's derivative financial instruments that will be settled on a gross basis by relevant maturity groupings by remaining contractual maturity as at 31 December 2008. The amounts disclosed are the contractual undiscounted cash flows both in respect of derivative financial instruments that are in either a liability or an asset position at 31 December 2008.

39. Risk management continued**(g) Liquidity risk continued****(g)(i) Maturity analysis continued****UK and Europe life and pensions**

The following tables show the expected timing of the cash flows payable on the amounts recognised on the balance sheet for the insurance and investment contract liabilities of UK and Europe life and pensions as at the balance sheet date.

2008	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
Heritage With Profits Fund							
Non-participating insurance contract liabilities – annuities	857	2,848	2,515	1,628	991	1,316	10,155
Non-participating insurance contract liabilities – other (excluding unit linked)	10	-	38	69	65	47	229
Non-participating investment contract liabilities (excluding unit linked)	10	7	1	1	-	-	19
Participating insurance contract liabilities	2,011	7,739	4,324	1,101	611	1,071	16,857
Participating investment contract liabilities	792	3,149	3,613	3,188	2,162	2,757	15,661
	3,680	13,743	10,491	5,987	3,829	5,191	42,921
Proprietary Business Fund							
Non-participating insurance contract liabilities – other (excluding unit linked)	(2)	(5)	(1)	5	12	12	21
Non-participating insurance contract liabilities – unit linked	2	6	5	4	2	3	22
	-	1	4	9	14	15	43
Standard Life Investment Funds							
Non-participating insurance contract liabilities – annuities	90	324	326	264	206	344	1,554
Non-participating investment contract liabilities (excluding unit linked)	-	1	1	-	-	-	2
Non-participating insurance contract liabilities – unit linked	167	457	327	155	27	7	1,140
Non-participating investment contract liabilities – unit linked (excluding SLPF*)	3,940	11,788	9,991	6,780	4,204	4,628	41,331
Non-participating investment contract liabilities – unit linked (SLPF)	65	227	205	141	100	137	875
	4,262	12,797	10,850	7,340	4,537	5,116	44,902
Other with profits funds							
Participating insurance contract liabilities	5	26	44	46	43	66	230
Participating investment contract liabilities	-	2	2	2	1	1	8
	5	28	46	48	44	67	238
Total	7,947	26,569	21,391	13,384	8,424	10,389	88,104

* Standard Life Pension Funds Limited

At 31 December 2008 the unallocated divisible surplus of £863m (2007: £950m) had no defined maturity date. This financial liability is recognised in the Heritage With Profits Fund.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2007							
Heritage With Profits Fund							
Non-participating insurance contract liabilities – annuities	844	2,939	2,825	2,000	1,312	1,802	11,722
Non-participating insurance contract liabilities – other (excluding unit linked)	8	9	55	82	79	58	291
Non-participating investment contract liabilities (excluding unit linked)	30	18	1	1	1	1	52
Participating insurance contract liabilities	2,580	8,177	5,636	1,215	552	649	18,809
Participating investment contract liabilities	918	3,373	3,940	3,582	2,451	3,218	17,482
	4,380	14,516	12,457	6,880	4,395	5,728	48,356
Proprietary Business Fund							
Non-participating insurance contract liabilities – other (excluding unit linked)	(1)	(1)	3	7	11	14	33
Non-participating investment contract liabilities (excluding unit linked)	1	3	5	4	3	3	19
Non-participating insurance contract liabilities – unit linked	1	3	3	2	2	3	14
	1	5	11	13	16	20	66
Standard Life Investment Funds							
Non-participating insurance contract liabilities – annuities	58	204	221	213	187	321	1,204
Non-participating investment contract liabilities (excluding unit linked)	-	2	1	1	-	1	5
Non-participating insurance contract liabilities – unit linked	248	589	424	204	46	11	1,522
Non-participating investment contract liabilities – unit linked (excluding SLPF*)	3,517	13,446	11,859	8,186	5,380	5,995	48,383
Non-participating investment contract liabilities – unit linked (SLPF)	84	304	256	164	116	126	1,050
	3,907	14,545	12,761	8,768	5,729	6,454	52,164
Other with profits funds							
Participating insurance contract liabilities	2	11	20	26	24	27	110
Participating investment contract liabilities	-	1	1	1	1	1	5
	2	12	21	27	25	28	115
Total	8,290	29,078	25,250	15,688	10,165	12,230	100,701

* Standard Life Pension Funds Limited

UK and Europe life and pensions maintains a portfolio of high quality liquid assets at all times therefore ensuring that it can meet its financial obligations as they fall due.

To align with the risk management approach towards liquidity risk and existing management projections, the analysis above facilitates consideration of the settlement obligations of both insurance and investment contracts.

39. Risk management continued**(g) Liquidity risk continued****(g)(i) Maturity analysis continued****UK and Europe life and pensions continued**

The tables below present the undiscounted cash flows payable by UK and Europe life and pensions under financial instruments by remaining contractual maturity at the balance sheet date and include the non-participating investment contract liabilities. The analysis excludes derivative financial instruments that will be settled on a gross basis and insurance and participating investment contract liabilities. Given that policyholders can usually choose to surrender in part or in full their unit linked contracts at any time, the Group's non-participating investment contract unit linked liabilities presented in the table below have been designated as less than one year. Such surrenders would be matched in practice, if necessary, by sales of underlying assets. The Group can delay settling liabilities to unit linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependant on the underlying financial assets.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Heritage With Profits Fund							
Non-participating investment contract liabilities (excluding unit linked)	13	6	-	-	-	-	19
Interest rate swaps	19	213	65	27	8	(50)	282
Inflation swaps	-	-	-	-	-	12	12
Equity futures	12	-	-	-	-	-	12
Other liabilities	3,293	741	16	10	9	115	4,184
	3,337	960	81	37	17	77	4,509
Proprietary Business Fund							
Interest rate swaps	1	6	4	2	3	7	23
Other liabilities	202	2	-	-	-	-	204
	203	8	4	2	3	7	227
Standard Life Investment Funds							
Non-participating investment contract liabilities (excluding unit linked)	2	-	-	-	-	-	2
Non-participating investment contract liabilities – unit linked (excluding SLPF)	41,331	-	-	-	-	-	41,331
Non-participating investment contract liabilities – unit linked (SLPF)	875	-	-	-	-	-	875
Interest rate swaps	6	28	8	1	1	-	44
Other liabilities	370	-	-	-	-	-	370
	42,584	28	8	1	1	-	42,622
Other with profits funds							
Interest rate swaps	-	-	-	-	(1)	(11)	(12)
Other liabilities	1	-	-	-	-	-	1
	1	-	-	-	(1)	(11)	(11)
Shareholder Fund							
Subordinated liabilities	118	1,151	652	508	635	-	3,064
Interest rate swaps	(1)	(2)	-	-	(1)	-	(4)
Other liabilities	200	-	-	-	-	-	200
	317	1,149	652	508	634	-	3,260
Unit linked liabilities							
Other liabilities	195	13	11	9	5	75	308
Interest rate swaps	6	36	18	4	11	32	107
Property Index swaps	30	20	-	-	-	-	50
Inflation swaps	-	-	1	3	16	97	117
Variance swaps	20	-	-	-	-	-	20
Currency options	23	3	-	-	-	-	26
	274	72	30	16	32	204	628
Total	46,716	2,217	775	564	686	277	51,235

'Deposits received from reinsurers' are held in the Heritage With Profits Fund (HWPF) and reflect the liability to repay the deposit received from an external reinsurer under the reinsurance transaction referred to in Sections (d) and (e). The timing and amount of the payment of the cash flows under this liability are defined by the terms of the treaty under which there is no defined contractual maturity date to repay the deposit as at 31 December 2008. Further information relating to the repayment of the deposit or the making of further deposits is included in Note 31.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2007							
Heritage With Profits Fund							
Non-participating investment contract liabilities (excluding unit linked)	34	16	-	-	-	-	50
Interest rate swaps	70	99	126	114	60	(63)	406
Credit default swaps	2	8	-	-	-	-	10
Other liabilities	3,833	36	6	6	6	100	3,987
	3,939	159	132	120	66	37	4,453
Proprietary Business Fund							
Non-participating investment contract liabilities (excluding unit linked)	22	-	-	-	-	-	22
Interest rate swaps	-	1	2	2	2	4	11
Other liabilities	107	-	-	-	-	-	107
	129	1	2	2	2	4	140
Standard Life Investment Funds							
Non-participating investment contract liabilities (excluding unit linked)	6	-	-	-	-	-	6
Non-participating investment contract liabilities – unit linked (excluding SLPF)	48,383	-	-	-	-	-	48,383
Non-participating investment contract liabilities – unit linked (SLPF)	1,050	-	-	-	-	-	1,050
Interest rate swaps	3	9	6	2	-	(11)	9
Basis swaps	-	-	-	-	-	2	2
Equity futures	2	-	-	-	-	-	2
Options	-	(1)	-	-	-	-	(1)
Other liabilities	263	11	14	13	8	127	436
	49,707	19	20	15	8	118	49,887
Other with profits funds							
Interest rate swaps	-	-	-	1	1	-	2
Other liabilities	15	-	-	-	-	-	15
	15	-	-	1	1	-	17
Shareholder Fund							
Subordinated liabilities	103	961	574	528	669	-	2,835
Interest rate swaps	6	9	7	4	1	-	27
	109	970	581	532	670	-	2,862
Unit linked liabilities							
Other liabilities	106	-	-	-	-	-	106
	106	-	-	-	-	-	106
Total	54,005	1,149	735	670	747	159	57,465

At 31 December 2008, the undiscounted cash flows which were repayable on demand were £170m (2007: £446m). These comprise other liabilities of £84m (2007: £98m) of the HWPF, £63m (2007: £124m) of the Proprietary Business Fund (PBF), £2m (2007: £224m) of Standard Life Investment Funds (SLIF), £1m of Other with profits funds (2007: £nil) and £20m of unit linked business (2007: £nil). At 31 December 2008 the undiscounted cash flows which had no contractual maturity date were £4m (2007: £nil).

39. Risk management continued**(g) Liquidity risk continued****(g)(i) Maturity analysis continued****UK and Europe life and pensions continued**

The following tables show the undiscounted cash flows payable by UK and Europe life and pensions under those derivative financial instruments that will be settled on a gross basis by remaining contractual maturity at the balance sheet date.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Heritage With Profits Fund							
Foreign exchange forwards							
Outflow	(1,497)	(320)	-	-	-	-	(1,817)
Inflow	1,372	238	-	-	-	-	1,610
Bond futures							
Outflow	(601)	-	-	-	-	-	(601)
Inflow	469	-	-	-	-	-	469
Inflow/(outflow)	(257)	(82)	-	-	-	-	(339)
Proprietary Business Fund							
Foreign exchange forwards							
Outflow	(6)	-	-	-	-	-	(6)
Inflow	5	-	-	-	-	-	5
Bond futures							
Outflow	(4)	-	-	-	-	-	(4)
Inflow	2	-	-	-	-	-	2
Inflow/(outflow)	(3)	-	-	-	-	-	(3)
Standard Life Investment Funds							
Foreign exchange forwards							
Outflow	(66)	-	-	-	-	-	(66)
Inflow	63	-	-	-	-	-	63
Bond futures							
Outflow	-	-	-	-	-	-	-
Inflow	3	-	-	-	-	-	3
Inflow/(outflow)	-	-	-	-	-	-	-
Shareholder Fund							
Cross-currency swaps							
Outflow	(35)	(585)	-	-	-	-	(620)
Inflow	46	864	-	-	-	-	910
Inflow/(outflow)	11	279	-	-	-	-	290
Unit Linked Liabilities							
Foreign exchange forwards							
Outflow	(2,159)	-	-	-	-	-	(2,159)
Inflow	2,074	-	-	-	-	-	2,074
Bond futures							
Outflow	(387)	-	-	-	-	-	(387)
Inflow	241	-	-	-	-	-	241
Cross-currency swaps							
Outflow	(4)	-	-	-	-	-	(4)
Inflow	5	-	-	-	-	-	5
Swaptions							
Outflow	(1)	(15)	(18)	(18)	(18)	(36)	(106)
Inflow	-	6	12	16	19	30	83
Inflow/(outflow)	(231)	(9)	(6)	(2)	1	(6)	(253)
Other with profits funds							
Foreign exchange forwards							
Outflow	(15)	-	-	-	-	-	(15)
Inflow	16	-	-	-	-	-	16
Bond futures							
Outflow	(1)	-	-	-	-	-	(1)
Inflow	15	-	-	-	-	-	15
Inflow/(outflow)	15	-	-	-	-	-	15
Total inflow/(outflow)	(465)	188	(6)	(2)	1	(6)	(290)

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2007							
Heritage With Profits Fund							
Foreign exchange forwards							
Outflow	(806)	(506)	-	-	-	-	(1,312)
Inflow	801	488	-	-	-	-	1,289
Bond futures							
Outflow	(2)	-	-	-	-	-	(2)
Inflow	-	-	-	-	-	-	-
Inflow/(outflow)	(7)	(18)	-	-	-	-	(25)
Proprietary Business Fund							
Foreign exchange forwards							
Outflow	(2)	-	-	-	-	-	(2)
Inflow	2	-	-	-	-	-	2
Inflow/(outflow)	-	-	-	-	-	-	-
Standard Life Investment Funds							
Foreign exchange forwards							
Outflow	(730)	-	-	-	-	-	(730)
Inflow	713	-	-	-	-	-	713
Cross-currency swaps							
Outflow	(3)	(5)	-	-	-	-	(8)
Inflow	4	6	-	-	-	-	10
Bond futures							
Outflow	(1)	-	-	-	-	-	(1)
Inflow	2	-	-	-	-	-	2
Swaptions							
Outflow	-	(1)	(1)	(1)	(1)	(2)	(6)
Inflow	-	-	1	1	1	2	5
Inflow/(outflow)	(15)	-	-	-	-	-	(15)
Shareholder Fund							
Cross-currency swaps							
Outflow	(35)	(620)	-	-	-	-	(655)
Inflow	35	692	-	-	-	-	727
Inflow/(outflow)	-	72	-	-	-	-	72
Total inflow/(outflow)	(22)	54	-	-	-	-	32

At 31 December 2008, none of the undiscounted cash flows under those derivative financial instruments that will be settled on a gross basis were either repayable on demand (2007: £nil) or had no contractual maturity date (2007: £nil).

39. Risk management continued

(g) Liquidity risk continued

(g)(i) Maturity analysis continued

Canada

The following tables show the expected timing of the cash flows payable on the amounts recognised on the balance sheet for the insurance and investment contract liabilities of Canada as at the balance sheet date.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Participating insurance contract liabilities	2	9	24	32	39	432	538
Participating investment contract liabilities	-	5	-	-	-	-	5
Non-participating insurance contract liabilities	321	1,060	1,216	730	482	2,538	6,347
Non-participating investment contract liabilities	1,448	3,712	1,946	954	499	554	9,113
Total	1,771	4,786	3,186	1,716	1,020	3,524	16,003

2007							
Participating insurance contract liabilities	3	11	27	35	42	408	526
Participating investment contract liabilities	-	5	-	-	-	-	5
Non-participating insurance contract liabilities	170	509	528	436	355	4,020	6,018
Non-participating investment contract liabilities	2,332	4,932	1,115	285	129	114	8,907
Total	2,505	5,457	1,670	756	526	4,542	15,456

At 31 December 2008 Canada's unallocated divisible surplus of £1m (2007: £1m) had no defined maturity date and there were no expected cash flows which were repayable on demand (2007: £nil).

Canada maintains a portfolio of high quality liquid assets at all times therefore ensuring that it can meet its financial obligations as they fall due.

To align with the risk management approach towards liquidity risk and existing management projections, the analysis above facilitates consideration of the settlement obligations of both insurance and investment contracts.

The tables below present the undiscounted cash flows payable by Canada under financial instruments by remaining contractual maturity at the balance sheet date and include the non-participating investment contract liabilities. The analysis excludes insurance and participating investment contract liabilities.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Borrowings	30	13	-	-	-	-	43
Non-participating investment contract liabilities	8,733	147	115	61	30	27	9,113
Other liabilities	108	26	11	7	5	12	169
Total	8,871	186	126	68	35	39	9,325

2007							
Borrowings	35	12	-	-	-	-	47
Non-participating investment contract liabilities	8,568	134	106	52	25	22	8,907
Other liabilities	109	22	10	6	5	9	161
Total	8,712	168	116	58	30	31	9,115

At 31 December 2008, the undiscounted cash flows which were repayable on demand were £nil (2007: £nil) and the undiscounted cash flows which had no contractual maturity date were other liabilities of £39m (2007: £94m).

Canada also had off balance sheet commitments in respect of financial instruments including stand by letter of credit and commitments to extend credit as at 31 December 2008 of £95m and £14m with a contractual maturity of within one year and between one and five years respectively (2007: £68m, £16m).

Standard Life Bank

The following tables show the undiscounted cash flows payable by Standard Life Bank under financial liabilities (excluding derivative financial instruments that will be settled on a gross basis) by remaining contractual maturities as at the balance sheet date.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Customer accounts	4,991	42	-	-	-	-	5,033
Deposits by banks	2,004	3	-	-	-	-	2,007
Securitised notes in issue	463	2,113	-	-	-	-	2,576
Certificates of deposit	229	-	-	-	-	-	229
Commercial paper	229	-	-	-	-	-	229
Medium term notes	4	16	121	-	-	-	141
Subordinated liabilities	16	65	289	-	-	-	370
Interest rate swaps	67	73	7	-	-	-	147
Other liabilities	23	-	-	-	-	-	23
Total	8,026	2,312	417	-	-	-	10,755

2007							
Customer accounts	4,544	65	-	-	-	-	4,609
Deposits by banks	1,130	382	-	-	-	-	1,512
Securitised notes in issue	1,940	2,483	-	-	-	-	4,423
Certificates of deposit	1,059	-	-	-	-	-	1,059
Commercial paper	696	-	-	-	-	-	696
Medium term notes	13	25	93	-	-	-	131
Subordinated liabilities	16	65	306	-	-	-	387
Interest rate swaps	4	33	-	-	-	-	37
Embedded derivatives	-	1	-	-	-	-	1
Other liabilities	45	-	-	-	-	-	45
Total	9,447	3,054	399	-	-	-	12,900

At 31 December 2008, Standard Life Bank also had commitments to lend to mortgage customers of £2,165m (2007: £2,237m). These amounts relate to mortgage customers who have overpaid on flexible mortgages or who have drawn down a smaller mortgage than they were offered, the difference remaining available to draw down at a future date. Standard Life Bank retains liquidity to fund these draw downs and can limit the level of draw downs in the event of property price declines or where specific customers experience arrears.

The assets which are available to meet all of the liabilities and to cover outstanding loan commitments include cash, operational balances with the Bank of England and loans and advances to banks. Standard Life Bank also plans to be able to meet unexpected net cash outflows by selling securities held at fair value through profit or loss, raising funding in the wholesale markets, accessing additional funding sources and entering into asset sale and repurchase agreements.

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39. Risk management continued**(g) Liquidity risk continued****(g)(i) Maturity analysis continued**

The following tables present the undiscounted cash flows payable by Standard Life Bank under those derivative financial instruments that will be settled on a gross basis by remaining contractual maturity at the balance sheet date.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Foreign exchange forwards							
Outflow	(123)	-	-	-	-	-	(123)
Inflow	140	-	-	-	-	-	140
Cross-currency swaps							
Outflow	(229)	(340)	(90)	-	-	-	(659)
Inflow	313	479	121	-	-	-	913
Total inflow/(outflow)	101	139	31	-	-	-	271

2007							
Foreign exchange forwards							
Outflow	(582)	-	-	-	-	-	(582)
Inflow	599	-	-	-	-	-	599
Cross-currency swaps							
Outflow	(1,202)	(949)	(95)	-	-	-	(2,246)
Inflow	1,177	983	97	-	-	-	2,257
Total inflow/(outflow)	(8)	34	2	-	-	-	28

At 31 December 2008, Standard Life Bank did not have any undiscounted cash flows which were repayable on demand (2007: £nil) or any undiscounted cash flows which had no contractual maturity date (2007: £nil).

Other

The following tables show the expected timing of the cash flows payable on the amounts recognised on the balance sheet of the insurance and investment contract liabilities as at the balance sheet date.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Non-participating insurance contract liabilities	164	2	1	-	-	-	167
Non-participating investment contract liabilities	67	182	228	228	228	-	933
Total	231	184	229	228	228	-	1,100
2007							
Non-participating insurance contract liabilities	177	-	-	-	-	-	177
Non-participating investment contract liabilities	35	64	82	82	82	-	345
Total	212	64	82	82	82	-	522

To align with the risk management approach towards liquidity risk and existing management projections, the analysis above facilitates consideration of the settlement obligations of both insurance and investment contracts.

The tables below present the undiscounted cash flows payable under financial instruments by remaining contractual maturity at the balance sheet date and include the non-participating investment contract liabilities. The analysis excludes derivative financial instruments that will be settled on a gross basis and insurance and participating investment contract liabilities. The non-participating investment contract liabilities are presented in the earliest period, on the basis that all policyholders have the option of immediate surrender.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Non-participating investment contract liabilities	912	-	-	-	-	-	912
Inflation swaps	-	-	-	-	-	1	1
Other liabilities	27	-	-	-	-	-	27
Total	939	-	-	-	-	1	940
2007							
Non-participating investment contract liabilities	326	-	-	-	-	-	326
Other liabilities	284	12	3	1	1	-	301
Total	610	12	3	1	1	-	627

At 31 December 2008, the undiscounted cash flows which were repayable on demand were £942m (2007: £752m). These are in respect of off balance sheet financial instrument commitments made by Private Equity Funds (refer to Note 42(b)) and include amounts committed by limited partnerships to raise funding during 'investment periods'. The undiscounted cash flows which had no contractual maturity date were other liabilities of £51m (2007: £84m).

The Group companies within 'Other' ensure that they can meet their financial obligations as they fall due by maintaining suitable levels of liquid assets.

The following table presents the undiscounted cash flows payable by 'Other' under those derivative financial instruments that will be settled on a gross basis by remaining contractual maturity at the balance sheet date.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Foreign exchange forwards							
Outflow	(837)	-	-	-	-	-	(837)
Inflow	811	-	-	-	-	-	811
Bond futures							
Outflow	(4)	-	-	-	-	-	(4)
Inflow	6	-	-	-	-	-	6
Total inflow/(outflow)	(24)	-	-	-	-	-	(24)
2007							
Foreign exchange forwards							
Outflow	(8)	-	-	-	-	-	(8)
Inflow	-	-	-	-	-	-	-
Total inflow/(outflow)	(8)	-	-	-	-	-	(8)

At 31 December 2008, none of the undiscounted cash flows under those derivative financial instruments that will be settled on a gross basis were either repayable on demand (2007: £nil) or had no contractual maturity date (2007: £nil).

39. Risk management continued**(g) Liquidity risk continued****(g)(i) Maturity analysis continued**

At 31 December 2008, the undiscounted contractual cash flows payable in respect of financial liabilities (excluding derivative financial instruments) held by third parties, included in the consolidated balance sheet, was £61m (2007: £26m), which was all due within one year.

The following table presents the undiscounted contractual cash flows payable in respect of derivative financial instruments held by third parties, included in the consolidated balance sheet, that will be settled on a gross basis.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	Total £m
2008							
Foreign exchange forwards							
Outflow	(493)	-	-	-	-	-	(493)
Inflow	457	-	-	-	-	-	457
Bond futures							
Outflow	(37)	-	-	-	-	-	(37)
Inflow	30	-	-	-	-	-	30
Swaptions							
Outflow	-	(1)	(2)	(2)	(2)	(3)	(10)
Inflow	-	-	1	1	2	3	7
Total inflow/(outflow)	(43)	(1)	(1)	(1)	-	-	(46)
2007							
Foreign exchange forwards							
Outflow	(12)	-	-	-	-	-	(12)
Inflow	12	-	-	-	-	-	12
Total inflow/(outflow)	-	-	-	-	-	-	-

At 31 December 2008, 'Third party interests in consolidated funds' was £1,603m (2007: £1,501m), of which the contractual maturity was £1,366m (2007: £1,354m) within one year, £12m (2007: £17m) in five to ten years and £225m (2007: £130m) in ten to 15 years.

(h) Securities lending and repurchase arrangements

The Group enters into securities lending arrangements and repurchase agreements as part of normal operating activities. Assets are pledged by third parties as collateral to support these activities. Collateral held by the Group in respect of securities lending agreements at the year end was £5,231m (2007: £7,447m) of securities and £2,928m (2007: £3,657m) of cash.

The securities lending arrangements in place as at 31 December 2008 and 31 December 2007 are under a number of agreements, including the Global master repurchase agreements, Gilt edged stock lending agreements, Master equity and fixed interest stock lending agreement (1996) and Overseas securities lender's agreements. The loaned securities remain on balance sheet and continue to be valued in accordance with the relevant Group accounting policy. All rights to dividends and market gains or losses in respect of these assets remain with the Group. Assets on loan are as follows:

	2008 £m	2007 £m
Domestic government	6,181	9,519
Domestic corporate	982	112
Domestic equity	-	310
International fixed income	1	113
International equity	44	518
Total	7,208	10,572

(i) Reconciliation by category of financial instruments

The following tables reconcile the Group's financial instruments by IAS 39 *Financial Instruments: Recognition and Measurement* categories to the line items presented in the consolidated balance sheet.

Financial assets are analysed by category as follows:

	At fair value through profit or loss						
	Held for trading £m	Designated on initial recognition £m	Held to maturity £m	Loans and receivables £m	Insurance assets £m	Cash and cash equivalents £m	Total £m
2008							
Reinsurance assets	-	-	-	-	6,076	-	6,076
Loans and receivables	-	-	-	12,069	-	-	12,069
Derivative financial assets	2,800	-	-	-	-	-	2,800
Investment securities	-	90,716	-	-	-	-	90,716
Other assets (excluding non-financial assets)	-	629	-	1,323	-	-	1,952
Cash and cash equivalents	-	-	-	-	-	10,052	10,052
Total financial assets	2,800	91,345	-	13,392	6,076	10,052	123,665
Non-financial assets							13,315
Total assets							136,980
2007							
Reinsurance assets	-	-	-	-	476	-	476
Loans and receivables	-	-	-	13,056	-	-	13,056
Derivative financial assets	491	29	-	-	-	-	520
Investment securities	-	102,304	-	-	-	-	102,304
Other assets (excluding non-financial assets)	-	1,569	-	-	-	-	1,569
Cash and cash equivalents	-	-	-	-	-	9,335	9,335
Total financial assets	491	103,902	-	13,056	476	9,335	127,260
Non-financial assets							16,720
Total assets							143,980

39. Risk management continued**(i) Reconciliation by category of financial instruments continued**

Financial liabilities are analysed by category as follows:

	<u>At fair value through profit or loss</u>						
	Held for trading	Designated on initial recognition	Financial liabilities at amortised cost	Insurance and participating investment contract liabilities	Cash and cash equivalents	Total	
	£m	£m	£m	£m	£m	£m	£m
2008							
Non-participating contract liabilities	-	43,147	9,126	19,635	-	-	71,908
Participating contract liabilities	-	-	-	34,163	-	-	34,163
Deposits received from reinsurers	-	-	5,968	-	-	-	5,968
Third party interest in consolidated funds	-	1,603	-	-	-	-	1,603
Borrowings	-	-	3,126	-	101	-	3,227
Subordinated liabilities	-	-	2,204	-	-	-	2,204
Customer accounts related to banking activities and deposits by banks	-	-	6,991	-	-	-	6,991
Derivative financial liabilities	1,348	-	-	-	-	-	1,348
Other liabilities (excluding non-financial liabilities)	-	-	5,044	-	-	-	5,044
Total financial liabilities	1,348	44,750	32,459	53,798	101	132,456	
Non-financial liabilities							783
Total liabilities							133,239
2007							
Non-participating contract liabilities	-	49,435	9,327	20,980	-	-	79,742
Participating contract liabilities	-	-	-	37,888	-	-	37,888
Deposits received from reinsurers	-	-	53	-	-	-	53
Third party interest in consolidated funds	-	1,501	-	-	-	-	1,501
Borrowings	-	-	5,903	-	215	-	6,118
Subordinated liabilities	-	-	1,908	-	-	-	1,908
Customer accounts related to banking activities and deposits by banks	-	-	6,080	-	-	-	6,080
Derivative financial liabilities	633	9	-	-	-	-	642
Other liabilities (excluding non-financial liabilities)	-	-	4,985	-	-	-	4,985
Total financial liabilities	633	50,945	28,256	58,868	215	138,917	
Non-financial liabilities							1,390
Total liabilities							140,307

(j) Balance sheet reconciliation

The following tables reconcile the classes of financial instruments used for the risk management analysis to balance sheet line items. Financial assets are analysed below:

	Reinsurance assets £m	Loans and receivables £m	Derivative financial assets £m	Investment securities £m	Other assets £m	Cash and cash equivalents £m	Total £m
2008							
UK and Europe life and pensions							
Heritage With Profits Fund:							
Equity securities	-	-	-	7,703	-	-	7,703
Debt securities	-	-	-	29,136	-	-	29,136
Loans and receivables	-	250	-	-	-	-	250
Cash and cash equivalents	-	-	-	-	-	3,148	3,148
Derivative financial assets	-	-	1,643	-	-	-	1,643
Reinsurance assets – external	5,732	-	-	-	-	-	5,732
Other assets	-	-	-	-	517	-	517
Proprietary Business Fund:							
Equity securities	-	-	-	13	-	-	13
Debt securities	-	-	-	106	-	-	106
Cash and cash equivalents	-	-	-	-	-	111	111
Derivative financial assets	-	-	3	-	-	-	3
Reinsurance assets – external	4	-	-	-	-	-	4
Other assets	-	-	-	-	213	-	213
Standard Life Investment Funds:							
Equity securities	-	-	-	2	-	-	2
Debt securities	-	-	-	1,464	-	-	1,464
Cash and cash equivalents	-	-	-	-	-	577	577
Derivative financial assets	-	-	96	-	-	-	96
Other assets	-	-	-	-	52	-	52
Other with profits funds:							
Equity securities	-	-	-	103	-	-	103
Debt securities	-	-	-	130	-	-	130
Cash and cash equivalents	-	-	-	-	-	25	25
Derivative financial assets	-	-	14	-	-	-	14
Other assets	-	-	-	-	13	-	13
Shareholder Fund:							
Debt securities	-	-	-	544	-	-	544
Cash and cash equivalents	-	-	-	-	-	835	835
Derivative financial assets	-	-	386	-	-	-	386
Other assets	-	-	-	-	262	-	262
Unit linked business:							
Equity securities	-	-	-	24,026	-	-	24,026
Debt securities	-	-	-	11,244	-	-	11,244
Loans and receivables	-	114	-	-	-	-	114
Cash and cash equivalents	-	-	-	-	-	2,441	2,441
Interests in pooled investment funds	-	-	-	987	-	-	987
Derivative financial assets	-	-	336	-	-	-	336
Other assets	-	-	-	-	469	-	469
Canada – non-segregated funds							
Equity securities	-	-	-	347	-	-	347
Debt securities	-	-	-	5,420	-	-	5,420
Loans and advances	-	2,137	-	-	-	-	2,137
Cash and cash equivalents	-	-	-	-	-	23	23
Reinsurance assets	337	-	-	-	-	-	337
Other assets	-	-	-	-	98	-	98
Canada – segregated funds							
Equity securities	-	-	-	5,231	-	-	5,231
Debt securities	-	-	-	2,198	-	-	2,198
Loans and advances	-	35	-	-	-	-	35
Cash and cash equivalents	-	-	-	-	-	133	133
Other assets	-	-	-	-	37	-	37

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39. Risk management continued**(j) Balance sheet reconciliation continued**

2008	Reinsurance assets £m	Loans and receivables £m	Derivative financial assets £m	Investment securities £m	Other assets £m	Cash and cash equivalents £m	Total £m
Standard Life Bank							
Treasury bills	-	-	-	-	-	60	60
Loans and advances to customers	-	9,517	-	-	-	-	9,517
Loans and advances to banks	-	-	-	-	-	273	273
Certificates of deposit	-	-	-	-	-	584	584
Floating rate notes	-	-	-	59	-	-	59
Derivative financial assets	-	-	297	-	-	-	297
Cash and cash equivalents	-	-	-	-	-	553	553
Other assets	-	-	-	-	79	-	79
Other							
Equity securities	-	-	-	259	-	-	259
Debt securities	-	-	-	291	-	-	291
Cash and cash equivalents	-	-	-	-	-	1,149	1,149
Derivative financial assets	-	-	2	-	-	-	2
Reinsurance assets	3	-	-	-	-	-	3
Other assets	-	16	-	-	149	-	165
Financial assets	6,076	12,069	2,777	89,263	1,889	9,912	121,986
Minority interest and third party interest in consolidated funds	-	-	23	1,453	63	140	1,679
Total financial assets	6,076	12,069	2,800	90,716	1,952	10,052	123,665
Non-financial assets							
Other assets							307
Intangible assets							112
Deferred acquisition costs							892
Investments in associates and joint ventures							3,098
Investment property							7,738
Property, plant and equipment							740
Deferred tax assets							428
Total non-financial assets							13,315
Total assets							136,980

Financial liabilities are analysed below:

	Non-participating contract liabilities	Participating contract liabilities	Deposits received from reinsurers	Borrowings	Subordinated liabilities	Customer accounts and deposits by banks	Derivative financial liabilities	Other liabilities	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2008									
UK and Europe life and pensions									
Heritage With Profits Funds:									
Non-participating insurance contract liabilities – annuities	10,155	-	-	-	-	-	-	-	10,155
Non-participating insurance contract liabilities – other (excl. unit linked)	229	-	-	-	-	-	-	-	229
Non-participating investment contract liabilities (excl. unit linked)	19	-	-	-	-	-	-	-	19
Participating insurance contract liabilities	-	16,857	-	-	-	-	-	-	16,857
Participating investment contract liabilities	-	15,661	-	-	-	-	-	-	15,661
Participating contract liabilities – unallocated divisible surplus	-	863	-	-	-	-	-	-	863
Deposits received from reinsurers	-	-	5,968	-	-	-	-	-	5,968
Derivative financial liabilities	-	-	-	-	-	-	588	-	588
Other liabilities	-	-	-	79	-	-	-	3,366	3,445
Proprietary Business Fund:									
Non-participating insurance contract liabilities – other (excl. unit linked)	21	-	-	-	-	-	-	-	21
Non-participating insurance contract liabilities – unit linked	22	-	-	-	-	-	-	-	22
Derivative financial liabilities	-	-	-	-	-	-	16	-	16
Other financial liabilities	-	-	-	4	-	-	-	274	278
Standard Life Investment Funds:									
Non-participating insurance contract liabilities – annuities	1,554	-	-	-	-	-	-	-	1,554
Non-participating investment contract liabilities (excl. unit linked)	2	-	-	-	-	-	-	-	2
Non-participating insurance contract liabilities – unit linked	1,140	-	-	-	-	-	-	-	1,140
Non-participating investment contract liabilities – unit linked (excl. SLPF)	41,331	-	-	-	-	-	-	-	41,331
Non-participating investment contract liabilities – unit linked (SLPF)	875	-	-	-	-	-	-	-	875
Derivative financial liabilities	-	-	-	-	-	-	44	-	44
Other financial liabilities	-	-	-	2	-	-	-	369	371

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39. Risk management continued**(j) Balance sheet reconciliation continued**

2008	Non-participating contract liabilities £m	Participating contract liabilities £m	Deposits received from reinsurers £m	Borrowings £m	Subordinated liabilities £m	Customer accounts and deposits by banks £m	Derivative financial liabilities £m	Other liabilities £m	Total £m
Other with profits funds:									
Participating insurance contract liabilities	-	230	-	-	-	-	-	-	230
Participating investment contract liabilities	-	8	-	-	-	-	-	-	8
Derivative financial liabilities	-	-	-	-	-	-	1	-	1
Other financial liabilities	-	-	-	1	-	-	-	2	3
Shareholder Fund:									
Derivative financial liabilities	-	-	-	-	-	-	3	-	3
Other financial liabilities	-	-	-	-	-	-	-	200	200
Unit linked business:									
Derivative financial liabilities	-	-	-	-	-	-	462	-	462
Other liabilities	-	-	-	54	-	-	-	230	284
Canada – non-segregated funds									
Non-participating insurance contract liabilities	5,234	-	-	-	-	-	-	-	5,234
Non-participating investment contract liabilities	2,451	-	-	-	-	-	-	-	2,451
Participating insurance contract liabilities	-	538	-	-	-	-	-	-	538
Participating investment contract liabilities	-	5	-	-	-	-	-	-	5
Unallocated divisible surplus	-	1	-	-	-	-	-	-	1
Borrowings	-	-	-	41	-	-	-	-	41
Other liabilities	-	-	-	-	-	-	-	170	170
Canada – segregated funds									
Non-participating insurance contract liabilities	1,113	-	-	-	-	-	-	-	1,113
Non-participating investment contract liabilities	6,662	-	-	-	-	-	-	-	6,662
Borrowings	-	-	-	2	-	-	-	-	2
Other liabilities	-	-	-	-	-	-	-	39	39
Standard Life Bank									
Derivative financial liabilities	-	-	-	-	-	-	141	-	141
Customer accounts	-	-	-	-	-	5,000	-	-	5,000
Deposits by banks	-	-	-	-	-	1,991	-	-	1,991
Securitised notes in issue	-	-	-	2,411	-	-	-	-	2,411
Certificates of deposit	-	-	-	228	-	-	-	-	228
Commercial paper	-	-	-	228	-	-	-	-	228
Medium term notes	-	-	-	117	-	-	-	-	117
Subordinated liabilities	-	-	-	-	285	-	-	-	285
Other liabilities	-	-	-	-	-	-	-	23	23

2008	Non-participating contract liabilities £m	Participating contract liabilities £m	Deposits received from reinsurers £m	Borrowings £m	Subordinated liabilities £m	Customer accounts and deposits by banks £m	Derivative financial liabilities £m	Other liabilities £m	Total £m
Other									
Derivative financial liabilities	-	-	-	-	-	-	26	-	26
General insurance contract liabilities	167	-	-	-	-	-	-	-	167
Other liabilities	933	-	-	5	1,919	-	-	345	3,202
Financial liabilities	71,908	34,163	5,968	3,172	2,204	6,991	1,281	5,018	130,705
Minority interest and third party interest in consolidated funds	-	-	-	55	-	-	67	26	148
Total financial liabilities	71,908	34,163	5,968	3,227	2,204	6,991	1,348	5,044	130,853
Non-financial liabilities									
Pension and other post retirement benefits									42
Deferred income									382
Deferred tax liabilities									93
Current tax liabilities									174
Other liabilities									92
Total non-financial liabilities									783
Third party interest in consolidated funds									1,603
Total liabilities									133,239

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39. Risk management continued**(j) Balance sheet reconciliation** continued

Financial assets are analysed below:

	Reinsurance assets £m	Loans and receivables £m	Derivative financial assets £m	Investment securities £m	Other assets £m	Cash and cash equivalents £m	Total £m
2007							
UK and Europe life and pensions							
Heritage With Profits Fund:							
Equity securities	-	-	-	12,869	-	-	12,869
Debt securities	-	-	-	28,652	-	-	28,652
Loans and receivables	-	295	-	-	-	-	295
Cash and cash equivalents	-	-	-	-	-	4,527	4,527
Derivative financial assets	-	-	257	-	-	-	257
Reinsurance assets – external	202	-	-	-	-	-	202
Other assets	-	-	-	-	(94)	-	(94)
Proprietary Business Fund:							
Equity securities	-	-	-	8	-	-	8
Debt securities	-	-	-	91	-	-	91
Cash and cash equivalents	-	-	-	-	-	181	181
Reinsurance assets – external	15	-	-	-	-	-	15
Other assets	-	-	-	-	104	-	104
Standard Life Investment Funds:							
Equity securities	-	-	-	1	-	-	1
Debt securities	-	-	-	982	-	-	982
Cash and cash equivalents	-	-	-	-	-	235	235
Derivative financial assets	-	-	6	-	-	-	6
Other assets	-	-	-	-	25	-	25
Other with profits funds:							
Equity securities	-	-	-	65	-	-	65
Debt securities	-	-	-	100	-	-	100
Cash and cash equivalents	-	-	-	-	-	23	23
Other assets	-	-	-	-	17	-	17
Shareholder Fund:							
Debt securities	-	-	-	1,272	-	-	1,272
Cash and cash equivalents	-	-	-	-	-	259	259
Derivative financial assets	-	-	79	-	-	-	79
Other assets	-	-	-	-	686	-	686
Unit linked business:							
Equity securities	-	-	-	33,041	-	-	33,041
Debt securities	-	-	-	9,132	-	-	9,132
Loans and receivables	-	3	-	-	-	-	3
Cash and cash equivalents	-	-	-	-	-	1,545	1,545
Interests in pooled investment funds	-	-	-	858	-	-	858
Derivative financial assets	-	-	41	-	-	-	41
Other assets	-	-	-	-	410	-	410

2007	Reinsurance assets £m	Loans and receivables £m	Derivative financial assets £m	Investment securities £m	Other assets £m	Cash and cash equivalents £m	Total £m
Canada – non-segregated funds							
Equity securities	-	-	-	596	-	-	596
Debt securities	-	-	-	5,305	-	-	5,305
Loans and advances	-	1,610	-	-	-	-	1,610
Cash and cash equivalents	-	-	-	-	-	131	131
Reinsurance assets	255	-	-	-	-	-	255
Other assets	-	-	-	-	118	-	118
Canada – segregated funds							
Equity securities	-	-	-	5,705	-	-	5,705
Debt securities	-	-	-	1,834	-	-	1,834
Loans and advances	-	28	-	-	-	-	28
Cash and cash equivalents	-	-	-	-	-	133	133
Other assets	-	-	-	-	47	-	47
Standard Life Bank							
Treasury bills	-	-	-	-	-	158	158
Loans and advances to customers	-	11,105	-	-	-	-	11,105
Loans and advances to banks	-	-	-	-	-	998	998
Certificates of deposit	-	-	-	97	-	18	115
Floating rate notes	-	-	-	110	-	-	110
Derivative financial assets	-	-	133	-	-	-	133
Cash and cash equivalents	-	-	-	-	-	546	546
Other assets	-	-	-	-	42	-	42
Other							
Equity securities	-	-	-	181	-	-	181
Debt securities	-	-	-	130	-	-	130
Cash and cash equivalents	-	-	-	-	-	481	481
Derivative financial assets	-	-	1	-	-	-	1
Reinsurance assets	4	-	-	-	-	-	4
Other assets	-	15	-	-	195	-	210
Financial assets	476	13,056	517	101,029	1,550	9,235	125,863
Minority interest and third party interest in consolidated funds	-	-	3	1,275	19	100	1,397
Total financial assets	476	13,056	520	102,304	1,569	9,335	127,260
Non-financial assets							
Other assets							185
Intangible assets							69
Deferred acquisition costs							693
Investments in associates and joint ventures							4,146
Investment property							10,646
Property, plant and equipment							870
Deferred tax assets							111
Total non-financial assets							16,720
Total assets							143,980

39. Risk management continued**(j) Balance sheet reconciliation continued**

Financial liabilities are analysed below:

	Non-participating contract liabilities £m	Participating contract liabilities £m	Borrowings £m	Subordinated liabilities £m	Customer accounts and deposits by banks £m	Derivative financial liabilities £m	Other liabilities £m	Total £m
2007								
UK and Europe life and pensions								
Heritage With Profits Funds:								
Non-participating insurance contract liabilities – annuities	11,722	-	-	-	-	-	-	11,722
Non-participating insurance contract liabilities – other (excl. unit linked)	291	-	-	-	-	-	-	291
Non-participating investment contract liabilities (excl. unit linked)	52	-	-	-	-	-	-	52
Participating insurance contract liabilities	-	18,809	-	-	-	-	-	18,809
Participating investment contract liabilities	-	17,482	-	-	-	-	-	17,482
Participating contract liabilities – unallocated divisible surplus	-	950	-	-	-	-	-	950
Derivative financial liabilities	-	-	-	-	-	405	-	405
Other liabilities	-	-	62	-	-	-	3,801	3,863
Proprietary Business Fund:								
Non-participating insurance contract liabilities – other (excl. unit linked)	33	-	-	-	-	-	-	33
Non-participating investment contract liabilities	19	-	-	-	-	-	-	19
Non-participating insurance contract liabilities – unit linked	14	-	-	-	-	-	-	14
Derivative financial liabilities	-	-	-	-	-	4	-	4
Other financial liabilities	-	-	18	-	-	-	213	231
Standard Life Investment Funds:								
Non-participating insurance contract liabilities – annuities	1,204	-	-	-	-	-	-	1,204
Non-participating investment contract liabilities (excl. unit linked)	5	-	-	-	-	-	-	5
Non-participating insurance contract liabilities – unit linked	1,522	-	-	-	-	-	-	1,522
Non-participating investment contract liabilities – unit linked (excl. SLPF)	48,383	-	-	-	-	-	-	48,383
Non-participating investment contract liabilities – unit linked (SLPF)	1,050	-	-	-	-	-	-	1,050
Derivative financial liabilities	-	-	-	-	-	12	-	12
Other financial liabilities	-	-	2	-	-	-	173	175
Other with profits funds:								
Participating insurance contract liabilities	-	110	-	-	-	-	-	110
Participating investment contract liabilities	-	5	-	-	-	-	-	5
Derivative financial liabilities	-	-	-	-	-	1	-	1
Other financial liabilities	-	-	1	-	-	-	15	16
Shareholder Fund:								
Derivative financial liabilities	-	-	-	-	-	21	-	21
Unit linked business:								
Derivative financial liabilities	-	-	-	-	-	92	-	92
Other liabilities	-	-	127	-	-	-	259	386

2007	Non-participating contract liabilities £m	Participating contract liabilities £m	Borrowings £m	Subordinated liabilities £m	Customer accounts and deposits by banks £m	Derivative financial liabilities £m	Other liabilities £m	Total £m
Canada – non-segregated funds								
Non-participating insurance contract liabilities	4,704	-	-	-	-	-	-	4,704
Non-participating investment contract liabilities	2,193	-	-	-	-	-	-	2,193
Participating insurance contract liabilities	-	526	-	-	-	-	-	526
Participating investment contract liabilities	-	5	-	-	-	-	-	5
Unallocated divisible surplus	-	1	-	-	-	-	-	1
Borrowings	-	-	45	-	-	-	-	45
Other liabilities	-	-	-	-	-	-	223	223
Canada – segregated funds								
Non-participating insurance contract liabilities	1,314	-	-	-	-	-	-	1,314
Non-participating investment contract liabilities	6,714	-	-	-	-	-	-	6,714
Borrowings	-	-	3	-	-	-	-	3
Other liabilities	-	-	-	-	-	-	32	32
Standard Life Bank								
Derivative financial liabilities	-	-	-	-	-	81	-	81
Customer accounts	-	-	-	-	4,631	-	-	4,631
Deposits by banks	-	-	-	-	1,449	-	-	1,449
Securitised notes in issue	-	-	3,983	-	-	-	-	3,983
Certificates of deposit	-	-	1,049	-	-	-	-	1,049
Commercial paper	-	-	692	-	-	-	-	692
Medium term notes	-	-	102	-	-	-	-	102
Subordinated liabilities	-	-	-	257	-	-	-	257
Other liabilities	-	-	-	-	-	-	45	45
Other								
Derivative financial liabilities	-	-	-	-	-	9	-	9
General insurance contract liabilities	177	-	-	-	-	-	-	177
Other liabilities	345	-	8	1,651	-	-	260	2,264
Financial liabilities	79,742	37,888	6,092	1,908	6,080	625	5,021	137,356
Minority interest and third party interest in consolidated funds								
	-	-	26	-	-	17	17	60
Total financial liabilities	79,742	37,888	6,118	1,908	6,080	642	5,038	137,416
Non-financial liabilities								
Pension and other post retirement benefits								203
Deferred income								340
Deferred tax liabilities								480
Current tax liabilities								252
Other liabilities								115
Total non-financial liabilities								1,390
Third party interest in consolidated funds								1,501
Total liabilities								140,307

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39. Risk management *continued*

(k) Operational risk

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

Appetites for operational risk are managed through the Group Operational Risk Policy. Business units adopt the relevant minimum standards and limits contained within the Group policy. Business units are required to manage risk in accordance with the policy and to take mitigating action as appropriate to operate within appetites.

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

- Fraud or irregularities
- Regulatory or legal
- Customer treatment
- Business interruption
- Supplier failure
- Planning
- Process execution
- People

Activities undertaken to ensure the practical operation of controls over financial risks, that is, market, credit, liquidity and demographic and expense risk, are treated as an operational risk.

Operational risk exposures are controlled using one or a combination of the following: modifying operations such that there is no exposure to the risk; accepting exposure to the risk and choosing not to control the risk; or accepting exposure to the risk and controlling the exposure by risk transfer or risk treatment. The factors on which the level of control and nature of the controls implemented are based include:

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

Control Self Assessment (CSA) is a monitoring activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. The assessment completed by business managers is validated and challenged by the risk function in its role of 'second line of defence'. Independent assurance as to the effectiveness of the CSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of CSA are reported through the risk governance structure. The CSA certification process provides evidence to support disclosures in the *Annual Report and Accounts*.

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

The operational risks faced by each business unit and its exposure to these risks forms its operational risk profile. Each business unit is required to understand and review its profile based on a combination of the estimated impact and likelihood of risk events occurring in the future, the results of CSA and a review of risk exposures relative to approved limits.

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

Strategic risk

The Group defines strategic risk as the risks or threats to the achievement of the Group's corporate objectives. Strategic risks are considered across the Group's global and local businesses as well as at Group level through the Group's planning process. The strategic risks to which the Group is exposed are quantified in terms of profitability and severity and are reviewed on a regular basis.

40. Net decrease in operating assets and liabilities

	2008 £m	2007 £m
Decrease/(increase) in operating assets:		
Investment property	3,276	1,045
Investment securities	17,476	(2,585)
Derivative net assets/(liabilities)	(1,541)	15
Reinsurance assets	(5,563)	309
Investment in associates*	124	(288)
Other assets	(285)	461
Prepayments and accrued income	(5)	-
Deferred acquisition costs	(306)	(365)
Loans and receivables	1,210	(804)
	14,386	(2,212)
(Decrease)/increase in operating liabilities:		
Customer accounts related to banking activities	899	1,008
Other liabilities	(175)	112
Deposits received from reinsurers	5,968	-
Pension and other post retirement benefit provisions	(7)	(28)
Deferred income	35	82
Insurance contract liabilities	(4,918)	(1,171)
Investment contract liabilities	(9,808)	5,389
Certificate of deposits, commercial paper, medium term notes and securitisations	(2,816)	(371)
Change in liability for third party interest in consolidated funds	(598)	(78)
	(11,420)	4,943
Net decrease in operating assets and liabilities	2,966	2,731

* Investment in Standard Life Investments (Global Liquidity Funds) plc and certain unit trusts have been classified as operating activities due to the nature of the underlying transactions.

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41. Contingencies

(a) Legal proceedings and regulations

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

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and it has complied with all the local solvency and other regulations. Therefore, there are no contingencies in respect of these regulations.

(b) Joint ventures and associates

The Group has entered into agreements to share in the assets and liabilities of joint venture and associate investments. The Directors do not anticipate any material losses from such investments, and the operations of such investments are not material in relation to the operations of the Group.

The Group's share of contingent liabilities of the joint ventures and associates is not significant in relation to the operations of the Group.

(c) Issued share capital

The Scheme of Demutualisation sets a ten-year time limit for those eligible members of The Standard Life Assurance Company who were not allocated shares at the date of demutualisation to claim their entitlements. As future issues of these shares are dependent upon the actions of eligible members, it is not practical to estimate the financial effect of this potential obligation.

(d) Guarantees

During the year ended 31 December 2007 the Company issued a guarantee to Standard Life Investments (Global Liquidity Funds) plc to cover the difference between amortised cost and marked-to-market value of the underlying assets of two sub-funds, should there be a need to sell assets below amortised cost to meet investor withdrawals. The guarantee was for a maximum of £60m. During the year ended 31 December 2008, one sub-fund was restructured as referred to in Note 8 and this guarantee was replaced by a revised agreement with a maximum guarantee amount of £5m in respect of the other sub-fund.

(e) Other

(i) In the ordinary course of business, Standard Life Trust Company enters into agreements, which contain guarantee provisions for clearing system arrangements related to investment activities. Under such arrangements, the company, together with other participants in the clearing systems, may be required to guarantee certain obligations of a defaulting member. The guarantee provisions and amounts vary based upon the agreement. The company cannot estimate the amount, if any, that may be payable upon default. To facilitate its participation in the clearing system Standard Life Trust Company has provided as security a bank credit facility to a maximum of Canadian \$84m.

(ii) Under the Financial Services Compensation Scheme (FSCS), which covers business conducted by firms authorised by the Financial Services Authority (FSA), consumers can claim compensation where a firm is unable to pay claims against it. These costs are levied on the industry by the FSCS with each firm's contribution calculated based on the tariff base of the relevant sub class of financial activities it undertakes. Each sub class meets the claims in their class up to an annual threshold. During 2008, FSCS involvement was triggered to protect deposits in several firms and maintain market confidence. At 31 December 2008, a provision is recognised in respect of Standard Life Bank (refer to Note 38) in relation to potential compensation levies due under the FSCS based on FSA guidance issued to the British Bankers Association on 31 December 2008 and subsequently updated on 4 February 2009. This provision is intended to cover the management expense levies for 2008/09 and 2009/10 in relation to interest and other costs incurred on the loans taken out by the FSCS to recompense savers with banks which defaulted during 2008. Uncertainty exists over the total market FSCS levies, and therefore the Standard Life Bank proportion to provide for, which will be dependent on the period of recovery, FSCS funding costs and potential capital write-offs.

A contingent liability also exists in relation to future FSCS levies, including the actual compensation costs due in relation to the banks which defaulted during 2008. As this liability cannot be reliably calculated and is dependent on a determination at some point in the future, the Group has not attempted to quantify this amount. The Group will continue to monitor this position and a provision will be made if and when a determinable outflow becomes probable in relation to this liability.

42. Commitments

(a) Capital commitments

The Group's capital commitments as at the year end are:

	2008 £m	2007 £m
Authorised and contracted for but not provided and incurred:		
Investment properties	127	75
Property, plant and equipment	357	462
Funding of associates	1	-

£115m (2007: £61m) and £12m (2007: £14m) relates to the contractual obligations to purchase, construct, or develop investment property and repair, maintain, or enhance investment property respectively.

(b) Off balance sheet instruments

The following indicates the contractual amounts of the Group's off balance sheet financial instruments that commit it to customers and third parties, as at the year end:

	2008 £m	2007 £m
Guarantees and stand by letter of credit	4	7
Commitments to extend credit:		
Original term to maturity of one year or less	83	55
Original term to maturity of more than one year	2,165	2,237
Other commitments	964	773

Guarantees and letters of credit include guarantees in relation to the Group's Canadian operations. These guarantees are considered to be financial guarantee contracts under IAS 39 *Financial Instruments: Recognition and Measurement*.

Included in 'Other commitments' is £942m (2007: £752m) committed by certain subsidiaries which are not fully owned by the Group. These commitments are funded through (contractually agreed) additional investments in the subsidiary by the Group and the minority interest. The levels of funding are not necessarily in line with the relevant percentage holdings.

(c) Operating lease commitments

The Group has entered into commercial non-cancellable leases on certain property, plant and equipment where it is not in the best interest of the Group to purchase these assets. Such leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008 £m	2007 £m
Not later than one year	17	12
Later than one year and no later than five years	26	7
Later than five years	29	6
Total operating lease commitments	72	25

43. Employee share-based payments

The Group has established a number of share-based payment schemes for employees. Details of these arrangements are as follows:

(i) Long-Term Incentive Plan (LTIP)

Details of the LTIP are set out in the Directors' remuneration report on pages 88 to 99. Under the terms of the plan, share options are awarded to executives and senior management based on performance results of the Group over a three year period. The performance target is based on the Group's return on capital which is a combination of underlying profit for the non-life businesses of the Group and the return on European Embedded Value for the life businesses of the Group. At the grant date the participants are advised of the range of options that will be awarded. The actual number of options that ultimately vest is determined at the end of the three year performance period. In addition, in respect of the 2008 plan, the number of options that ultimately vest is also subject to a Total Shareholder Return multiplier. The terms and conditions of the LTIP listed below assume the maximum number of options available to vest.

The three year performance period for the 2008 plan commenced on 1 January 2008. The grant date for the plan was 21 April 2008 with additional grants being made during the year to individuals who joined the plan after 21 April 2008.

The three year performance period for the 2007 plan commenced on 1 January 2007. The grant date for the plan was 1 May 2007 with additional grants being made during the year to individuals who joined the plan after 1 May 2007.

(ii) Share incentive plans

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

(iii) Performance shares

All eligible employees may be awarded free performance shares if certain Group profit targets are met. On 19 February 2008, each eligible employee was awarded 110 shares in respect of their services for the year ended 31 December 2007.

(iv) Annual bonus deferred shares

Details of the annual bonus are set out in the Directors' remuneration report on pages 88 to 99. Most members of the Executive Job family including executive Directors participate in the Group annual bonus. Under the terms of the 2008 annual bonus, half of the bonus for above target performance is settled in shares which are deferred for a period of two years. The value of any dividends paid on those shares over the two year deferral period will be added to the value of the deferred bonus. Should an employee resign during the two year deferral period, some or all of the deferred shares will be forfeited. No deferred shares were granted in respect of the year to 31 December 2008.

(a) Long-Term Incentive Plan (LTIP)

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

	2008	2007	2005/2006
Nature of arrangement	Grant of share options	Grant of share options	Grant of share options
Date of Grant	21 April 2008 1 May 2008 5 May 2008 2 June 2008 7 October 2008 15 October 2008 6 November 2008 17 November 2008 24 November 2008	1 May 2007 28 May 2007 18 June 2007 11 September 2007 1 November 2007	4 August 2006 1 November 2006
Number of instruments granted	4,755,073 33,797 51,482 41,118 60,836 37,450 239,762 10,964 50,849	3,170,676 21,758 28,824 161,002 30,190	7,285,761 118,729
Exercise price	nil	nil	nil
Share price at date of grant	249.50p 252.75p 261.50p 252.50p 255.00p 235.50p 237.25p 229.00p 266.50p	330.75p 340.75p 345.00p 292.25p 278.50p	258.75p 284.50p
Contractual life (years)	3.5 years	3.5 years	3.75 years
Vesting conditions	3 year service period; specified Group performance; total shareholder return	3 year service period; specified Group performance	3 year service period; specified Group performance
Settlement	Shares	Shares	Shares
Expected option life at grant date (years)	3.5 years	3.5 years	2.19 years
Risk free interest rate	n/a	5.83%	4.92%
Expected dividend (dividend yield)	n/a	3.41%	2.67%
Expected departures (grant date)	None at grant date. Leavers accounted for on departure	None at grant date. Leavers accounted for on departure	None at grant date. Leavers accounted for on departure
Expected outcome of meeting performance criteria (at the grant date)	50%	50%	75%
Fair value per granted instrument determined at the grant date	217p	297p	244p

The 'Black-Scholes' option pricing model is used to value the options granted under the LTIP. For the 2008 plan the 'Black-Scholes' option pricing model has been supplemented by a statistical model in order to factor into the valuation the Total Shareholder Return performance condition introduced in 2008.

The risk free interest rate was based on yields attaching to UK government bonds at the date of grant. These had a similar pattern to the expected life of the options at the date of grant.

The 2008 plan includes the entitlement to the receipt of dividends between the date of grant and the vesting date in respect of awards that ultimately vest. Accordingly, the valuation of the awards in respect of the 2008 plan has not been discounted for this factor.

43. Employee share-based payments *continued***(a) Long-Term Incentive Plan (LTIP)** *continued*

The information in the tables that follow applies to options outstanding at the end of each period.

2008			Weighted average remaining life	
Range of exercise prices	Weighted average exercise price	Number of options	Expected	Contractual
Nil	Nil	11,326,541	1.51	2.01

2007			Weighted average remaining life	
Range of exercise prices	Weighted average exercise price	Number of options	Expected	Contractual
Nil	Nil	9,976,747	1.28	1.78

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

2008	Number of options	Weighted average exercise price
Outstanding at start of year	9,976,747	-
Granted	5,281,331	-
Forfeited	(722,049)	-
Exercised	(3,209,488)	-
Outstanding at end of year	11,326,541	-

The options exercised during the year relate to the 2005 portion of the 2005/2006 plan. The weighted average share price at the time of exercise of the options was 245p.

2007	Number of options	Weighted average exercise price
Outstanding at start of year	6,900,828	-
Granted	3,412,450	-
Forfeited	(336,531)	-
Exercised	-	-
Outstanding at end of year	9,976,747	-

(b) Share incentive plans and performance shares

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

Arrangement	Share incentive plans 2008	Share incentive plans 2007	Share incentive plans 2006	Performance shares 2008	Performance shares 2007
Nature of arrangement	Grant of shares	Grant of Shares	Grant of Shares	-	Grant of shares
Date of Grant	Monthly	Monthly	Monthly	-	19 February 2008
Number of instruments granted	685,909*	521,837*	126,383*	-	1,082,950
Share price at date of grant	230p	296p	291p	-	209p
Vesting conditions	3 year service period	3 year service period	3 year service period	-	-
Settlement	Shares	Shares	Shares	-	Shares
Expected departures (grant date)	None at grant date. Leavers accounted for on departure	None at grant date. Leavers accounted for on departure	None at grant date. Leavers accounted for on departure	-	-
Expected outcome of meeting performance criteria (at the grant date)	At grant date all awards expected to vest	At grant date all awards expected to vest	At grant date all awards expected to vest	-	-
Fair value per granted instrument determined at the grant date	230p	296p	291p	-	209p

* Included in the number of instruments granted are 94,910 (2007: 65,770; 2006: 13,880) rights to shares granted to eligible employees in Canada, Germany and Austria.

(c) Employee share-based payment expense

The amounts recognised as an expense in Note 6 for share-based payment transactions with employees are as follows:

	2008 £m	2007 £m
Share options granted under long-term incentive plans	7	7
Matching shares granted under share incentive plans	1	-
Shares granted as annual performance awards	-	2
	8	9

44. Related party transactions

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

In the normal course of business, the Group enters into transactions with related parties that relate to insurance, banking and investment management business. Such related party transactions are at arms length.

Transactions with related parties carried out by the Group during the year were as follows:

	2008 £m	2007 £m
Sale to:		
Associates	17,022	11,233
Joint ventures	3	96
	17,025	11,329
Purchase from:		
Associates	17,095	11,764
Joint ventures	62	158
	17,157	11,922

Transactions with associates shown above relate primarily to the sales and purchase of holdings in investment funds managed by the Group.

The year end balances with related parties arising from transactions carried out by the Group with related parties are as follows:

	2008 £m	2007 £m
Due from related parties:		
Associates	2	-
Joint ventures	88	77
	90	77

In addition to the amounts shown above, the Group's defined benefit pension schemes have assets of £340m (2007: £192m) invested in investment vehicles managed by the Group.

(b) Compensation of key management personnel

Key management personnel, comprising 19 people (2007: 18 people) within the Group, including all Directors, both executive and non-executive and the direct reports of the position of Group Chief Executive. Detailed disclosures of Directors' remuneration for the year and transactions in which the Directors are interested are contained within the audited section of the Directors' remuneration report on pages 88 to 99.

The summary of compensation of key management personnel is as follows:

	2008 £m	2007 £m
Salaries and other short-term employee benefits	8	8
Post-employment benefits	2	1
Other long-term benefits	-	1
Termination benefits	1	1
Share-based payments	3	2
Total compensation of key management personnel	14	13

(c) Transactions with/from and balances from/(to) key management personnel

The detailed disclosures of transactions incurred by the Group with key management personnel during the year and year end balances arising from such transactions are contained within the audited section of the Directors' remuneration report on pages 88 to 99.

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

During the year to 31 December 2008, the key management personnel contributed £0.5m (2007: £1.2m) to products sold by the Group.

45. Fair value of financial assets and liabilities

(a) Methods used to determine fair value

The dislocation in the global financial markets during 2008 has had a significant impact on the value of the Group's assets shown by the investment losses recognised during the year (see Note 2) and corresponding impact on the liabilities (see Note 30).

The accounting policies in relation to the Group's financial assets and liabilities measured at fair value are set out in accounting policies (l) and (q)(i). Further information on the methods used to determine fair values for each major category of financial instrument measured at fair value and for properties is given below.

Investment securities

- **Listed equity securities – 2008: £38,360m (2007: £53,149m)**
Equity instruments listed on a recognised exchange are generally considered to be quoted in an active market. These instruments are valued using prices sourced from the primary exchange on which they are listed.
 - **Unlisted equity securities – 2008: £1,389m (2007: £1,348m)**
A valuation technique is used for these instruments. The Group's exposure to unlisted equity securities primarily relates to private equity investments. The majority of the Group's private equity investments are carried out through European fund of funds structures, where the Group receives valuations from the investment managers of the underlying funds. The valuation of these investments is based on European Venture Capital Association Guidelines, including price/earnings ratio based valuations. These valuations are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting period. The valuation of these securities is largely based on unobservable market data. Where appropriate, reference is made to observable market data.
 - **Debt securities – 2008: £50,967m (2007: £47,807m)**
For debt securities the Group has determined a hierarchy of pricing sources. The hierarchy consists of reputable third party pricing providers who use observable market data. If prices are not available from these providers or are considered to be stale, the Group has established procedures to arrive at an internal assessment of the fair value. A further analysis by category of debt security is given below. These procedures are based largely on unobservable market data.
 - **Government and supranational institution bonds**
These instruments are generally considered to be quoted in an active market. The prices received from third party pricing providers are considered to represent actual and regularly occurring market transactions.
 - **Corporate bonds (listed or in an established Over The Counter (OTC) market including asset backed securities)**
Prices received from third party pricing providers generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data.
- For instruments for which prices are either not available from third party pricing providers or the prices provided are considered to be stale, the Group performs its own assessment of the fair value of these instruments. This assessment is largely based on unobservable market data.
- **Other corporate bonds (unquoted bonds, commercial paper (CP), certificates of deposit (CDs))**
These instruments are valued using models. For CP and CDs the model inputs comprise observable market data (such as yield curves). For unquoted bonds the model includes credit spreads which are obtained from brokers or estimated internally.

45. Fair value of financial assets and liabilities continued

(a) Methods used to determine fair value continued

Derivative instruments

- Derivative financial assets – 2008: £2,800m (2007: £520m) and derivative financial liabilities – 2008 £1,348m (2007: £642m)

Exchange traded futures and options are considered to be instruments quoted in an active market. They are valued using prices sourced from the relevant exchange.

The majority of the Group's derivatives are valued using valuation techniques based on observable market data. The measurement of credit default swaps requires the estimation of recovery rates on any defaulted bond.

Properties

- Investment properties – 2008: £7,738m (2007: £10,646m), owner occupied property and property under development – 2008: £700m (2007: £837m)

For properties located in the UK and Europe all property valuations are provided by independent qualified professional valuers at 31 December or as at a date that is not more than three months before 31 December. The valuations are prepared in accordance with Royal Institution of Chartered Surveyors valuation standards. The valuation techniques used rely in large part on comparable market transactions. However, in the current difficult market conditions, many valuers are of the opinion that abnormal market conditions currently prevail and there is likely to be a greater than usual degree of uncertainty in respect of property valuations reported at 31 December 2008. Until the number and consistency of comparable transactions increases, this situation is likely to continue. Where valuations have been undertaken at dates prior to the end of the reporting period adjustments are made where appropriate to reflect the impact of changes in market conditions between the date of these valuations and the end of the reporting period.

Properties in Canada are independently valued once each year with 25% of the portfolio (by value) being independently valued each quarter. The 75% not independently valued at 31 December are reviewed internally by asset managers. An independent valuation is commissioned for any properties whose value is estimated to have changed by more than a specified limit.

The sensitivity of the value of assets to changes in key assumptions is shown in the market risk sensitivity tables in Note 39 e(iii).

The change in fair value recognised in profit or loss in relation to equity instruments where the fair value has been determined using valuation techniques which are not based on observable market data was a loss of £107m (2007: gain £307m) and that in relation to unquoted bonds is shown in Note 39 f(iv)(i).

(b) Fair value of financial assets and liabilities measured at amortised cost

The table below presents estimated fair values of financial assets and liabilities whose carrying value does not approximate fair value. Fair values of financial assets and financial liabilities are based on market prices where available, or are estimated using other valuation techniques.

	Notes	2008 Carrying value £m	2008 Fair value £m
Financial assets			
Loans secured by mortgages	19	9,012	9,336
Loans secured by mortgages subject to securitisation	19	2,823	2,874
Financial liabilities			
Loan notes backing securitisations	33	2,411	2,171
Subordinated guaranteed bonds	34	1,243	960
Subordinated notes	34	285	191
Mutual Assurance Capital Securities	34	676	415
Non-linked investment contracts		9,126	9,418

	Notes	2007 Carrying value £m	2007 Fair value £m
Financial assets			
Loans secured by mortgages	19	7,414	7,532
Loans secured by mortgages subject to securitisation	19	5,515	5,528
Financial liabilities			
Loan notes backing securitisations	33	3,983	3,897
Subordinated guaranteed bonds	34	1,063	1,080
Subordinated notes	34	257	257
Mutual Assurance Capital Securities	34	588	563
Non-linked investment contracts		8,907	9,045

The estimated fair values are calculated by discounting the expected future cash flows at current market rates with the exception of subordinated liabilities, which are based on the quoted market offer price.

It is not possible to reliably calculate the fair value of participating investment contract liabilities. The assumptions and methods used in the calculation of these liabilities are set out in the accounting policies and Note 29. The carrying value of investment contract liabilities at 31 December 2008 was £67,947m (2007: £76,253m).

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowing without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The carrying value of all other financial assets and liabilities approximates their fair value.

46. Capital statement

Capital management policies and risk management objectives

Capital can be measured on a number of different bases, which are set out in the Business Review Section 1.7 – Capital and cash generation. The capital statement shows capital based on definitions used for regulatory reporting purposes.

Managing capital is the ongoing process of determining and maintaining the quantity and quality of capital appropriate for the Group, and ensuring capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the Board considers our key stakeholders to be the providers of capital (our equity holders, policyholders and holders of our subordinated liabilities) and the Financial Services Authority (FSA).

There are two primary objectives of capital management within the Group. The first objective is to ensure that capital is, and will continue to be, adequate to maintain the required level of safety and stability of the Group and hence to provide an appropriate degree of security to our stakeholders – this aspect is measured by the Group's regulatory solvency position. The second objective is to create shareholder value by driving profit attributable to equity holders, principally measured by the Group's European Embedded Value.

The capital management policy forms one pillar of the Group's overall management framework. Most notably, it operates alongside, and complements, the strategic investment policy and the Group risk policy. By integrating policies in this way, the Group is working towards a capital management framework that robustly links the process of capital allocation, value creation and risk management.

The capital requirements of each business unit are routinely forecast on a periodic basis, and the requirements are assessed against both forecast available capital and local regulatory capital requirements. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. The capital planning process is the responsibility of the Group Finance Director. Capital plans are ultimately subject to approval by the Board.

The formal procedures for identifying and assessing risks that could affect the capital position of the Group are described in the risk management policies set out in Note 39.

46. Capital statement continued

Regulatory capital

The Group operates in a number of geographical regions, and local regulators, primarily the FSA, specify rules and guidance for the minimum level of capital required to meet local requirements. The Group has not breached any regulatory capital requirements at any time during the year.

The FSA requires all insurance companies and financial conglomerates to maintain capital resources in excess of their capital resources requirement (CRR). Capital resources include the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital. Certain items that are classified as liabilities under IAS 32 *Financial Instruments: Disclosure and Presentation* are treated as capital under the regulatory basis. For the Group this applies to its subordinated guaranteed bonds, subordinated notes and mutual assurance capital securities. The CRR represents the total of the individual capital resources requirements (ICRR) of each regulated company in the Group.

In addition to the requirement to maintain capital resources in excess of its CRR, the FSA requires that each regulated company in the Group identifies the major risks it faces and, if appropriate, quantifies the amount and type of capital it believes is appropriate to mitigate those risks. This individual capital assessment (ICA) reflects each company's view of the adequacy of its capital resources.

There are many factors which affect the Group's capital resources. The determination of the liabilities includes various assumptions including potential changes in market conditions and the actions management might take as a result of those changes. Changes in market conditions and other variables have the potential to significantly affect the capital position. Poor investment returns could depress capital resources, but this could be mitigated by changing the asset portfolio and by the level of bonuses declared. Future annuitant mortality could be significantly different from that assumed in the calculation of the liabilities. European Union developments on solvency requirements could also have a significant impact on the future capital position.

Capital structure

The Group is classified as a financial conglomerate by the FSA by virtue of its significant regulated activities including insurance, investment management and banking operations. The largest regulated entity within the Group is Standard Life Assurance Limited (SLAL), which undertakes life assurance and pension business principally in the UK, Ireland and Germany.

The majority of life assurance and pensions business undertaken by UK regulated entities is written within long-term business funds within each regulated company. These long-term business funds are distinct from the equity holders' funds. Business written prior to demutualisation, and the increments to that business, are written in the Heritage With Profits Fund (HWPF). Business written after demutualisation is written in the other long-term business funds, principally the Proprietary Business Funds (PBF).

The HWPF's capital resources of £2,974m at 31 December 2008 (2007: £6,157m) and future surplus arising can be used to provide support for the HWPF, enhance payments to with profits policyholders or, in relation to the recourse cash flows (as explained in accounting policy (v)), transfer defined amounts out of the fund to accrue to the benefit of equity holders. Additional restrictions are placed on the HWPF by the Scheme of Demutualisation (the Scheme), which provides that the recourse cash flows will be subject to a solvency test which prevents transfers of the recourse cash flows if, as a result of the transfer, the HWPF would have a realistic deficit or would have a regulatory surplus below the level which the board of SLAL considers necessary to declare bonuses, in accordance with reasonable benefit expectations of with profits policyholders, without creating a regulatory deficit.

Any surplus within the PBF is attributable to equity holders. Capital within the PBF may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund and any further restrictions imposed by the Scheme.

Capital statement

The Group's capital position is analysed between UK regulated life business, overseas life operations and other activities. The UK regulated life business is analysed by the nature of the underlying funds and includes German and Irish business written by branches of UK regulated companies. Other activities comprise investment management, general insurance and Group Corporate Centre. Standard Life Bank plc is a subsidiary of SLAL and therefore its capital resources are included within life business shareholders' funds. The Group's capital position, based on draft regulatory returns, is set out on the following page:

2008	UK regulated life business			Total UK regulated life business £m	Overseas life operations £m	Total life business £m	Other activities £m	Group total £m
	Heritage With Profits Fund* £m	Proprietary business funds £m	Life business shareholders' funds £m					
Available capital resources								
Shareholders' funds								
Held outside life assurance funds	-	-	1,034	1,034	1,075	2,109	652	2,761
Held within life assurance funds	-	646	-	646	-	646	-	646
Equity attributable to ordinary equity holders of Standard Life plc	-	646	1,034	1,680	1,075	2,755	652	3,407
Unallocated divisible surplus	864	-	-	864	-	864	-	864
Other qualifying capital								
Subordinated liabilities	-	-	266	266	-	266	1,938	2,204
Internal subordinated liabilities	-	-	2,000	2,000	225	2,225	(2,225)	-
	-	-	2,266	2,266	225	2,491	(287)	2,204
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	2,198	19	-	2,217	15	2,232	-	2,232
Exclusion of deferred acquisition costs and other inadmissible assets	(162)	(511)	(517)	(1,190)	(52)	(1,242)	(64)	(1,306)
Exclusion of deferred income	154	199	-	353	2	355	-	355
Changes to the valuation of other assets and liabilities	(78)	(86)	(27)	(191)	(77)	(268)	257	(11)
	2,112	(379)	(544)	1,189	(112)	1,077	193	1,270
Total available capital resources to meet regulatory requirement	2,976	267	2,756	5,999	1,188	7,187	558	7,745
Analysed as follows:								
Capital not subject to constraints	-	-	2,380	2,380	436	2,816	424	3,240
Capital subject to constraints	2,976	267	376	3,619	752	4,371	134	4,505
Total available capital resources	2,976	267	2,756	5,999	1,188	7,187	558	7,745
Regulatory capital requirement				2,186	685	2,871	83	2,954
Analysis of contract liabilities								
Participating								
Insurance contracts	17,087	-	-	17,087	538	17,625	-	17,625
Investment contracts	15,669	-	-	15,669	5	15,674	-	15,674
Total participating contract liabilities	32,756	-	-	32,756	543	33,299	-	33,299
Unit linked								
Insurance contracts	1,141	22	-	1,163	1,142	2,305	-	2,305
Investment contracts	29,784	13,335	-	43,119	6,684	49,803	-	49,803
Total unit linked liabilities	30,925	13,357	-	44,282	7,826	52,108	-	52,108
Other non-participating								
Insurance contracts	10,549	1,725	-	12,274	4,893	17,167	163	17,330
Investment contracts	19	290	-	309	2,161	2,470	-	2,470
Total other non-participating liabilities	10,568	2,015	-	12,583	7,054	19,637	163	19,800
Total contract liabilities	74,249	15,372	-	89,621	15,423	105,044	163	105,207

* Capital resources amounting to £2m (2007: £1m) in respect of other with profits funds are disclosed within the Heritage With Profits Fund column shown above. Participating contract liabilities amounting to £238m (2007: £115m) relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

46. Capital statement continued

	UK regulated life business			Total UK regulated life business £m	Overseas life operations £m	Total life business £m	Other activities £m	Group total £m
	Heritage With Profits Fund* £m	Proprietary business funds £m	Life business shareholders' funds £m					
2007								
Available capital resources								
Shareholders' funds								
Held outside life assurance funds	-	-	1,479	1,479	1,017	2,496	555	3,051
Held within life assurance funds	-	231	-	231	-	231	-	231
Equity attributable to ordinary equity holders of Standard Life plc	-	231	1,479	1,710	1,017	2,727	555	3,282
Unallocated divisible surplus	951	-	-	951	-	951	-	951
Other qualifying capital								
Subordinated liabilities	-	-	265	265	-	265	1,643	1,908
Internal subordinated liabilities	-	-	1,651	1,651	204	1,855	(1,855)	-
	-	-	1,916	1,916	204	2,120	(212)	1,908
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	5,228	39	-	5,267	(99)	5,168	-	5,168
Exclusion of deferred acquisition costs and other inadmissible assets	(180)	(432)	(275)	(887)	(56)	(943)	(21)	(964)
Exclusion of deferred income	173	140	-	313	-	313	-	313
Changes to the valuation of other assets and liabilities	(14)	76	(73)	(11)	83	72	233	305
	5,207	(177)	(348)	4,682	(72)	4,610	212	4,822
Total available capital resources to meet regulatory requirement	6,158	54	3,047	9,259	1,149	10,408	555	10,963
Analysed as follows:								
Capital not subject to constraints	-	-	2,670	2,670	579	3,249	439	3,688
Capital subject to constraints	6,158	54	377	6,589	570	7,159	116	7,275
Total available capital resources	6,158	54	3,047	9,259	1,149	10,408	555	10,963
Regulatory capital requirement				4,872	580	5,452	82	5,534
Analysis of contract liabilities								
Participating								
Insurance contracts	18,919	-	-	18,919	527	19,446	-	19,446
Investment contracts	17,486	-	-	17,486	5	17,491	-	17,491
Total participating contract liabilities	36,405	-	-	36,405	532	36,937	-	36,937
Unit linked								
Insurance contracts	1,522	15	-	1,537	1,352	2,889	-	2,889
Investment contracts	38,636	11,125	-	49,761	6,732	56,493	-	56,493
Total unit linked liabilities	40,158	11,140	-	51,298	8,084	59,382	-	59,382
Other non-participating								
Insurance contracts	12,302	1,266	-	13,568	4,349	17,917	174	18,091
Investment contracts	51	289	-	340	1,929	2,269	-	2,269
Total other non-participating liabilities	12,353	1,555	-	13,908	6,278	20,186	174	20,360
Total contract liabilities	88,916	12,695	-	101,611	14,894	116,505	174	116,679

* Capital resources amounting to £2m (2007: £1m) in respect of other with profits funds are disclosed within the Heritage With Profits Fund column shown above. Participating contract liabilities amounting to £238m (2007: £115m) relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

UK regulated life business

SLAL's regulatory solvency position is determined using the FSA's 'twin peaks' approach, which requires liabilities to be valued on both a realistic and a regulatory basis. The realistic basis removes some of the margins for prudence included in calculations under the regulatory basis. However, it requires discretionary benefits that are not considered under the regulatory basis, such as final bonuses, to be valued. The extent to which the realistic peak is more onerous than the regulatory peak, increases the amount of the CRR.

Based on draft regulatory returns at 31 December 2008, SLAL had available capital resources of £6.0bn (2007: £9.3bn) and a CRR of £2.2bn (2007: £4.9bn). The capital resources shown in the capital statement are based on the value of assets and liabilities valued on a regulatory basis, however, the CRR reflects the higher value required as a result of the application of the realistic peak.

Capital subject to constraints for the UK regulated life business of £3.6bn at 31 December 2008 (2007: £6.6bn) represents capital resources held within long-term business funds, or, in relation to other regulated entities, the amount of the CRR.

Standard Life Bank is owned by SLAL and therefore its capital resources are included within life business shareholders' funds. Standard Life Bank's capital resources of £541m (2007: £489m) exceed its CRR of £358m (2007: £363m) by £183m (2007: £126m), and the excess can therefore be used to meet the requirements of the life assurance business.

Overseas life operations

Capital resources of £1,188m (2007: £1,149m) which relate mainly to operations in Canada, also include operations in the Asia Pacific region. The capital resources of the Canadian operations are based on local Generally Accepted Accounting Principles (GAAP) financial statements adjusted where necessary to reflect the fair value of assets with a corresponding adjustment to liabilities. The Canadian regulator sets the minimum required capital. It also requires certain assets to be held in trust to increase policyholder protection (vested assets). As a result of the combination of the capital requirement and vested assets, the overseas life capital subject to constraints amounted to £752m at 31 December 2008 (2007: £570m).

Other activities

At 31 December 2008, capital resources of £558m (2007: £555m) and capital subject to constraints of £134m (2007: £116m) relate to the Group's healthcare, investment management businesses and Group Corporate Centre activities.

Intra-group transactions

The Group, through subsidiaries and joint ventures, provides insurance and other financial services in the UK, Canada, India and China and also through branches, provides such services in Ireland and Germany. With the exception of the requirements of the Scheme and the intra-group subordinated debt referred to below and the capital support mechanisms, there are no formal arrangements to provide capital to particular funds or business units. Any allocations of capital would need to be approved on a case-by-case basis by the Board.

SLAL has issued subordinated loans to the Company, which SLAL treats as capital for regulatory purposes. The Standard Life Assurance Company of Canada and Standard Life Investments Limited have issued subordinated debt of £225m (2007: £204m) and £45m (2007: £15m) respectively, to the Company. These amounts of subordinated debt are included within the capital resources of those businesses, but at Group level only subordinated debt issued to external parties is included in the Group's capital resources.

Group capital requirement

The Group must also calculate a group solvency position under the Financial Groups Directive (FGD). The FGD calculation is a very prudent aggregate value for the Group's capital resources, because capital held within the long-term business funds of approximately £3.2bn (2007: £6.2bn) is restricted to the level of the CRR of those funds of approximately £1.7bn (2007: £4.4bn). Therefore, the Group recognises no net surplus in respect of capital within the long-term business funds.

The estimated FGD position at 31 December 2008 is shown in the Business review Section 1.7 – Capital and cash generation.

Contract liabilities

The process used to determine the assumptions that have the greatest effect on the measurement of contract liabilities (including options and guarantees), the quantified disclosure of those assumptions, and the terms and conditions of options and guarantees relating to life assurance contracts that could in aggregate have a material effect on future cash flows are disclosed in Note 29 and Note 30.

The sensitivity of contract liabilities to changes in market conditions, key assumptions and other variables, and assumptions about management actions in response to changes in market conditions, are disclosed in Note 39.

46. Capital statement continued**Movements in capital**

The movements in the total capital resources shown in the capital statement are set out below.

	UK regulated life business				Overseas life operations	Total life business	Other activities	Group total
	Heritage With Profits Fund	Proprietary business funds	Life business shareholders' funds	Total UK regulated life business				
	£m	£m	£m	£m	£m	£m	£m	£m
2008								
At 1 January 2008	6,158	54	3,047	9,259	1,149	10,408	555	10,963
Annuity reinsurance impact	108	105	-	213	-	213	-	213
Methodology/modelling changes	120	18	-	138	15	153	-	153
Change in assumptions used to measure life assurance contract liabilities and experience differences	81	26	-	107	(55)	52	-	52
Change in regulatory requirements	-	-	-	-	15	15	-	15
New business	(46)	(182)	-	(228)	(9)	(237)	-	(237)
Investment surplus	(2,374)	74	(165)	(2,465)	43	(2,422)	-	(2,422)
Shareholder/inter-fund transfers	(406)	377	29	-	26	26	(26)	-
Dividend transfers	-	-	(400)	(400)	(40)	(440)	183	(257)
Other factors	(665)	(205)	245	(625)	44	(581)	(154)	(735)
At 31 December 2008	2,976	267	2,756	5,999	1,188	7,187	558	7,745
2007								
At 1 January 2007	5,881	99	2,825	8,805	780	9,585	658	10,243
Methodology/modelling changes	137	(6)	-	131	111	242	-	242
Change in assumptions used to measure life assurance contract liabilities and experience differences	331	(88)	-	243	2	245	-	245
Change in regulatory requirements	138	5	-	143	-	143	-	143
New business	(47)	(224)	-	(271)	(46)	(317)	-	(317)
Investment surplus	848	50	(93)	805	44	849	-	849
Shareholder/inter-fund transfers	(733)	268	465	-	74	74	(74)	-
Dividend transfers	-	-	(100)	(100)	(63)	(163)	(34)	(197)
Other factors	(397)	(50)	(50)	(497)	247	(250)	5	(245)
At 31 December 2007	6,158	54	3,047	9,259	1,149	10,408	555	10,963

The investment surplus arises from changes in market conditions, and reflects the total returns earned on the assets compared with the valuation interest rates previously assumed. It also reflects the consequent change in liabilities as a result of the change in the yield currently available on the assets and therefore the current valuation interest rates.

Changes in assumptions used to measure contract liabilities have not had a significant impact on capital resources.

Shareholder/inter-fund transfers include the transfer of £367m (2007: £674m) from the HWPF to the Shareholder Fund in respect of the recourse cash flows for UK and Ireland and £39m (2007: £59m) to the PBF in relation to additional expenses charged on German unitised with profits business. In addition, £338m (2007: £209m) was transferred from the Shareholder Fund to the PBF.

47. Business combinations

On 10 October 2008 the Group made an unconditional offer to acquire 100% of the issued share capital of Vebnet (Holdings) plc (Vebnet). Vebnet is a well established provider of technology and managed services related to reward and flexible benefit programmes.

Vebnet contributed revenues of £2m and net profit of £nil to the Group for the period from 10 October 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Vebnet would have contributed £6m to revenues and £1m to net profit of the Group for the year to 31 December 2008. These amounts have been calculated using the Group's accounting policies.

Details of the net assets acquired and goodwill were as follows:

	2008 £m
Purchase consideration	
Cash paid	26
Direct costs relating to the acquisition	1
Total purchase consideration	27
Fair value of net assets acquired	(8)
Goodwill	19

The goodwill is attributable to the workforce of the acquired business, its growth prospects as well as the significant synergies expected to arise as a result of the acquisition.

The assets and liabilities as of 10 October 2008 were as follows:

	Fair value £m	Vebnet's carrying amount £m
Assets		
Intangible assets	7	1
Other assets	2	2
Cash and cash equivalents	3	3
	12	6
Liabilities		
Other creditors	2	2
Deferred tax liabilities	2	-
	4	2
Net assets acquired	8	4
Purchase consideration settled in cash		27
Cash and cash equivalents in subsidiary acquired		(3)
Cash outflow on acquisition		24

There were no acquisitions in the year ended 31 December 2007.

48. Investments in subsidiaries

The following are particulars of the Company's principal subsidiaries which are unlisted entities except where indicated:

Name of subsidiary	Country of incorporation or residence	% of interest held	Nature of business
Standard Life Assurance Limited	Scotland	100	Life assurance
Standard Life Investment Funds Limited	Scotland	100	Life assurance
Standard Life Bank Limited	Scotland	100	Banking
Standard Life Healthcare Limited	England	100	Health insurance
Standard Life Investment Holdings Limited	Scotland	100	Holding company
Standard Life Investments Limited	Scotland	100	Investment management
Standard Life (Mauritius Holdings) 2006 Limited	Mauritius	100	Holding company
Standard Life Oversea Holdings Limited	Scotland	100	Holding company
Standard Life Employee Services Limited	Scotland	100	Employee support services
Standard Life Lifetime Mortgages Limited	Scotland	100	Mortgage finance
Standard Life Pension Funds Limited	Scotland	100	Life assurance
Standard Life Savings Limited	Scotland	100	Investment management
Standard Life European Private Equity Trust PLC** ***	Scotland	51	Investment trust
The Standard Life Assurance Company 2006* ***	Scotland	100	Life assurance
Standard Life International Limited	Ireland	100	Life assurance
The Standard Life Assurance Company of Canada	Canada	100	Life assurance
Standard Life Client Management Limited	Scotland	100	Direct sales
Standard Life Wealth Limited	Scotland	100	Investment management
Vebsnet (Holdings) plc***	England	100	Holding company

* The Standard Life Assurance Company 2006 (formerly named The Standard Life Assurance Company) is a sole member company with Standard Life Assurance Limited being the sole member.

** Indicates listed entity.

***Indicates the entity has had a different reporting date to the Group but has been consolidated consistently at 31 December.

In certain circumstances, the Group sponsors the formation of special purpose entities primarily for the purpose of securitisation of assets for raising finance. The Group consolidates special purpose entities when the substance of the relationship is that it controls or has the power to control the entity. In assessing and determining of the Group controls such special purpose entities, judgement is made about the Group's exposure to the risks, benefits and ability to control the operating and financial decisions of the entity.

49. Event after the balance sheet date

On 13 October 2008 the UK Government announced the details of the 2008 Credit Guarantee Scheme for UK incorporated banks and building societies debt issuance. The Credit Guarantee Scheme forms part of the Government's measures to ensure the stability of the financial system. The Credit Guarantee Scheme provides for HM Treasury to guarantee specific bank and building society debt instruments issued during the period beginning from the announcement of the Credit Guarantee Scheme and ending on 31 December 2009. Debt instruments which are guaranteed under the Credit Guarantee Scheme are required to have a maturity not exceeding three years. Standard Life Bank has applied and become an eligible institution under the Credit Guarantee Scheme. On 11 February 2009 Standard Life Bank launched its Euro Medium Term Note programme under which it can issue debt, including debt covered by the Credit Guarantee Scheme. On 18 February 2009 the Group issued £500m of debt under the Credit Guarantee Scheme, maturing on 25 February 2011, for use in ongoing funding and liquidity management.

Independent auditors' report to the Directors of Standard Life plc on the supplementary financial statements

We have audited the supplementary financial statements of Standard Life plc for the year ended 31 December 2008 that comprise the European Embedded Value (EEV) consolidated income statement, the EEV consolidated balance sheet, the EEV consolidated statement of recognised income and expense and the relevant notes 1 to 16 which have been prepared in accordance with the EEV basis set out on pages 247 to 248 and on pages 272 to 277 and which should be read in conjunction with the audited consolidated financial statements prepared on an International Financial Reporting Standards (IFRS) basis.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the supplementary financial statements on the EEV basis in accordance with the EEV basis set out in notes 1 and 16. Our responsibilities as independent auditors in relation to the supplementary financial statements are as set out in our letter of engagement dated 21 July 2008, to report to you our opinion as to whether the supplementary financial statements have been properly prepared, in all material respects, in accordance with the EEV basis. We also report to you if we have not received all the information and explanations we require for our audit of the supplementary financial statements. This report, including the opinion, has been prepared for and only for the Company's Directors as a body in accordance with our letter of engagement dated 21 July 2008, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

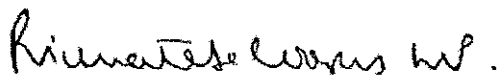
Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary financial statements. This evidence included an assessment of the significant estimates and judgments made by the Directors in the preparation of the supplementary financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the supplementary financial statements.

Opinion

In our opinion, the supplementary financial statements for the year ended 31 December 2008 have been properly prepared in all material respects in accordance with the EEV basis set out on pages 247 to 248 and on pages 272 to 277.



PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
12 March 2009

- (a) The maintenance and integrity of the Standard Life website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the supplementary financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

EEV consolidated income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Covered business			
UK		657	606
Canada		215	178
Europe		69	26
Asia Pacific		(35)	(12)
HWPF TVOG		11	42
Covered business operating profit	2(a)	917	840
Investment management ¹	6(b)	48	48
Banking		26	32
Healthcare		11	13
Group Corporate Centre costs		(50)	(57)
Other	6(c)	(19)	5
Non-covered business operating profit		16	41
Operating profit before tax		933	881
Non-operating items			
Long-term investment return and tax variances		(849)	(17)
Effect of economic assumption changes		48	27
Restructuring and corporate transaction expenses ²		(72)	(31)
Volatility arising on different asset and liability valuation bases		(109)	(39)
Other non-operating items		(51)	17
Consolidation adjustment for different accounting bases ³		(58)	-
(Loss)/profit before tax		(158)	838
Attributed tax		24	(251)
(Loss)/profit after tax		(134)	587

¹ Investment management operating profit before tax is stated after excluding profits of £45m (2007: £35m) which have been generated by life and pensions business.

² Refer to IFRS financial information Note 8 – Restructuring and corporate transaction expenses.

³ This adjustment reflects the removal of accounting differences for the Canadian subordinated liability as explained in Note 1 – Basis of preparation.

EEV earnings per share (EPS)

For the year ended 31 December 2008

	2008 £m	2007 £m
EEV operating profit after tax attributable to equity holders of Standard Life plc (£m) ¹	649	617
Basic EPS (pence)	29.8	28.9
Weighted average number of ordinary shares in issue (millions)	2,176	2,138
Diluted EPS (pence)	29.8	28.3
Weighted average number of ordinary shares on a diluted basis (millions) ²	2,180	2,177

¹ EEV operating profit before tax of £933m (2007: £881m) less attributed tax on operating profit of £284m (2007: £264m).

² Includes the full dilutive effect of bonus shares committed to at the time of the demutualisation of The Standard Life Assurance Company (SLAC) and the flotation of Standard Life plc and share awards and share options.

EEV consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Fair value losses on cash flow hedges ¹		(38)	(6)
Actuarial gains/(losses) on defined benefit pension schemes ¹		161	(3)
Exchange differences on translating foreign operations ²		323	191
Aggregate tax effect of items not recognised in income statement ¹		(42)	(1)
Net investment hedge ¹		(17)	-
Other		(3)	6
Net income not recognised in income statement		384	187
(Loss)/profit after tax		(134)	587
Total recognised income for the period attributable to equity holders	7	250	774

¹ Consistent with the IFRS consolidated statement of recognised income and expenses for the year ended 31 December 2008.

² Exchange differences primarily relate to Canada: £154m and Europe: £110m.

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EEV consolidated balance sheet

As at 31 December 2008

	Notes	31 December 2008 £m	31 December 2007 £m
Covered business			
Free surplus		1,235	1,237
Required capital		844	680
Net worth		2,079	1,917
Present value of in-force		3,345	3,639
Cost of required capital		(292)	(312)
Total embedded value of covered business	2(c)	5,132	5,244
Non-covered business			
Investment management		143	142
Banking		211	303
Healthcare		100	95
Group Corporate Centre		417	513
Other		307	49
UK pension scheme deficit		(23)	(135)
Total net assets of non-covered business	6(a)	1,155	967
Consolidation adjustment for different accounting bases ²		(42)	-
Total Group embedded value	7	6,245	6,211
Equity			
Share capital		218	217
Share premium reserve		792	792
Other reserves		1,623	1,497
Retained earnings on an IFRS basis		774	776
Additional retained earnings on an EEV basis		2,838	2,929
Total equity¹		6,245	6,211

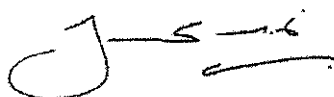
¹ Embedded value equity per share is 286p as at 31 December 2008 compared to 285p as at 31 December 2007 based on diluted share totals of 2,180m as at 31 December 2008 and 2,177m as at 31 December 2007.

² This adjustment reflects the removal of accounting differences for the Canadian subordinated liability as explained in Note 1 – Basis of preparation.

Approved on behalf of the Board of Directors on 12 March 2009 by the following Directors:



Gerry Grimstone, Chairman



David Nish, Group Finance Director

Notes to the EEV financial information

1. Basis of preparation

The European Embedded Value (EEV) basis results have been prepared in accordance with the EEV Principles and Guidance issued in May 2004 by the CFO Forum of European Insurance Companies and the Additional Guidance issued in October 2005. EEV reports the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty inherent in future assumptions, the cost of holding required capital and the value of free surplus. The total profit recognised over the lifetime of a policy is the same as under International Financial Reporting Standards (IFRS), but the timing of recognition of profits is different.

EEV includes the net assets of the businesses that are owned by equity holders of Standard Life plc plus the present value of future profits expected to arise from in-force long-term insurance policies (PVIF) where these future profits are attributable to equity holders under the Scheme of Demutualisation (the Scheme) or from sales of new business since 10 July 2006.

The opening and closing EEV numbers, and therefore the profit arising in the period, for the covered business are determined on an after tax basis. The tax assumptions are based upon the best estimate of the actual tax expected to arise. Profit before tax is derived by grossing up profit after tax at the long-term rate of corporation tax appropriate to each territory. While for some territories this rate does not equate to the actual effective rate of tax used in the calculation of after tax profits, it provides a consistent grossing up basis upon which to compare results from one year to another and is in line with the Group's expectation of the rate of tax applicable to business sold after demutualisation.

A detailed description of EEV methodology is provided in Note 16. There have been no significant changes to EEV methodology from that adopted in the previous reporting period except as noted below.

Covered business

A detailed description of EEV covered business is provided within the EEV methodology in Note 16.

Covered business in the 2007 published results was expanded to include certain mutual funds sold in the UK and Canada and are therefore reflected in the comparative results. Covered business has been further expanded in 2008 to include all Sigma mutual funds, previously sold and administered by our Investments business.

The inclusion of this Sigma mutual funds business within covered business is reflected in the EEV results with an opening adjustment of £32m (£32m for covered business and £nil for non-covered business), capturing the PVIF as at 1 January 2008 within covered business and removing any related intangibles, e.g. deferred acquisition costs, from the opening net assets of non-covered business. The movement in the EEV of those mutual funds is reflected in the covered business EEV movement with changes in net worth transferred back to non-covered business for inclusion in their closing net asset position. No covered business movement for Sigma mutual funds has been included within the comparative results for the 12 months to 31 December 2007.

Non-covered business

EEV operating profit for the 12 months to 31 December 2008 is defined as IFRS normalised underlying profit.^{1,2} In 2007 EEV operating profit was defined as IFRS underlying profit.¹ For the 12 months to 31 December 2007, IFRS underlying profit and IFRS normalised underlying profit for non-covered business were the same.

Continuous Improvement Programme (CIP)

In March 2007, we announced our aim to reduce underlying costs by a further £100m by 2009. This cost efficiency target has now been achieved one year early. In 2008, £45m (2007: £9m) of costs associated with progressing this initiative have been incurred in restructuring and corporate transactions.

UK annuity reinsurance

On 14 February 2008, Standard Life Assurance Limited entered into a reinsurance treaty with Canada Life International Re in respect of part of its UK immediate annuity liabilities. As a result of this transaction, EEV operating profit before tax increased by £119m. An analysis of this profit is shown in Note 2(a).

Pension Sterling Fund

On 11 February 2009, we announced that we would make immediate payments for the benefit of all customers who invested in the Pension Sterling Fund and had been affected by the 4.8% fall in unit price arising from the valuation adjustment. The effect of the immediate cash injection into the fund has been reflected in the EEV results for the year to 31 December 2008, and results in a pre-tax charge of £108m against EEV operating profit before tax.

¹ As adjusted for Standard Life Investments look through profits and the return on certain mutual funds which are recognised in covered business.

² The only difference between IFRS normalised underlying profit and IFRS underlying profit arises within investment management, as described in Note 6(b).

1. Basis of preparation continued

Group EEV consolidation assumptions in respect of Canadian subordinated debt

Subordinated liabilities within EEV covered business are based on the market value of the debt. The free surplus of covered business shown in Note 2(c) is net of these liabilities.

The market value of the subordinated liability in Canada has reduced over 2008 as a result of significant increases in credit spreads, offset in part from foreign exchange movements. This has produced a covered business pre-tax profit of £58m within the 2008 effect of economic assumption changes shown in Note 2(a) for Canada. This subordinated debt is owned by a non-covered subsidiary of the Group, where the asset is valued on an amortised cost basis. No profit has arisen within the year within non-covered business from changes in the value of this asset. Group EEV profit has been adjusted by £58m pre-tax, £42m post-tax to remove this profit from different accounting bases, as shown on the EEV consolidated income statement.

Total closing Group EEV has also been adjusted to exclude the £42m difference between the market value and the amortised cost value of the Canadian subordinated liability, as shown in the EEV consolidated balance sheet.

There is no restatement of the results for the 12 months to 31 December 2007.

2. Segmental analysis – covered business

(a) Segmental EEV income statement

12 months to 31 December 2008	Notes	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Contribution from new business	3	212	34	18	-	-	264
Contribution from in-force business:							
Expected return on existing business		290	109	32	-	-	431
Experience variances	4	13	47	4	-	-	64
Operating assumption changes	5	142	24	18	-	11	195
Development expenses		(33)	(3)	(6)	-	-	(42)
Expected return on free surplus		33	4	3	(35)	-	5
Operating profit/(loss) before tax		657	215	69	(35)	11	917
Investment return and tax variances		(491)	(173)	(55)	-	(130)	(849)
Effect of economic assumption changes		(69)	236	11	-	(130)	48
Restructuring expenses		(34)	(1)	(3)	-	-	(38)
Profit/(loss) before tax		63	277	22	(35)	(249)	78
Attributed tax		(18)	(75)	(7)	1	70	(29)
Profit/(loss) after tax		45	202	15	(34)	(179)	49

12 months to 31 December 2007	Notes	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Contribution from new business	3	282	37	26	-	-	345
Contribution from in-force business:							
Expected return on existing business		288	88	25	-	-	401
Experience variances	4	(116)	31	(5)	-	42	(48)
Operating assumption changes	5	139	21	(12)	-	-	148
Development expenses		(11)	(2)	(9)	-	-	(22)
Expected return on free surplus		24	3	1	(12)	-	16
Operating profit/(loss) before tax		606	178	26	(12)	42	840
Investment return and tax variances		(105)	80	(10)	-	18	(17)
Effect of economic assumption changes		(56)	71	-	-	12	27
Restructuring expenses		(6)	-	-	-	-	(6)
Profit/(loss) before tax		439	329	16	(12)	72	844
Attributed tax		(123)	(92)	(5)	1	(21)	(240)
Profit/(loss) after tax		316	237	11	(11)	51	604

An analysis of profit after tax by territory is provided in Note 9.

Operating profit before tax for covered business is calculated using the expected long-term investment return. Investment variances, the effect of economic assumption changes and other non-operating items are excluded from the operating profit for the period and are reported as part of the total EEV profit.

HWPF TVOG represents the time value of financial options and guarantees (TVOG) arising from the Heritage With Profits Fund (HWPF). Although this fund includes business written by the UK, Germany and Ireland, it is managed at a combined level by the UK financial services business and is shown separately in this analysis. The results for Canada include the cost of the Canadian TVOG, and the results for Europe include the cost of TVOG arising on business written outside of the HWPF in Germany.

The principal effect of determining the pre-tax results using the long-term rate of tax compared to the actual effective rate is to decrease the effect of economic assumption changes by £71m – UK: £69m, Europe: £2m (2007: £67m – UK: £65m, Europe: £2m), arising from the impact of investment related changes in the value of the tax effects that have been assumed to arise as a result of funding HWPF transfers out of unallocated surplus.

The reinsurance of part of the UK immediate annuity liabilities as described in Note 1 has led to an operating profit before tax of £119m. This is included in the segmental EEV income statement within operating assumption changes. The major source of this profit arises from a reduction in the risk of adverse changes in future annuitant mortality experience which was reflected in the UK and Europe HWPF non-market risk margins within the risk discount rates, as described in Note 12. This produced an operating profit before tax of £129m (£117m in UK, £12m in Europe). In addition, a profit of £11m arose from the consequential reduction in HWPF TVOG due to the reduction in the allowance for credit risk and the change in the HWPF working capital. The impact on future margins and solvency costs in the UK was negative £30m, with other UK benefits from the transaction generating £9m of profit.

The increase in the expected return on existing business has been due in part to favourable exchange rate movements, arising from the use of average exchange rates for the reporting period. This accounts for £13m of the £21m increase in Canada, and for £3m of the total £7m increase in Europe.

Effect of economic assumption changes include the effect of changes to risk discount rates of £277m (2007: (£132m)), which are explained in Note 12, and a gain of £22m in 2008 from the impact of changes to the assumed long-term tax rate in Canada. Further comments on the movement in the market value of subordinated liabilities are provided in Note 11. Investment return and tax variances for the UK includes a loss of £73m arising from losses in the contract between UK life and pensions and Standard Life Investments arising from the restructuring of Standard Life Investments (Global Liquidity Funds) plc.

HWPF TVOG shows separate movements in investment variances and economic assumptions whereas in practice economic assumption changes are highly dependent on the same factors that give rise to investment variances, for example market yields. Therefore, the key consideration is the net effect of the two items rather than the individual items themselves. Further comments on the movement in TVOG are provided in Note 10.

Restructuring expenses primarily represent the covered business costs associated with the CIP as described in Note 1.

2. Segmental analysis – covered business continued**(b) Segmental analysis of movements in EEV**

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Opening EEV	3,588	1,276	335	86	(41)	5,244
Opening adjustments	32	-	-	-	-	32
Opening adjusted EEV	3,620	1,276	335	86	(41)	5,276
Profit/(loss) after tax	45	202	15	(34)	(179)	49
Internal capital transfers	(470)	(40)	13	20	-	(477)
Transfer back of surplus to Standard Life Investments	(28)	(3)	(2)	-	-	(33)
Transfer back of mutual funds net worth	17	(1)	-	-	-	16
Actuarial gains on defined benefit pension schemes	-	12	(10)	-	-	2
Foreign exchange differences	-	154	110	36	-	300
Aggregate tax effect of items not recognised in income statement	-	(3)	-	-	-	(3)
Other	(10)	-	-	12	-	2
Closing EEV	3,174	1,597	461	120	(220)	5,132

Internal capital transfers mainly reflect dividend transfers to Standard Life plc.

Opening adjustments in the UK, for the 12 months to 31 December 2008, reflect the inclusion of Sigma UKFS mutual funds in covered business for the first time. These funds were previously included in non-covered business and are in addition to the UK and Canada mutual funds included in covered business for the first time in the 2007 published results. This adjustment is explained in more detail in Note 1 – Basis of preparation.

12 months to 31 December 2007	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Opening EEV	3,370	901	271	49	(92)	4,499
Opening adjustments	-	32	-	-	-	32
Opening adjusted EEV	3,370	933	271	49	(92)	4,531
Profit/(loss) after tax	316	237	11	(11)	51	604
Internal capital transfers	(93)	(63)	21	46	-	(89)
Transfer back of surplus to Standard Life Investments	(23)	(2)	-	-	-	(25)
Transfer back of mutual funds net worth	15	(4)	-	-	-	11
Actuarial gains on defined benefit pension schemes	-	14	5	-	-	19
Foreign exchange differences	-	164	26	3	-	193
Aggregate tax effect of items not recognised in income statement	-	(3)	-	-	-	(3)
Other	3	-	1	(1)	-	3
Closing EEV	3,588	1,276	335	86	(41)	5,244

Internal capital transfers mainly reflect dividend transfers to Standard Life plc.

Opening adjustments in the UK and Canada reflect the inclusion of certain mutual funds in covered business as explained in Note 1 – Basis of preparation.

(c) Segmental analysis of opening and closing EEV

	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
12 months to 31 December 2008						
Analysis of EEV						
Free surplus	970	168	13	86	-	1,237
PVIF	2,621	765	326	-	(41)	3,671
Required capital	63	611	6	-	-	680
Cost of capital	(34)	(268)	(10)	-	-	(312)
Opening adjusted EEV	3,620	1,276	335	86	(41)	5,276
Analysis of EEV						
Free surplus	909	154	52	120	-	1,235
PVIF	2,208	939	418	-	(220)	3,345
Required capital	95	737	12	-	-	844
Cost of capital	(38)	(233)	(21)	-	-	(292)
Closing EEV	3,174	1,597	461	120	(220)	5,132
12 months to 31 December 2007						
Analysis of EEV						
Free surplus	656	24	(9)	49	-	720
PVIF	2,693	633	278	-	(92)	3,512
Required capital	32	526	4	-	-	562
Cost of capital	(11)	(250)	(2)	-	-	(263)
Opening adjusted EEV	3,370	933	271	49	(92)	4,531
Analysis of EEV						
Free surplus	970	168	13	86	-	1,237
PVIF	2,589	765	326	-	(41)	3,639
Required capital	63	611	6	-	-	680
Cost of capital	(34)	(268)	(10)	-	-	(312)
Closing EEV	3,588	1,276	335	86	(41)	5,244

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3. Analysis of new business contribution

The following table sets out the premium volumes and contribution from new business written by the life and related businesses, consistent with the definition of new business set out in Note 16.

New business contribution (NBC) and the present value of new business premium (PVNBP) margins are shown after the effect of required capital.

	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNBP ¹ £m	PVNBP multiplier ³	PVNBP margin ² %
12 months to 31 December 2008						
Individual pensions	56	3,939	103	4,334	3.8	1.3
Group pensions	55	992	437	2,600	3.7	2.1
Institutional pensions	20	1,667	67	1,826	2.4	1.1
Savings and investments ⁴	6	2,619	10	2,690	7.1	0.2
Annuities	74	471	-	471	-	15.8
Protection	1	-	2	7	3.5	8.2
UK	212	9,688	619	11,928	3.6	1.8
Canada	34	1,154	79	2,240	13.7	1.5
Europe	18	385	67	1,016	9.4	1.8
Asia Pacific	-	90	110	495	3.7	-
Total covered business	264	11,317	875	15,679	5.0	1.7

	NBC ⁵ £m	Single premiums £m	Annualised regular premiums £m	PVNBP £m	PVNBP multiplier ³	PVNBP margin ² %
12 months to 31 December 2007						
Individual pensions	123	4,803	108	5,302	4.6	2.3
Group pensions	60	975	447	2,891	4.1	2.1
Institutional pensions	17	2,015	-	1,941	-	0.8
Savings and investments ⁴	34	2,724	14	2,788	4.6	1.3
Annuities	54	494	-	494	-	11.0
Protection	(6)	-	4	24	-	(23.7)
UK	282	11,011	573	13,440	4.2	2.1
Canada	37	977	59	1,654	11.5	2.3
Europe	26	436	81	1,179	9.2	2.2
Asia Pacific	-	64	42	266	4.8	-
Total covered business	345	12,488	755	16,539	5.4	2.1

¹ The PVNBP new business sales are different from those in the full year new business press release issued on 28 January 2009 as they incorporate year end non-economic assumption changes.

² PVNBP margins are calculated as the ratio of the value of new business to the present value of new business premiums and are based on the underlying unrounded numbers.

³ The PVNBP multiplier is calculated as the total of PVNBP less single premiums divided by annualised regular premiums.

⁴ Single premiums and PVNBP for UK savings and investments for the 12 months to 31 December 2008 include £88m attributable to the inclusion of Sigma mutual funds. Single premiums and PVNBP for UK savings and investments for 2007 have been restated to include £116m for Sigma mutual funds.

⁵ 2007 NBC does not include any contribution from Sigma mutual funds.

4. Experience variances

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
Lapses	18	-	4	-	22
Maintenance expenses	(10)	3	-	-	(7)
Mortality and morbidity	2	-	-	-	2
Tax	36	38	-	-	74
Other	(33)	6	-	-	(27)
Total	13	47	4	-	64

Lapse variances in the UK of £18m include the impact of favourable experience of onshore bonds compared to the short-term provision established at the end of 2007.

Lapse variances in Europe mainly arise from favourable experience in pension business in Ireland.

The adverse expense variance in the UK relates to certain newer products where product volumes are expected to grow rapidly. Expense overrun provisions have been set up as explained in Note 5 – Operating assumption changes.

UK tax variances reflect the benefit of ongoing tax management plus favourable tax variances from the further release of deferred annuity provisions.

Tax variances in Canada mainly arise from previously unclaimed tax assets.

'Other' UK variances include the benefit from the release of the provision held on the deferred annuity book, and the impact of the cash injection into the Pension Sterling Fund. The deferred annuity release has produced an EEV operating profit before tax of £96m, consisting of an increase to free surplus due to reserve releases of £98m, and PVIF and cost of capital decreases of £2m. The cash injection into the Pension Sterling Fund has resulted in an EEV operating loss of £108m (equivalent to a post-tax EEV operating loss of £78m), which reflects the cost of the cash injection plus associated tax impacts.

12 months to 31 December 2007	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
Lapses	(28)	-	(2)	-	(30)
Maintenance expenses	8	2	(1)	-	9
Mortality and morbidity	5	-	-	-	5
Tax	9	25	(4)	-	30
Other	(110)	4	2	42	(62)
Total	(116)	31	(5)	42	(48)

5. Operating assumption changes

	UK	Canada	Europe	HWPF TVOG	Total
12 months to 31 December 2008	£m	£m	£m	£m	£m
Lapses	(35)	(25)	(1)	-	(61)
Maintenance expenses	36	28	7	-	71
Mortality and morbidity	47	4	2	-	53
Tax	2	-	-	-	2
Other	92	17	10	11	130
Total	142	24	18	11	195

The UK lapse assumption change of (£35m) was primarily due to a strengthening of paid up assumptions across the pensions book, including the anticipated impact of customers postponing payments into their pension schemes during current volatile market conditions.

Lapse assumption changes in Canada were increased to prudently safeguard against overall deteriorating economic conditions.

All territories have made significant profits from expense assumption changes, reflecting the impact of expense savings related to CIP and other initiatives. UK and Europe expenses include productivity gains which have been anticipated and include expense overruns of £16m for UK and £4m for Europe to reflect expected growth in volume of certain newer products.

UK gains from mortality and morbidity assumption changes arise from the adoption of updated assumptions for assurance and annuity business.

£119m of the 'Other' operating assumption changes, consisting of £96m in the UK, £12m in Europe and £11m in HWPF TVOG, arise from the impact of the UK annuity reinsurance, as described in Note 2(a).

Most of the 'Other' assumption changes in Canada relate to modelling and assumption changes for group insurance business.

	UK	Canada	Europe	HWPF TVOG	Total
12 months to 31 December 2007	£m	£m	£m	£m	£m
Lapses	(249)	52	(22)	-	(219)
Maintenance expenses	69	23	8	-	100
Mortality and morbidity	(52)	(48)	-	-	(100)
Tax	26	-	-	-	26
Other	345	(6)	2	-	341
Total	139	21	(12)	-	148

6. Non-covered business

Non-covered business EEV operating profit is represented by IFRS normalised underlying profit as adjusted for Standard Life Investments look through profits and the return on mutual funds which are recognised in covered business.

(a) Segmental analysis – non-covered business

	Investment management £m	Banking £m	Healthcare £m	Other including Group Corporate Centre £m	UK pension scheme deficit £m	Total non- covered business £m
12 months to 31 December 2008						
Opening EEV net assets	142	303	95	562	(135)	967
Opening adjustments	-	-	-	-	-	-
Opening adjusted EEV	142	303	95	562	(135)	967
(Loss)/profit after tax	(35)	(49)	5	(43)	(19)	(141)
Transfer back of net worth from covered business	33	-	-	(16)	-	17
Foreign exchange differences	2	-	-	21	-	23
Internal capital transfers	-	(15)	-	472	20	477
Distributions to equity holders	-	-	-	(257)	-	(257)
Other	1	(28)	-	(15)	111	69
Closing EEV net assets	143	211	100	724	(23)	1,155

The Group's defined benefit pension scheme is included within non-covered business on an IFRS basis and is accounted for under IAS 19. IFRIC 14, IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction* provides guidance on the interpretation of the requirements contained in IAS 19. Under this guidance, the Group has restricted the recognition of the pension surplus as at 31 December 2008. This is reflected in the total Group embedded value. The (£23m) under UK pension scheme deficit represents the deferred tax liability on the restricted pension surplus. This compares to (£135m) which reflects the pension deficit net of tax as at 31 December 2007.

	Investment management £m	Banking £m	Healthcare £m	Other including Group Corporate Centre £m	UK pension scheme deficit £m	Total non- covered business £m
12 months to 31 December 2007						
Opening EEV net assets	150	355	118	626	(140)	1,109
Opening adjustments	-	-	-	(13)	-	(13)
Opening adjusted EEV	150	355	118	613	(140)	1,096
(Loss)/profit after tax	49	(8)	5	(70)	7	(17)
Transfer back of net worth from covered business	25	-	-	(11)	-	14
Foreign exchange differences	-	-	-	(2)	-	(2)
Internal capital transfers	(82)	(40)	(28)	219	20	89
Distributions to equity holders	-	-	-	(197)	-	(197)
Other	-	(4)	-	10	(22)	(16)
Closing EEV net assets	142	303	95	562	(135)	967

Opening adjustments relate to the elimination of £13m of opening deferred acquisition costs in respect of those UK financial services (UKFS) and Canada mutual funds transferred to covered business in 2007.

6. Non-covered business continued

(b) Investment management EEV profits before tax

Investment management profits are included in EEV on a look through basis. This means that the profits from investment management generated from the life and pensions business are allocated to covered business. However, the excluded life and pension profits include £20m (12 months to 31 December 2007: £13m) of profits relating to products which are actively marketed and sold to third parties through investment management distribution channels. If these profits are added to the third party profits disclosed for non-covered business there are £68m (12 months to 31 December 2007: £61m) of third party related profits for investment management.

	12 months to 31 December 2008 £m	12 months to 31 December 2007 £m
Life and pensions look through profits before tax ¹	45	35
Third party related life and pensions losses before tax	(20)	(13)
Life and pensions look through profits before tax excluding third party profits	25	22
Third party related life and pensions profits before tax	20	13
Third party related profits before tax	48	48
Total third party related profits before tax	68	61
Total EEV operating profit before tax	93	83
Non-operating items ²	(93)	17
Total EEV profit before tax	-	100

¹ Included within life and pensions look through profits before tax is £14m of profits in relation to some Sigma mutual funds business, which is now sold and administered through our UKFS Standard Life Savings business and which has been included for the first time as covered business within the 2008 UK life and pensions EEV. Previously, this Sigma mutual funds business was non-covered business and was sold and administered through our Investment business.

² The £93m non-operating loss item for the 12 months to 31 December 2008 includes a loss of £90m from the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc as described in Note 8 of the IFRS financial information. This consists of a loss of £51m, relating to the fair value movements of assets brought directly on to the balance sheet, which is included within IFRS underlying profit but which has been excluded from IFRS normalised underlying profit, and a loss of £39m which has been excluded from IFRS underlying profit. £3m relates to CIP.

(c) Other EEV operating profits before tax

	12 months to 31 December 2008 £m	12 months to 31 December 2007 £m
Canada non-life subsidiaries	2	4
Mutual funds transferred to covered business	(2)	(4)
Canada non-life subsidiaries excluding transfers to covered business	-	-
Standard Life Savings Limited	(41)	(50)
Mutual funds transferred to covered business	24	25
Standard Life Savings excluding transfers to covered business	(17)	(25)
Standard Life plc income	8	33
Other	(10)	(3)
Other non-covered business EEV operating (loss)/profit before tax	(19)	5

All figures shown are IFRS underlying profits.

Standard Life Savings Limited is the company that writes the UK mutual funds business included within covered business.

The covered business results for the 12 months to 31 December 2008 include some Sigma mutual fund business sold by the UK financial services business, which was previously sold and administered through our Investment business. There is no restatement of the results for the 12 months to 31 December 2007 and this adjustment is explained in more detail in Note 1 – Basis of preparation. A detailed description of EEV covered business is provided within the EEV methodology in Note 16.

'Other' primarily represents the operating loss related to the UK pension scheme.

7. EEV – reconciliation of movements in consolidated balance sheet

	12 months to 31 December 2008	12 months to 31 December 2007
	£m	£m
Opening EEV	6,211	5,608
Opening adjustments	32	19
Opening adjusted EEV	6,243	5,627
Total recognised income for the period	250	774
Distributions to equity holders	(257)	(197)
Issue of share capital other than in cash	1	7
Capitalisation of share premium account	-	(7)
Reserves credit for employee share-based payment schemes	10	12
Vested employee share-based payment schemes	(2)	(5)
Closing EEV	6,245	6,211

Opening adjustments relate to the transfer of mutual funds from non-covered to covered business. These adjustments impacted the opening PVIF in covered business by £32m (2007: £32m) and the opening net assets in non-covered business by £nil (2007: (£13m)).

8. Reconciliation of EEV net assets to IFRS net assets

	12 months to 31 December 2008	12 months to 31 December 2007
	£m	£m
Net assets on an EEV basis	6,245	6,211
Present value of in-force life and pensions business net of cost of capital	(3,053)	(3,327)
EEV net worth	3,192	2,884
Adjustment of long-term debt to market value	(434)	(4)
Canadian marked-to-market	58	112
Deferred acquisition costs net of deferred income reserve	354	245
Consolidation adjustment for different accounting basis ¹	42	-
Other	195	45
Net assets on an IFRS basis	3,407	3,282

¹ This adjustment reflects the removal of accounting differences for the Canadian subordinated liability as explained in Note 1 – Basis of preparation.

Reconciling items are shown net of tax where appropriate.

'Other' predominantly relates to deferred tax differences of £180m and the capitalisation of software development costs of £19m.

9. Analysis of covered business EEV PVIF and net worth movements (net of tax)**(a) Total**

	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
12 months to 31 December 2008					
Opening EEV	1,237	680	1,917	3,327	5,244
Opening adjustments	-	-	-	32	32
Opening adjusted EEV	1,237	680	1,917	3,359	5,276
Contribution from new business	(266)	42	(224)	413	189
Contribution from in-force business:					
Expected return on existing business	(1)	33	32	280	312
Expected return transfer to net worth	552	(33)	519	(519)	-
Experience variances	28	(11)	17	30	47
Operating assumption changes	102	15	117	22	139
Development expenses	(30)	-	(30)	-	(30)
Expected return on free surplus	(5)	-	(5)	-	(5)
Operating profit after tax	380	46	426	226	652
Investment return and tax variances	22	74	96	(708)	(612)
Effect of economic assumption changes	54	(30)	24	12	36
Restructuring expenses	(27)	-	(27)	-	(27)
Profit/(loss) after tax	429	90	519	(470)	49
Internal capital transfers	(477)	-	(477)	-	(477)
Transfer back of surplus to Standard Life Investments	(33)	-	(33)	-	(33)
Transfer back of mutual funds net worth	16	-	16	-	16
Actuarial gains on defined benefit pension schemes	2	-	2	-	2
Foreign exchange differences	62	74	136	164	300
Aggregate tax effect of items not recognised in income statement	(3)	-	(3)	-	(3)
Other	2	-	2	-	2
Closing EEV	1,235	844	2,079	3,053	5,132

Asia Pacific is included within covered business on an IFRS basis, with the IFRS opening and closing net assets for this business included within the opening and closing EEV free surplus, and the IFRS underlying loss after tax included within Expected return on free surplus.

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	720	562	1,282	3,217	4,499
Opening adjustments	-	-	-	32	32
Opening adjusted EEV	720	562	1,282	3,249	4,531
Contribution from new business	(272)	47	(225)	473	248
Contribution from in-force business:					
Expected return on existing business	-	26	26	262	288
Expected return transfer to net worth	552	(38)	514	(514)	-
Experience variances	6	3	9	(44)	(35)
Operating assumption changes	226	4	230	(123)	107
Development expenses	(16)	-	(16)	-	(16)
Expected return on free surplus	9	-	9	-	9
Operating profit after tax	505	42	547	54	601
Investment return and tax variances	7	3	10	(22)	(12)
Effect of economic assumption changes	75	(11)	64	(45)	19
Restructuring expenses	(4)	-	(4)	-	(4)
Profit/(loss) after tax	583	34	617	(13)	604
Internal capital transfers	(89)	-	(89)	-	(89)
Transfer back of surplus to Standard Life Investments	(25)	-	(25)	-	(25)
Transfer back of mutual funds net worth	11	-	11	-	11
Actuarial gains on defined benefit pension schemes	19	-	19	-	19
Foreign exchange differences	18	84	102	91	193
Aggregate tax effect of items not recognised in income statement	(3)	-	(3)	-	(3)
Other	3	-	3	-	3
Closing EEV	1,237	680	1,917	3,327	5,244

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) continued

(b) UK and HWPF TVOG

	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
12 months to 31 December 2008					
Opening EEV	970	63	1,033	2,514	3,547
Opening adjustments	-	-	-	32	32
Opening adjusted EEV	970	63	1,033	2,546	3,579
Contribution from new business	(188)	23	(165)	317	152
Contribution from in-force business:					
Expected return on existing business	(1)	3	2	207	209
Expected return transfer to net worth	383	(1)	382	(382)	-
Experience variances	(10)	(5)	(15)	25	10
Operating assumption changes	94	16	110	-	110
Development expenses	(24)	-	(24)	-	(24)
Expected return on free surplus	24	-	24	-	24
Operating profit after tax	278	36	314	167	481
Investment return and tax variances	178	(4)	174	(620)	(446)
Effect of economic assumption changes	(1)	-	(1)	(143)	(144)
Restructuring expenses	(25)	-	(25)	-	(25)
(Loss)/profit after tax	430	32	462	(596)	(134)
Internal capital transfers	(470)	-	(470)	-	(470)
Transfer back of surplus to Standard Life Investments	(28)	-	(28)	-	(28)
Transfer back of mutual funds net worth	17	-	17	-	17
Actuarial gains on defined benefit pension schemes	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-
Aggregate tax effect of items not recognised in income statement	-	-	-	-	-
Other	(10)	-	(10)	-	(10)
Closing EEV	909	95	1,004	1,950	2,954

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	656	32	688	2,590	3,278
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	656	32	688	2,590	3,278
Contribution from new business	(197)	27	(170)	373	203
Contribution from in-force business:					
Expected return on existing business	-	1	1	206	207
Expected return transfer to net worth	392	(1)	391	(391)	-
Experience variances	(1)	(2)	(3)	(51)	(54)
Operating assumption changes	264	4	268	(168)	100
Development expenses	(8)	-	(8)	-	(8)
Expected return on free surplus	18	-	18	-	18
Operating profit/(loss) after tax	468	29	497	(31)	466
Investment return and tax variances	(43)	1	(42)	(21)	(63)
Effect of economic assumption changes	(9)	1	(8)	(24)	(32)
Restructuring expenses	(4)	-	(4)	-	(4)
Profit/(loss) after tax	412	31	443	(76)	367
Internal capital transfers	(93)	-	(93)	-	(93)
Transfer back of surplus to Standard Life Investments	(23)	-	(23)	-	(23)
Transfer back of mutual funds net worth	15	-	15	-	15
Actuarial gains on defined benefit pension schemes	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-
Aggregate tax effect of items not recognised in income statement	-	-	-	-	-
Other	3	-	3	-	3
Closing EEV	970	63	1,033	2,514	3,547

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9. Analysis of covered business EEV PVIF and net worth movements (net of tax) continued

(c) Canada

12 months to 31 December 2008	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	168	611	779	497	1,276
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	168	611	779	497	1,276
Contribution from new business	(20)	16	(4)	28	24
Contribution from in-force business:					
Expected return on existing business	-	30	30	50	80
Expected return transfer to net worth	98	(33)	65	(65)	-
Experience variances	36	(6)	30	5	35
Operating assumption changes	(5)	(1)	(6)	23	17
Development expenses	(2)	-	(2)	-	(2)
Expected return on free surplus	3	-	3	-	3
Operating profit after tax	110	6	116	41	157
Investment return and tax variances	(156)	79	(77)	(49)	(126)
Effect of economic assumption changes	52	(30)	22	150	172
Restructuring expenses	(1)	-	(1)	-	(1)
Profit after tax	5	55	60	142	202
Internal capital transfers	(40)	-	(40)	-	(40)
Transfer back of surplus to Standard Life Investments	(3)	-	(3)	-	(3)
Transfer back of mutual funds net worth	(1)	-	(1)	-	(1)
Actuarial gains on defined benefit pension schemes	12	-	12	-	12
Foreign exchange differences	16	71	87	67	154
Aggregate tax effect of items not recognised in income statement	(3)	-	(3)	-	(3)
Other	-	-	-	-	-
Closing EEV	154	737	891	706	1,597

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	24	526	550	351	901
Opening adjustments	-	-	-	32	32
Opening adjusted EEV	24	526	550	383	933
Contribution from new business	(13)	17	4	23	27
Contribution from in-force business:					
Expected return on existing business	-	25	25	38	63
Expected return transfer to net worth	93	(35)	58	(58)	-
Experience variances	16	4	20	2	22
Operating assumption changes	(43)	-	(43)	58	15
Development expenses	(1)	-	(1)	-	(1)
Expected return on free surplus	2	-	2	-	2
Operating profit after tax	54	11	65	63	128
Investment return and tax variances	51	2	53	5	58
Effect of economic assumption changes	82	(12)	70	(19)	51
Restructuring expenses	-	-	-	-	-
Profit after tax	187	1	188	49	237
Internal capital transfers	(63)	-	(63)	-	(63)
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	(2)
Transfer back of mutual funds net worth	(4)	-	(4)	-	(4)
Actuarial gains on defined benefit pension schemes	14	-	14	-	14
Foreign exchange differences	15	84	99	65	164
Aggregate tax effect of items not recognised in income statement	(3)	-	(3)	-	(3)
Other	-	-	-	-	-
Closing EEV	168	611	779	497	1,276

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9. Analysis of covered business EEV PVIF and net worth movements (net of tax) continued

(d) Europe and Asia Pacific

12 months to 31 December 2008	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	99	6	105	316	421
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	99	6	105	316	421
Contribution from new business	(58)	3	(55)	68	13
Contribution from in-force business:					
Expected return on existing business	-	-	-	23	23
Expected return transfer to net worth	71	1	72	(72)	-
Experience variances	2	-	2	-	2
Operating assumption changes	13	-	13	(1)	12
Development expenses	(4)	-	(4)	-	(4)
Expected return on free surplus	(32)	-	(32)	-	(32)
Operating profit/(loss) after tax	(8)	4	(4)	18	14
Investment return and tax variances	-	(1)	(1)	(39)	(40)
Effect of economic assumption changes	3	-	3	5	8
Restructuring expenses	(1)	-	(1)	-	(1)
(Loss)/profit after tax	(6)	3	(3)	(16)	(19)
Internal capital transfers	33	-	33	-	33
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	(2)
Transfer back of mutual funds net worth	-	-	-	-	-
Actuarial losses on defined benefit pension schemes	(10)	-	(10)	-	(10)
Foreign exchange differences	46	3	49	97	146
Aggregate tax effect of items not recognised in income statement	-	-	-	-	-
Other	12	-	12	-	12
Closing EEV	172	12	184	397	581

Asia Pacific is included within covered business on an IFRS basis, with the IFRS opening and closing net assets for this business included within the opening and closing EEV free surplus, and the IFRS underlying loss after tax included within Expected return on free surplus.

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	40	4	44	276	320
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	40	4	44	276	320
Contribution from new business	(62)	3	(59)	77	18
Contribution from in-force business:					
Expected return on existing business	-	-	-	18	18
Expected return transfer to net worth	67	(2)	65	(65)	-
Experience variances	(9)	1	(8)	5	(3)
Operating assumption changes	5	-	5	(13)	(8)
Development expenses	(7)	-	(7)	-	(7)
Expected return on free surplus	(11)	-	(11)	-	(11)
Operating profit/(loss) after tax	(17)	2	(15)	22	7
Investment return and tax variances	(1)	-	(1)	(6)	(7)
Effect of economic assumption changes	2	-	2	(2)	-
Restructuring expenses	-	-	-	-	-
Profit/(loss) after tax	(16)	2	(14)	14	-
Internal capital transfers	67	-	67	-	67
Transfer back of surplus to Standard Life Investments	-	-	-	-	-
Transfer back of mutual funds net worth	-	-	-	-	-
Actuarial gains on defined benefit pension schemes	5	-	5	-	5
Foreign exchange differences	3	-	3	26	29
Aggregate tax effect of items not recognised in income statement	-	-	-	-	-
Other	-	-	-	-	-
Closing EEV	99	6	105	316	421

10. Time value of options and guarantees (TVOG)

	31 December 2008 £m	31 December 2007 £m
UK and Europe HWPF	(220)	(41)
Canada	(30)	(13)
Europe – other	(7)	(2)
Total	(257)	(56)

The UK and Europe HWPF TVOG reflects the value of shareholder exposure to the policyholder guarantees within the HWPF. This has increased significantly during 2008, primarily due to adverse market movements. This has arisen from both the significantly lower than expected investment returns earned during 2008, and the impact of changes to long-term investment assumptions, in particular from the use of lower risk free rates and higher implied volatilities.

Adverse investment experience and changes in economic assumptions have also resulted in increases to TVOG in Canada and Europe.

11. Market value of subordinated liabilities within covered business

	31 December 2008 £m	31 December 2007 £m
UK	(1,375)	(1,643)
Canada	(183)	(207)
Total	(1,558)	(1,850)

Subordinated liabilities within EEV covered business are based on the market value of the debt. The free surplus shown in Note 2(c) is net of these liabilities.

The market value of the subordinated liabilities in the UK and Canada has reduced over 2008 as a result of significant increases in credit spreads, offset in part from foreign exchange movements.

The fall in the market value of the Canadian subordinated liability has produced a pre-tax profit of £58m within the 2008 effect of economic assumption changes shown in Note 2(a). This has been offset by the Group EEV consolidation adjustment in respect of Canadian subordinated liability, as shown in the EEV consolidated income statement.

12. Principal economic assumptions – deterministic calculations – covered business

(a) Gross investment returns and expense inflation

	UK %	Canada %	Europe %
At 31 December 2008			
Gross investment returns			
Risk free	3.42	3.07	2.95
Corporate bonds	5.09 ³	¹	n/a
Equities	6.42	8.60	5.95
Property	5.42	8.60	4.95
Other			
Expense inflation:	2.57	²	
Germany			1.27
Ireland			2.18

¹ Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in government bonds.

² 0.94% in 2008. The rate in subsequent years is based on a moving 30 year bond yield less a variable deduction.

³ Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 6.44% for annuities that are level or subject to fixed escalations and 3.42% for annuities where escalations are linked to a price index.

At 31 December 2007	UK %	Canada %	Europe %
Gross investment returns			
Risk free	4.58	4.04	4.33
Corporate bonds	5.56 ¹	¹	n/a
Equities	7.58	8.60	7.33
Property	6.58	8.60	6.33
Other			
Expense inflation:	4.07	²	
Germany			2.69
Ireland			3.80

¹ Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in government bonds.

² 1.64% in 2007. The rate in subsequent years is based on a moving 30 year bond yield less a variable deduction.

³ Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 5.53% for annuities that are level or subject to fixed escalations and 4.58% for annuities where escalations are linked to a price index.

(b) Risk discount rates – in-force business

At 31 December 2008	UK HWPf %	UK equity holder owned funds %	Canada %	Europe HWPf %	Europe equity holder owned funds %
Risk margin – in-force business					
Risk margin before cost of capital adjustment:					
Market risk	2.00	1.70	2.80	2.00	1.70
Non-market risk	1.60	1.50	2.40	1.60	1.50
Total	3.60	3.20	5.20	3.60	3.20
Cost of capital adjustment	-	(0.30)	(1.70)	-	(0.30)
Risk margin after cost of capital adjustment	3.60	2.90	3.50	3.60	2.90
Risk discount rates – in-force business					
Risk free	3.42	3.42	3.07	2.95	2.95
Risk margin ¹	3.60	2.90	3.50	3.60	2.90
Risk discount rate	7.02	6.32	6.57	6.55	5.85

¹ Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 3.4% and 3.2% respectively.

12. Principal economic assumptions – deterministic calculations – covered business *continued*

(b) Risk discount rates – in-force business *continued*

	UK HWPF %	UK equity holder owned funds %	Canada %	Europe HWPF %	Europe equity holder owned funds %
At 31 December 2007					
Risk margin – in-force business					
Risk margin before cost of capital adjustment:					
Market risk	2.00	2.00	2.10	2.00	2.00
Non-market risk	1.60	1.20	2.20	1.60	1.20
Total	3.60	3.20	4.30	3.60	3.20
Cost of capital adjustment	-	(0.30)	(1.40)	-	(0.30)
Risk margin after cost of capital adjustment	3.60	2.90	2.90	3.60	2.90
Risk discount rates – in-force business					
Risk free	4.58	4.58	4.04	4.33	4.33
Risk margin ¹	3.60	2.90	2.90	3.60	2.90
Risk discount rate	8.18	7.48	6.94	7.93	7.23

¹ Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 3.5% and 3.3% respectively.

Changes in market risk margins generally arise from changes in asset allocation, product mix and reserving changes.

The UK and Europe HWPF non-market risk margin has remained at 1.60%. However, this consists of two separate movements. As reported in the Interim Results for 2008, the reinsurance of the UK annuity liabilities led to a 0.70% reduction in the non-market risk margin. The impact of this reduction in the risk discount rate was a profit of £129m which is reported through UK and Europe 'Other' operating assumption changes, as described in Notes 2(a) and 5, reflecting the EEV benefit of the reduced non-market risk that has arisen from this transaction. As part of the year end calibration, the UK and Europe HWPF non-market risk margin increased by 0.70% due to changes in persistency risk assumptions and also from changes in business mix. The impact of this 0.70% increase in the risk discount rate is included within the effect of economic assumption changes, as shown in Note 2(a).

The increases in the non-market risk margin for UK and Europe equity holder owned funds mainly arise from changes in persistency risk assumptions, whilst the 0.20% increase in Canada arises from changes in business mix.

Apart from the reduction arising from the reinsurance of UK annuity liabilities, the impact of the other changes in risk discount rates has been included in the effect of economic assumption changes shown in Note 2(a). The amounts within these totals that relate to the changes in risk discount rates are for UK: profit £172m, for Europe: profit £31m and for Canada: profit £74m.

(c) Risk discount rates – new business

	UK HWPF %	UK equity holder owned funds %	Canada %	Europe HWPF %	Europe equity holder owned funds %
12 months to 31 December 2008					
Risk margin – new business					
Risk margin before cost of capital adjustment:					
Market risk	2.10	1.80	1.50	2.10	1.80
Non-market risk	0.40	1.50	1.90	0.40	1.50
Total	2.50	3.30	3.40	2.50	3.30
Cost of capital adjustment	-	(0.40)	(0.50)	-	(0.40)
Risk margin after cost of capital adjustment	2.50	2.90	2.90	2.50	2.90
Risk discount rates – new business					
Risk free ¹	4.58	4.58	4.04	4.33	4.33
Risk margin ²	2.50	2.90	2.90	2.50	2.90
Risk discount rate	7.08	7.48	6.94	6.83	7.23

¹ As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2007.

² Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 2.8% and 2.9% respectively.

	UK HWPF %	UK equity holder owned funds %	Canada %	Europe HWPF %	Europe equity holder owned funds %
12 months to 31 December 2007					
Risk margin – new business					
Risk margin before cost of capital adjustment:					
Market risk	2.10	2.00	1.80	2.10	2.00
Non-market risk	0.40	1.20	2.20	0.40	1.20
Total	2.50	3.20	4.00	2.50	3.20
Cost of capital adjustment	-	(0.30)	(1.10)	-	(0.30)
Risk margin after cost of capital adjustment	2.50	2.90	2.90	2.50	2.90
Risk discount rates – new business					
Risk free ¹	4.83	4.83	4.11	3.95	3.95
Risk margin ²	2.50	2.90	2.90	2.50	2.90
Risk discount rate	7.33	7.73	7.01	6.45	6.85

¹ As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2006.

² Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 2.8% and 2.9% respectively.

13. Principal economic assumptions – stochastic calculations

The level of the TVOG is generally calculated by an economic scenario generator (ESG) which projects the relevant fund under a large number of different future economic scenarios. A detailed description of the methodology applied in the relevant funds is provided in Note 16.

Characteristics of ESG used for HWPF TVOG calculations – UK and Europe

The ESG simulates future economic environments in a market consistent manner. The outputs of the ESG include:

- Cash returns
- Bond returns
- Inflation
- Equity returns
- Property returns
- Dividend yields
- Rental yields

The ESG allows option-pricing techniques to be used to value the TVOG.

Parameters used in ESG

Cash and bond returns

These variables are calibrated using the following instruments:

- Conventional government bond yields adjusted to allow for any 'convenience premium' associated with government bond prices
- A range of swaption prices

Inflation

This variable is calibrated using the yields obtained on inflation swaps.

Equity returns

The volatility of equity returns is calibrated to the market prices of a range of FTSE 100 and Dow Jones Euro Stoxx options.

Property returns

As there is no liquid property option market, a best estimate of property return volatility is used. The property volatility is estimated from adjusted Investment Property Databank UK data.

Dividend and rental yields

As market consistent estimates for dividend and rental yields cannot be derived from liquid market instruments, best estimates are used.

Correlations

The principal correlations in the ESG are between equity, bond and property returns. These correlations are targeted to be of the following order:

- Equity/property = 0.2
- Equity/bonds = 0.2
- Property/bonds = 0.1

14. Foreign exchange

A description of the approach to the currency translation for foreign entities is provided in Note 16.

The principal exchange rates applied are:

Local currency: £	Closing 31 December 2008	Average to 31 December 2008	Closing 31 December 2007	Average to 31 December 2007
Canada	1.775	1.957	1.965	2.148
Ireland	1.034	1.259	1.362	1.459
Germany	1.034	1.259	1.362	1.459
India	70.049	80.063	78.460	82.831
China	9.810	12.896	14.540	15.214
Hong Kong	11.143	14.418	15.521	15.616

15. Sensitivity analysis – economic and non-economic assumptions

The tables below show the sensitivity of the embedded value and the NBC to different scenarios.

The sensitivities tested were:

- 1% increase and decrease in the risk discount rates
- Interest rates 1% higher and lower than base case, with consequential changes in fixed interest asset values, reserving assumptions, risk discount rates and investment returns on equities and properties
- 10% fall in market value of equity and property assets (not applicable for new business contribution)
- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10 p.a. would represent an expense assumption of £9 p.a.). Where there is a look through into service company expenses, the fee charged by the service company is unchanged while the underlying expense decreases
- 10% decrease in lapse rates (a 10% sensitivity on a base assumption of 5% p.a. would represent a lapse rate of 4.5% p.a.)
- 5% decrease in both mortality and morbidity rates for annuitant and non-annuitant policies
- EEV results assuming only prescribed minimum capital (where economic capital has been used in the EEV calculations)

Embedded value:

31 December 2008	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Embedded value	3,174	1,597	461	120	(220)	5,132
Risk discount rate +1%	(151)	(151)	(26)	-	-	(328)
Risk discount rate -1%	173	190	31	-	-	394
Interest returns +1%	72	45	(2)	-	41	156
Interest returns -1%	(80)	(78)	(2)	-	(138)	(298)
Fall in equity/property market values by 10%	(112)	(92)	(13)	-	(8)	(225)
Maintenance expenses -10%	95	90	13	-	6	204
Lapse rates -10%	98	86	5	-	(20)	169
Annuitant mortality -5%	(44)	(41)	(5)	-	-	(90)
Non-annuitant mortality -5%	9	34	1	-	1	45
Prescribed minimum capital	-	70	-	-	-	70

As explained in Note 16, Asia Pacific is not reported on an embedded value basis. Since the embedded value has been included at the IFRS value, no embedded value sensitivities are produced.

As a result of the UK annuity reinsurance transaction, the exposure of our UK business to changes in annuitant mortality is significantly reduced. Therefore, the impact of a 5% decrease in mortality for annuitant policies is reduced from (£100m) as reported in our 2007 Annual Report and Accounts to (£44m).

The sensitivity of the Canada embedded value as shown above includes the effect of changes in the market value of the subordinated liability. Whilst Group EEV is adjusted for the different subordinated debt valuation bases used for covered and non-covered business as explained in Note 1, the impact of these sensitivities on the Group EEV consolidation adjustment is not included in this sensitivity analysis.

15. Sensitivity analysis – economic and non-economic assumptions *continued*

New business contribution:

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
New business contribution	212	34	18	-	264
Risk discount rate +1%	(24)	(6)	(5)	-	(35)
Risk discount rate -1%	28	7	6	-	41
Interest returns +1%	34	(2)	(1)	-	31
Interest returns -1%	(42)	2	-	-	(40)
Maintenance expenses -10%	13	9	2	-	24
Lapse rates -10%	11	7	1	-	19
Annuitant mortality -5%	(3)	-	-	-	(3)
Non-annuitant mortality -5%	-	6	-	-	6
Prescribed minimum capital	-	1	-	-	1

Sensitivities to higher and lower assumed equity and property risk premiums in future investment earnings have not been calculated, as the effect of the risk premium is removed in setting the market risk margin in the risk discount rate.

The demographics sensitivities shown above represent a standard change to the assumptions for all products. Different products will be more or less sensitive to the change, and impacts may partially offset one another.

16. EEV methodology

Covered business

For the purposes of EEV reporting, a distinction is drawn between covered business to which EEV methodology is applied and non-covered business where results and balances are based on those determined under IFRS and included in the IFRS financial statements shown in the *Annual Report and Accounts*, unless otherwise stated.

The Group's covered business is its life assurance and pensions businesses in the UK, Canada, Europe (Germany including Austria, and Ireland) and Asia Pacific, as well as the current and future profits and losses from Standard Life Investments arising on its management of funds relating to the life and pensions businesses. As Asia Pacific is not material in the context of both the Group embedded value and the Group EEV operating profit, EEV Principles and Guidance do not require them to be reported on an embedded value basis. They have therefore been included at their IFRS value which is consistent with the IFRS primary statements. This IFRS value should not be interpreted as a proxy for their embedded value.

UK covered business also includes:

- Non-insured self invested personal pension (SIPP) business
- Those elements of Wrap business that are contained within a long-term product wrapper i.e. Bonds, SIPPs and mutual funds
- Mutual funds sold by UK financial services business

Canada covered business also includes mutual funds.

Cash flows emerging in the period on covered business that do not reside within a life and pensions company on a statutory basis are transferred back to the relevant non-covered entity for disclosure within their closing net assets. This treatment is applied to both the return from investment management and the return on certain mutual funds included in covered business.

Asia Pacific covered business consists of:

- The Group's share of results in the joint venture, HDFC Standard Life Insurance Company Limited (during 2008: 26%; 2007: started the year at 17.4% and ended the year at 26% shareholding)
- The Group's share of results in the joint venture, Heng An Standard Life Insurance Company Limited (during 2008: 50%; during 2007: 50% shareholding)
- The results of the Group's business in Hong Kong (Standard Life Asia), along with an allocation of costs attributable to the Asia Pacific Development head office

The Group's non-covered business mainly includes the business of Standard Life Bank, Standard Life Healthcare, Standard Life plc, the third party investment management business of Standard Life Investments, the non-covered business of Standard Life Savings and other non-life and pensions entities.

Value of in-force covered business

The value of future equity holders' cash flows is calculated for each material business unit on an after-tax basis, projected using best estimate future assumptions as described below.

Allowance is made for external reinsurance and reinsurance within the Group. The cash flows include the profits and losses arising in Group companies providing investment management and other services where these relate to covered business. This is referred to as the 'look through' into service company expenses.

The projected cash flows are discounted to the valuation date using a risk discount rate which is intended to make sufficient allowance for the risks associated with the emergence of these cash flows, other than those risks allowed for elsewhere in the EEV calculations. In particular, a deduction is made from the present value of the best estimate cash flows to reflect the risks associated with the existence of financial options and guarantees, this deduction being assessed using stochastic techniques as described below.

Free surplus

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date. In the UK, this comprises the market value of the assets in the equity holders' fund, plus the value of the equity holders' interests in the surplus of the long-term fund, after appropriate allowance for tax, less the required capital supporting the covered business.

For some assets and liabilities where market value is not the normal basis for accounting, as in Canada, the free surplus is restated to market value, adjusted as required to allow for the present value of any tax which would become payable if the assets were realised.

Allowance for risk

Under the EEV Principles and Guidance, risks within the covered business are allowed for in the following ways:

- Application of risk discount rates to projected cash flows, which are derived by adding a risk margin to a risk free rate
- Holding of required capital for the covered business, determined by reference to both regulatory requirements and internal economic capital assessments
- Allowing for TVOG

Risk discount rates

Under the EEV methodology, a risk discount rate is required to calculate the present value of expected future distributable profits as a single value at a particular date. The risk discount rate comprises a risk free rate which reflects the time value of money and a risk margin allowing for the risk that experience in future years may differ from that assumed. In particular, a risk margin is added to allow for the risk that expected additional returns on certain asset classes are not achieved.

Risk discount rates have been determined as the risk free government bond yield plus a risk margin. The risk margins have been determined for market risk and non-market risk separately. For market risk, we have opted for an approach whereby the risk margin is determined such that the PVIF, excluding the allowance for the TVOG, calculated using expected 'real world' asset returns equates with the PVIF calculated using 'risk neutral' investment returns and discount rates. In this way, the benefits of assuming higher than risk free returns on future cash flows are offset by using a higher discount rate. However, when returns above the risk free rate arise from the additional returns available from investing in illiquid assets, namely corporate bonds and mortgages, where they are matched to appropriate liabilities, these are not offset in determining the discount rate. Allowance has then been made for non-market risk by applying stress tests to the PVIF using our internal capital model, and quantifying an additional risk margin based on the results of the stress tests.

The main elements of non-market risk which are stress tested are lapse, mortality, expense and credit risk assumptions. Benefits of diversification between risk types are allowed for in deriving the risk margins in line with our internal capital model.

Separate risk discount rates have been calculated for in-force and new business and for the principal geographic segments (UK, Europe and Canada). Within the UK and Europe, separate risk margins are calculated for profits emerging on policies inside the HWPF (regardless of whether these profits emerge directly from the HWPF or by reinsurance into other Group entities) and on policies that are in equity holder owned funds. For HWPF policies, there is a significant inter-Group reinsurance agreement in respect of mortality surpluses on annuities, which are reassured out of the HWPF. The HWPF risk margin anticipates diversification benefits including the annuity mortality risk, since the overall capital structure also benefits from this diversification.

The risk margins are also reduced to allow for any cost of required capital (excluding double taxation cost) which is already reflected within the EEV.

Market risk margins are reviewed at each valuation date, allowing for changes in risk profile arising from movements in asset mix. Non-market risk margins are reviewed in detail once a year.

The values of the risk discount rates used for this reporting period are provided in Note 12.

16. EEV methodology continued

Required capital

Required capital represents the amount of assets over and above those required to back the liabilities in respect of the covered business whose distribution to equity holders is restricted. As a minimum, this will represent the capital requirement of the local regulator.

We have set required capital to be the higher of regulatory capital and our own internally assessed risk-based capital requirement. In determining the required capital for purposes of assessing EEV, we exclude any required capital which is provided by the existing surplus in the HWPF, as this capital is provided by policyholders. Any required capital in excess of that provided by the existing surplus in the HWPF would need to be provided by assets in the equity holders' fund. Projections show that the surplus in the HWPF is expected, on best estimate assumptions, to cover this level of required capital at the valuation date and in future years.

The levels of required capital in the current EEV calculations are therefore as follows:

- UK and Europe (business in HWPF) – no capital requirement in excess of statutory reserves or asset shares is valued in the EEV
- UK and Europe (business in equity holder owned funds) – 100% of EU minimum regulatory capital, which is higher in aggregate than Standard Life's internal risk-based capital requirement
- Canada – the level of required capital is taken as 150% of minimum continuing capital and surplus requirements (MCCSR)

The cost of required capital has been calculated using assumptions consistent with those used in the value of in-force (VIF) calculations.

Time value of financial options and guarantees (TVOG)

The TVOG represents the potential additional cost to equity holders where a financial option exists which affects policyholder benefits and is exercisable at the option of the policyholder.

UK and Europe – HWPF

The main source of TVOG in the Group EEV arises from the HWPF. Under the terms of the Scheme, equity holder cash flows from the HWPF are held back if required to cover HWPF liabilities on the Financial Services Authority realistic or regulatory basis. This option for the UK, Germany and Ireland results in the loss of cash flows when the HWPF has insufficient assets to pay guaranteed policy benefits. The main options and guarantees within the HWPF in respect of UK and European business relate to with profits business and include minimum guaranteed rates of return.

The value of the TVOG arising from the HWPF at any point in time will be sensitive to:

- The level of the residual estate (working capital in the HWPF)
- Investment conditions in terms of bond yields, equity and property values, and implied market volatility
- The investment profile of the assets backing the applicable policies, the residual estate and non profit business in the fund at the time the TVOG is calculated

The level of the TVOG has been calculated by a model which projects the HWPF under a large number of different future economic scenarios. Particular features of this calculation are:

- The projected economic scenarios and the methodology used to discount equity holder cash flows are based on market consistent assumptions
- The total cost includes an allowance for non-market risk
- Changes in policyholder behaviour are allowed for according to the particular economic scenario
- Changes in management actions, including the dynamic guarantee deductions, are allowed for according to the particular economic scenario, such actions being expected to be consistent with the way that the HWPF will be managed in future as described in the Scheme and in the Principles and Practices of Financial Management (PPFM)
- Each projection allows for the gradual release of the residual estate over time to policyholders where there are sufficient funds to do so

UK and Europe

Most with profits business written post demutualisation is managed in a number of new with profits funds. For the present reporting period, the only significant volumes of this type of new business have arisen in Germany. These policies have guarantees relating to benefits available on the policy maturity date. These guarantees increase each year with the addition of bonuses.

Equity holder assets are at risk if the resources of these with profits funds are insufficient to pay the guaranteed benefits. The level of the TVOG has been calculated using stochastic techniques. The TVOG has reduced both the NBC as well as the closing PVIF for Europe.

Canada

The main options and guarantees within the Canadian business are in respect of minimum investment returns, guaranteed maturity and death benefits, and vested bonuses, which apply to certain investment and insurance contracts.

Other economic assumptions

The assumed investment returns reflect our estimates of expected returns on principal asset classes, and are, in general, based on market conditions at the date of calculation of the EEV.

The inflation rates assumed are, in general, based on the market implied long-term price inflation plus a margin to allow for salary inflation.

Details of the assumptions used for this reporting period are provided in Note 12.

Non-economic assumption changes

Non-economic assumptions for the main classes of business, including most expense assumptions, are reviewed on an annual basis:

Expense assumptions

Expense assumptions on a per policy basis have been derived based on an analysis of management expenses performed by each business, and are split between acquisition and maintenance assumptions.

In determining future expenses in relation to covered business, no allowance has been made in the EEV or the NBC for any allocation of Group Corporate Centre costs.

Development expenses represent specific expenses incurred which are considered temporary in nature and are not expected to occur again.

Costs related to restructuring have been excluded from the EEV results where it has been agreed that these costs are to be met by the HWPF and therefore would not form part of the surplus cash flows.

Investment management expenses are also allowed for, and the assumptions for these reflect the actual investment expenses of Standard Life Investments in providing investment management services to the life and pensions business rather than the investment fees actually charged.

Restructuring expenses for covered and non-covered business include the current year cost of the Continuous Improvement Programme (CIP) and any additional restructuring expenses consistent with those identified in the IFRS underlying profit adjustments. The total restructuring expenses are included together with the cost of any corporate activity in restructuring and corporate transaction expenses.

Expenses – pension scheme deficits

Pension scheme deficits have been included in accordance with International Accounting Standard (IAS) 19 *Employee Benefits*. IFRIC 14, IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction* was adopted by the Group from 1 January 2008. The interpretation provides guidance on assessing the limit in IAS 19, *Employee benefits* on the amount of the surplus that can be recognised as an asset and explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The interpretation has been taken into consideration in determining the treatment of the surplus arising in respect of the UK defined benefit plan.

Other non-economic experience assumptions

Assumptions are made in respect of future levels of mortality, morbidity, premium terminations, option take-up, surrenders and withdrawals. The assumptions reflect our best estimates of the likely future experience, and are based on recent experience and relevant industry data, where available.

Annuitant mortality assumptions use a combination of base mortality rates, which are generally set by reference to recent experience, and expected future changes in mortality. The latter uses data provided by the Continuous Mortality Investigation Bureau in the UK and the Canadian Institute of Actuaries in Canada along with other company specific considerations.

Assumptions regarding option take-up, surrenders and withdrawals are assumed to vary, where appropriate, according to the investment scenario under consideration when deriving the TVOG, to reflect our best estimate of how policyholder behaviour may vary in such circumstances.

16. EEV methodology continued

New business

Definition of new business

New business includes new policies written during the period and some increments to existing policies.

For the UK, classification as new or existing business is determined as follows (using the approach used for the published new business figures):

- New recurrent single premium business is classified as new regular premium business to the extent that it is deemed likely to renew
- Department of Work and Pensions (DWP) rebates are deemed to be new single premiums
- Pensions vesting into annuity contracts under existing group defined benefits contracts are not included as new business
- Pensions vesting under other group contracts and individual pensions are included as new business
- Products substituted due to the exercise of standard contract terms are not deemed to be new business
- All increments and indexations to existing policies, including new members, and increments and indexations paid by existing members of group schemes, are deemed to be new business

For Germany, new business comprises new contracts written into the equity holder owned funds during the period.

The new business contribution for Germany is calculated assuming a specific level of future premium indexation. Similarly, it is assumed that premiums on 'Low Start' policies increase at the end of the low start period.

For Ireland, new business comprises:

- New contracts written during the period
- New premiums on recurrent single premium contracts
- Pensions vesting into annuity contracts under existing group defined benefits contracts are not included as new business
- Pensions vesting under other group contracts and individual pensions are included as new business
- All increments and indexations to existing policies, including new members, and increments and indexations paid by existing members of group schemes, are deemed to be new business

For Canada, business is deemed to be 'new business' if a contract has been issued during the reporting period. The new business contribution also includes the value of renewal premiums for a new contract, where the renewal premiums are (i) contractual, (ii) non-contractual but reasonably predictable, or (iii) recurrent single premiums that are pre-defined and reasonably predictable. The present value of future net income attributable to renewal premiums on existing group pension and savings contracts, including those from new members, is not included as new business. Since all deposits (new and renewal) in individual segregated funds business attract a new business/first year commission, this business is treated as new business for EEV purposes.

New business contribution (NBC)

The contribution generated by new business written during the period is the present value of the projected stream of after-tax distributable profit from that business. NBC before tax is calculated by grossing up the contribution after tax at the full corporation tax rate for UK business and at other equivalent rates of tax for other countries. NBC is calculated as at the end of the reporting period.

The economic assumptions used are those at the start of the reporting period, and the non-economic assumptions are those at the end of the reporting period. An exception to this policy is annuity business in the UK and Ireland where, to ensure consistency between the economic assumptions used in the NBC and those used in pricing the business and in the calculation of mathematical reserves, the economic assumptions used are the average rates for each quarter during the reporting period, and the asset allocations are those used in the pricing basis.

Present value of new business premiums (PVNBP)

New business sales are expressed as the PVNBP. The PVNBP calculation is equal to total single premium sales received in the period plus the discounted value of regular premiums expected to be received over the term of the new contracts, and is expressed at the point of sale. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate NBC, except that the PVNBP is discounted using the relevant opening risk free rate rather than the risk discount rate.

Tax

The opening and closing EEV numbers for the covered business are determined on an after-tax basis. The tax assumptions used are based upon the best estimate of the actual tax expected to arise. Attributable tax and profit before tax are derived by grossing up profit after tax at the long-term rate of corporation tax appropriate to each territory. While for some territories this rate does not equate to the actual effective rate of tax used in the calculation of after tax profits, it provides a consistent grossing up basis upon which to compare results from one year to another and is in line with the Group's expectation of the rate of tax applicable to new business.

Transfers to equity holders from the HWPF will, in the first instance, be funded from unallocated surplus. The profit after tax result is stated after allowing for this and takes into account the risk of markets moving adversely in the future which would reduce the amount that can be transferred to equity holders from the unallocated surplus. These transfers can be made without equity holder tax arising for a number of years. Over time the actual effective tax rate on these transfers will move toward the standard rate of corporation tax.

For non-covered business, attributed tax is consistent with the IFRS financial statements, unless otherwise stated.

Subordinated liabilities

The liabilities in respect of the UK subordinated guaranteed bonds and Mutual Assurance Capital Securities plus the subordinated debt issued by the Canadian companies form part of covered business and have been deducted at market value within the EEV. The Canadian subordinated liability is owned by a non-covered subsidiary of the Group, where the asset is valued on an amortised cost basis. Total Group EEV has been adjusted to exclude the difference between the market value and the amortised cost value of the Canadian subordinated liability.

For non-covered business, no adjustment is made to the IFRS valuation of debt.

Foreign exchange

Embedded value and other balance sheet items denominated in foreign currencies have been translated to sterling using the appropriate closing exchange rates. NBC and other profit and loss account items have been translated using average exchange rates. Gains and losses arising from foreign exchange differences on consolidation are presented separately within the EEV consolidated statement of recognised income and expense.

Details of the exchange rates applied are provided in Note 14.

Independent auditors' report to the members of Standard Life plc

We have audited the Company financial statements of Standard Life plc for the year ended 31 December 2008 which comprise the Company income statement, the Company balance sheet, the Company statement of recognised income and expense, the Company cash flow statement, the accounting policies and the related notes. These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the consolidated financial statements of Standard Life plc for the year ended 31 December 2008.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the *Annual Report and Accounts*, the Directors' remuneration report and the Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' responsibilities for preparing the financial statements.

Our responsibility is to audit the Company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' report is consistent with the Company financial statements. The information given in the Directors' report includes that specific information cross referred from the Directors' report to the Business review.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the *Annual Report and Accounts* and consider whether it is consistent with the audited Company financial statements. The other information comprises only the Chairman's statement, the Group Chief Executive's statement, the Business review, the Directors' report, the unaudited part of the Directors' remuneration report, and the other information as listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

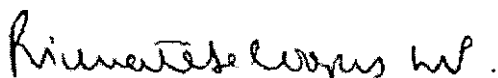
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- the Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's report is consistent with the Company financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
12 March 2009

- (a) The maintenance and integrity of the Standard Life plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue			
Net investment return	A	520	418
Total revenue		520	418
Expenses			
Administrative expenses	B	62	88
Interest payable on subordinated liabilities		109	102
Total expenses		171	190
Profit before tax		349	228
Income tax credit	F	19	7
Profit for the year		368	235

The Notes on pages 284 to 304 are an integral part of these financial statements.

Company balance sheet

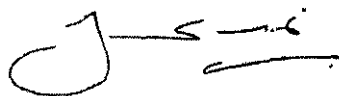
As at 31 December 2008

	Notes	2008 £m	2007 £m
Assets			
Investments in subsidiaries	G	5,078	4,808
Investments in associates and joint ventures	H	60	58
Loans to subsidiaries		1,508	1,368
Loans to associates		6	4
Deferred tax assets	I	-	1
Derivative financial assets	J	11	-
Investment securities	K	68	26
Other assets	L	59	28
Cash and cash equivalents	M	45	181
Total assets		6,835	6,474
Equity			
Share capital	N	218	217
Share premium reserve	O	792	792
Retained earnings	P	376	220
Other reserves	Q	3,477	3,515
Total equity		4,863	4,744
Liabilities			
Subordinated liabilities	R	1,919	1,651
Deferred tax liabilities	I	1	2
Derivative financial liabilities	J	24	9
Other liabilities	S	28	68
Total liabilities		1,972	1,730
Total equity and liabilities		6,835	6,474

Approved on behalf of the Board of Directors on 12 March 2009 by the following Directors:



Gerry Grimstone, Chairman



David Nish, Group Finance Director

The Notes on pages 284 to 304 are an integral part of these financial statements.

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Company statement of recognised income and expense

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Aggregate equity holder tax effect of items not recognised in income statement	I, Q	(1)	-
Net expense not recognised in income statement		(1)	-
Profit for the year	P	368	235
Total recognised income for the year		367	235

The movements in equity are summarised below:

	Notes	2008 £m	2007 £m
Equity at 1 January		4,744	4,699
Total recognised income for the year		367	235
Issue of share capital other than in cash	N	1	7
Capitalisation of share premium account	O	-	(7)
Reserves credit for employee share-based payment schemes	Q	10	12
Vested employee share-based payments	Q	(2)	(5)
Dividends and appropriations	P, Q	(257)	(197)
Equity at 31 December		4,863	4,744

The Notes on pages 284 to 304 are an integral part of these financial statements.

Company cash flow statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Profit before tax		349	228
Fair value movements on investment securities and derivatives	A	14	25
Dividend income from subsidiaries	A	(436)	(273)
Interest income on loans and receivables	A	(82)	(81)
Interest income from equity instruments	A	-	(34)
Interest payable on subordinated liabilities		109	102
Net foreign exchange gains on investment activities	A	(2)	(37)
Movements in operating assets and liabilities		(39)	6
Vested employee share-based payments	Q	(2)	(5)
Net cash flows from operating activities		(89)	(69)
Cash flows from investing activities			
Loans to subsidiaries		(30)	-
Loans to associates		(2)	(4)
Acquisition of subsidiaries	G	(27)	(102)
Disposal of subsidiaries		2	-
Capital injections into newly established subsidiaries	G	-	(14)
Capital injections into existing subsidiaries	G	(27)	(52)
Interest received on loans to subsidiaries		41	78
Interest received from equity instruments		-	34
Dividends received from subsidiaries		436	293
Purchase of investment securities		(74)	(25)
Acquisition of investments in associates and joint ventures		(2)	(44)
Net cash flows from investing activities		317	164
Cash flows from financing activities			
Dividends paid	P, Q	(257)	(197)
Interest paid		(107)	(99)
Net cash flows from financing activities		(364)	(296)
Net decrease in cash and cash equivalents		(136)	(201)
Cash and cash equivalents at the beginning of the year	M	181	382
Cash and cash equivalents at the end of the year	M	45	181
Supplemental disclosures on cash flow from operating activities			
Interest received	A	14	18

The Notes on pages 284 to 304 are an integral part of these financial statements.

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Accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

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

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

The Company has adopted the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. The amendments to IAS 39 introduce the possibility of reclassifications which were already permitted under US generally accepted accounting principles (US GAAP) in rare circumstances. These amendments are part of a series of steps that the IASB has undertaken to respond to the credit crisis. The amendments address the desire to reduce differences between IFRS and US GAAP. Minor updates have been made to IFRS 7 to take account of the revisions to IAS 39. The Company has not reclassified any financial instruments as a result of adoption of the updates.

IFRIC 14, IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction* was adopted by the Company from 1 January 2008. The interpretation provides guidance on assessing the limit in IAS 19 *Employee benefits* on the amount of surplus that can be recognised as an asset and explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The adoption of the interpretation has had no impact on the Company's financial statements.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods. The Company has not early adopted the standards, amendments and interpretations described below:

Amendment to IAS 1 *Presentation of financial statements* (effective from 1 January 2009)

The revised standard will prohibit the presentation of items of income and expense in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from 'owner changes in equity'. All non-owner changes in equity will be required to be shown in a performance statement but there will be a choice as to whether to present only the statement of comprehensive income or both the income statement and the statement of comprehensive income. The revised standard also requires that, where restatements or reclassifications of comparative information are made, a restated balance sheet must be presented as at the beginning of the comparative period. The Company will apply the revisions to IAS 1 from 1 January 2009. The revisions will have an impact on the presentation of owner changes in equity and of comprehensive income but will not have a financial impact on the Company's financial statements.

Amendment to IAS 23 *Borrowing costs* (effective from 1 January 2009 – prospective application)

The publication of the revised standard has followed the joint short-term convergence project between the IASB and the US Financial Accounting Standards Board. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company will apply the revisions to IAS 23 from 1 January 2009, but it is not expected to have an impact on the Company's financial statements.

Revisions to IFRS 1 *First-time adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an investment in a subsidiary, jointly controlled entity or an associate* (effective for annual periods beginning on or after 1 January 2009)

The amendments to IFRS 1 allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. The amendments to IAS 27 remove the definition of the 'cost method' from paragraph 4 of that standard. Additionally, when an entity reorganises the structure of its group by establishing a new entity as its parent (subject to specific criteria), the amendments require the new parent to measure cost as the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of reorganisation. The revisions are not expected to have a significant impact on the Company's financial statements.

Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009)

The amendments require certain puttable financial instruments, and certain financial instruments that impose on the Company an obligation to deliver to another party a pro rata share of net assets of the Company only on liquidation, to be classified as equity. Management have assessed that the expected impact of adoption of the amendments on the Company's financial statements will be minimal.

Amendment to IFRS 2 *Share-based payment* (effective for annual periods beginning on or after 1 January 2009)

The amendment addresses vesting conditions and cancellations, clarifying that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. The amendment also specifies that all cancellations, whether made by the Company or by other parties, should receive the same accounting treatment. Management are considering the expected impact of adoption of the amendments on the Company's financial statements.

IFRS 3 (Revised) *Business combinations* (applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009)

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through profit or loss. Goodwill may be calculated based on the parent company's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. Management will give consideration to the application of the requirements of the revised standard in respect of business combinations for which the acquisition date is on or after 1 July 2009. The amendments have not yet been endorsed by the EU.

IAS 27 (Revised) *Consolidated and separate financial statements* (effective for annual periods beginning on or after 1 July 2009)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and goodwill or gains and losses will no longer be recognised. The standard also specifies the accounting when control is lost: any remaining interest in the entity is re-measured to fair value and any resulting gain or loss is recognised in the income statement. Management are considering the expected impact of adopting the revised standard on the Company's financial statements. The revisions have not yet been endorsed by the EU.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* on eligible hedged items (effective from accounting periods beginning on or after 1 July 2009 – retrospective application)

The amendment makes two significant changes. It prohibits both the designation of inflation as a hedgeable component of a fixed rate debt instrument and the inclusion of time value in the one-sided hedged risk when designating options as hedges. Management will give consideration to the expected impact of adoption of the amendments on the Company's financial statements and in doing so will assess any hedging strategies involving options. The amendments have not yet been endorsed by the EU.

Improvements to IFRSs (effective from accounting periods beginning on or after 1 January 2009)

The publication amends 20 standards, basis of conclusions and guidance and the improvements include changes in presentation, recognition and measurement plus terminology and editorial changes. Management is considering the impact of adoption of the amendments on the Company's financial statements.

IFRIC 16 *Hedges of a net investment in a foreign operation* (effective from accounting periods beginning on or after 1 October 2008)

The interpretation clarifies, in respect of net investment hedging, that net investment hedging relates to differences in functional currency, not presentation currency, that hedging instruments may be held anywhere in the group and that the requirements of IAS 21 *The effects of changes in foreign exchange rates* do apply to the hedged item. Management will give consideration to the expected impact of adoption of the amendments on the Company's financial statements. IFRIC 16 has not yet been endorsed by the EU.

IFRIC 17 *Distributions of non-cash assets to owners* (effective from accounting periods beginning on or after 1 July 2009)

The interpretation provides clarification around the measurement of distributions of assets, other than cash, in respect of upward dividends. The interpretation states that a dividend payable should be recognised when appropriately authorised, it should be measured at the fair value of the net assets to be distributed, and the difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognised in the income statement. Management will give consideration to the expected impact of the adoption of the interpretation on the Company's financial statements. IFRIC 17 has not yet been endorsed by the EU.

(iii) Interpretations to existing standards that are not yet effective and not relevant for the Company's operations
IFRIC 13 Customer loyalty programmes relating to IAS 18 Revenue (effective for accounting periods beginning on or after 1 July 2008)

The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. The interpretation is not deemed relevant to the Company's operations due to the nature of the Company's business.

IFRIC 15 Agreements for construction of real estates (effective from accounting periods beginning on or after 1 January 2009)

The interpretation clarifies which standard (IAS 18 Revenue or IAS 11 Construction Contracts) should be applied to particular transactions. The new guidance may have an impact on the accounting in a number of industries as the interpretation may also be used by analogy in other circumstances to determine whether a transaction is accounted for as a sale of a good (IAS 18) or a construction contract (IAS 11). The interpretation is not deemed relevant to the Company's operations due to the nature of the Company's business. IFRIC 15 has not yet been endorsed by the EU.

(iv) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements, in conformity with Generally Accepted Accounting Principles (GAAP), requires management to make estimates and assumptions and exercise judgement in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the period. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the financial statements are as follows:

- Fair value determination of financial instruments at fair value through profit or loss – refer to (h) and Note X
- Impairment testing – refer to (e), (g) and Note T

(b) Subsidiaries, associates and joint ventures

Subsidiaries are all entities, including special purpose entities, over which the Company has the power to govern the financial and operating policies. Such power, generally but not exclusively, accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when ensuring whether the Company controls another entity.

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

Joint ventures are entities whereby the Company and other parties undertake an economic activity, which is subject to joint control arising from contractual agreement.

Investments in associates and joint ventures are initially recognised at cost and subsequently held at cost less any impairment charge.

The Company uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The Company has two categories of investments in subsidiaries: operating subsidiaries that undertake the activities of the Group and investment subsidiaries whose primary function is to generate capital or income growth through holding investments. Operating subsidiaries are held at cost less any impairment charge. The Company recognises income from its operating subsidiaries only to the extent that it receives distributions from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment. Investment subsidiaries are held at fair value through profit or loss (FVTPL) since they are managed on a fair value basis.

Investments in subsidiaries includes loans to subsidiaries that meet the definition of equity instruments. Refer to (g) for more information on the measurement of loans to subsidiaries.

(c) Foreign currency translation

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

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at FVTPL, are reported as part of the fair value gain or loss in the income statement. Translation differences on financial assets and liabilities held at amortised cost are included in foreign exchange gains or losses in the income statement.

(d) Revenue recognition

Realised and unrealised gains and losses resulting from changes in both market value and foreign exchange on investments classified as FVTPL, including investment income received (such as dividends and interest payments) are recognised in the income statement in the period in which they occur.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the income statement.

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

Dividend income and interest income from securities that are classified by the issuer as equity instruments are recognised when the right to receive payment is established.

(e) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, at least at each balance sheet date. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

(f) Income tax

The current tax expense is based on the taxable profits for the year, after adjustments in respect of prior years. Amounts are charged or credited to the income statement or equity as appropriate.

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

Temporary differences arising from investments in subsidiaries and associates give rise to deferred tax only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and the timing of the reversal of that difference cannot be controlled.

Deferred tax is recognised in the income statement except when it relates to items recognised directly in equity.

The income tax expense is determined using rates enacted or substantively enacted at the balance sheet date.

(g) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as FVTPL. Financial assets classified as loans and receivables include deposits with credit institutions and loans to subsidiaries when the loan is classified as a financial liability by the subsidiary.

Loans and receivables are initially measured at fair value less directly attributable transaction costs. Subsequently, they are measured at amortised cost, using the EIR method, less any impairment losses. Revenue from financial assets classified as loans and receivables is recognised in the income statement on an EIR basis.

Impairment on individual loans is determined at each reporting date. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company. This would include a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective rate, and the loan's current carrying value. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Subsequent recoveries are credited to the income statement.

(h) Investment securities and derivatives

Management determines the classification of investment securities and derivatives at initial recognition. The Company has designated its investment securities as FVTPL. Investment securities are designated as FVTPL where the asset or liability is part of a group of assets that are evaluated and managed on a fair value basis.

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

The Company recognises investment securities and derivatives at fair value on the trade date of the transaction. In the case of derivatives where no initial premium is paid or received the initial measurement value is nil. Directly attributable transaction costs are not included in the initial measurement value but are recognised in the income statement.

Fair values are based upon the current quoted bid price where an active market exists. Where a quoted price in an active market cannot be obtained an appropriate market consistent valuation technique (for example discounted cash flows and recent market transactions) is used to determine fair value. If a price/technique is not available to provide a reliable fair value the investment is carried at cost less a provision for impairment.

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

(i) Embedded derivatives

Options, guarantees and other derivatives embedded in a host contract are separated and recognised as a derivative unless they are either considered closely related to the host contract, meet the definition of an insurance contract or if the host contract itself is measured at fair value with changes in fair value recognised in income.

(j) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Company recognises and measures financial guarantee contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The Company initially recognises and measures a financial guarantee contract at its fair value. At each subsequent reporting date, the Company measures the financial guarantee contract at the higher of the initial fair value recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue* and the best estimate of the expenditure required to meet the obligations under the contract at the reporting date.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and any highly liquid investments with less than three months to maturity from the date of acquisition. For the purposes of the cash flow statement cash and cash equivalents also include bank overdrafts, which are included in borrowings on the balance sheet.

(l) Equity

(i) Share capital and treasury shares

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

If the Company purchases any of its equity instruments, the consideration paid is treated as a deduction from total equity. Where such shares are sold, if the proceeds are equal to or less than the purchase price paid, the proceeds are treated as a realised profit. If the proceeds exceed the purchase price, the excess over the purchase price is transferred to the share premium account.

(ii) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under Section 131 of the UK Companies Act 1985 are met, a sum equal to the difference between the issue value and nominal value is transferred to a 'merger reserve'.

(m) Subordinated liabilities

Subordinated liabilities are initially recognised at the value of proceeds received net of issue expenses. The total finance costs are charged to the income statement over the relevant term of the instrument using the EIR method. The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period.

(n) Pension costs and other post retirement benefits

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

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

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

(o) Provisions and contingent liabilities

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

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

(p) Dividend distribution

Final dividends on share capital classified as equity instruments are recognised in equity when they have been approved by equity holders. Interim dividends on these shares are recognised in equity in the period in which they are paid.

(q) Employee share-based payments

The Group operates share incentive plans for all employees, share-based long-term incentive plans for senior employees and may award performance shares to all employees when the Group's profit targets are met. Further details of the schemes are set out in Note 43 of the consolidated financial statements. These schemes are treated as equity-settled share-based payment schemes under IFRS 2 *Share-based payment*.

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

If the equity instruments granted vest immediately, the employees become unconditionally entitled to those equity instruments. Therefore, the Company immediately recognises an amount due from subsidiaries in respect of the services received in full with a corresponding credit to the equity compensation reserve.

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

At the time the equity instruments vest, the amount recognised in the equity compensation reserve in respect of those equity instruments is transferred to retained earnings.

(r) Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- The Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Notes to the Company financial statements

A. Net investment return

	2008 £m	2007 £m
Interest and similar income		
Cash and cash equivalents	14	18
Loans and receivables to subsidiaries and associates	82	81
	96	99
Income from subsidiary undertakings		
Dividend income	436	273
Interest income from equity instruments	-	34
	436	307
Foreign exchange gains on instruments other than at fair value through profit or loss	2	37
	2	37
Losses on financial instruments		
Equity securities and interests in pooled investment funds	14	10
Debt securities	2	-
Derivative financial instruments	(30)	(35)
	(14)	(25)
Net investment return	520	418

B. Administrative expenses

	Notes	2008 £m	2007 £m
Staff costs and other employee related costs	C	42	34
Auditors' remuneration	E	-	-
Other administrative expenses		20	54
Total administrative expenses		62	88

C. Staff costs and other employee related costs

	Notes	2008 £m	2007 £m
The aggregate remuneration payable in respect of employees was:			
Wages and salaries		34	29
Social security costs		4	2
Pension costs	D	3	2
Employee share-based payments		1	1
Total staff costs and other employee related costs		42	34

The staff who manage the affairs of the Company are employed by Standard Life Employee Services Limited (SLES), a wholly-owned subsidiary of the Company. These costs are recharged to the Company and the amounts recharged are set out above.

The information required to be disclosed under the Companies Act 1985 in respect of Directors' remuneration is provided in Note 44 of the consolidated financial statements and the audited section of the Director's remuneration report on pages 88 to 99.

Details of the employee share-based payment schemes operated by the Group are given in Note 43 of the consolidated financial statements.

D. Pension and other post retirement benefit provisions

The staff who manage the affairs of the Company are members of a defined benefit pension scheme and a defined contribution pension scheme operated by the Group for its employees in the UK. There is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit scheme across the participating UK companies. The sponsoring employer for the defined benefit scheme is Standard Life Assurance Limited (SLAL), and therefore the net defined benefit cost of the scheme is recognised by SLAL. As a result the Company treats its participation in the defined benefit plan as a defined contribution plan. Contributions to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution. The contributions to the defined contribution and the defined benefit plans recognised as an expense for the year ended 31 December 2008 were £3m (2007: £2m).

Further information on the Group's pension schemes is given in Note 35 of the consolidated financial statements.

E. Auditors' remuneration

In 2008 auditors' remuneration amounted to £0.4m (2007: £0.5m) in respect of the audit of the Company's financial statements. Auditors' remuneration for services other than the statutory audit of the Company is disclosed in Note 7 of the consolidated financial statements.

F. Income tax credit

(a) Current year tax credit

	2008 £m	2007 £m
Current tax credit – United Kingdom	18	8
Deferred tax credit/(expense) arising from the current period	1	(1)
Total income tax credit	19	7

The aggregate tax effect of items charged directly to equity is £1m (2007: £nil).

(b) Reconciliation of tax credit

	2008 £m	2007 £m
Profit before tax	349	228
Tax at UK corporation tax rate of 28.5% (2007: 30%)	(99)	(68)
Dividends not subject to UK corporation tax	124	82
Permanent differences	(6)	(7)
Total income tax credit	19	7

G. Investments in subsidiaries

	Notes	2008 £m	2007 £m
At 1 January		4,808	4,649
Acquisition of subsidiaries		27	102
Capital injections into newly established subsidiaries		-	14
Capital injections into existing subsidiaries – cash		27	52
Capital injections into existing subsidiaries – assets		198	-
Disposal of subsidiaries		(2)	-
Reduction in carrying value of Standard Life Healthcare Limited following dividend from pre-acquisition distributable reserves	Q	-	(20)
Fair value (loss)/gain		(17)	2
Foreign exchange gain		37	9
At 31 December		5,078	4,808

During the year the Company increased its investment in Standard Life Oversea Holdings Limited, Standard Life (Mauritius Holdings) 2006 Limited and Standard Life Wealth Limited. On 1 July 2008, the Company transferred a subordinated loan asset to its subsidiary, Standard Life Oversea Holdings Limited in return for shares. The Company also acquired Vebnet (Holdings) plc which became a subsidiary on 10 October 2008. Details of the acquisition are given in Note 47 of the consolidated financial statements.

Details of the Company's principal subsidiaries are given in Note 48 of the consolidated financial statements.

H. Investments in associates and joint ventures

(a) Investments in associates

The following are particulars of the Company's share of significant associates, all of which are unlisted:

Name of associate	Country of incorporation or registration	% interest held
At 31 December 2008		
Tenet Group Limited	England	23.0
Threesixty Services LLP	England	25.0
RSM BJ FM Group Limited	England	20.0
At 31 December 2007		
Tenet Group Limited	England	23.0
Threesixty Services LLP	England	25.0

The interest in RSM BJ FM Group Limited was acquired on 5 December 2008.

(b) Investments in joint ventures

The following are particulars of the Company's share of significant joint ventures, all of which are unlisted:

Name of joint venture	Country of incorporation or registration	% interest held
At 31 December 2008		
Heng An Standard Life Insurance Company Limited	China	50.0
At 31 December 2007		
Heng An Standard Life Insurance Company Limited	China	50.0

I. Tax assets and liabilities

	2008 £m	2007 £m
Deferred tax assets	-	1
Total tax assets	-	1
Deferred tax liabilities	1	2
Total tax liabilities	1	2

There are no current tax liabilities.

The Company has surrendered the benefit of tax losses to underlying subsidiaries for a consideration of £18m (2007: £7m) which will be receivable within one year. Accordingly, no tax losses are available for carry forward. The Company has provided deferred tax amounting to £1m (2007: £2m) in respect of unrealised gains on investment securities.

Recognised deferred tax

	2008 £m	2007 £m
Deferred tax assets comprise:		
Employee benefits	-	1
Net deferred tax assets	-	1
Deferred tax liabilities comprise:		
Unrealised gains on investments	(1)	(2)
Net deferred tax liabilities	(1)	(2)
Movements in deferred tax liabilities comprise:		
At 1 January	(1)	-
Amounts credited/(charged) to net profit	1	(1)
Amounts charged to equity	(1)	-
At 31 December	(1)	(1)

J. Derivative financial instruments

The Company uses derivative financial instruments in order to reduce the risk from potential movements in foreign exchange rates, equity indices and interest rates, to reduce credit risk or to achieve efficient portfolio management. These instruments are designated as held for trading in the Company financial statements.

Included within derivative financial instruments held for trading are certain forward foreign exchange contracts which at Group level hedge part of the currency translation risk of net investments in foreign operations. For details please refer to Note 20 of the consolidated financial statements.

	2008			2007		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Debt derivatives:						
Futures	4	-	-	2	-	-
Equity derivatives:						
Futures	1	-	-	3	-	-
Foreign exchange derivatives:						
Options	8	2	(1)	2	-	-
Forwards	584	9	(22)	311	-	(9)
Interest rate derivatives:						
Interest rate swaps	14	-	(1)	8	-	-
Other derivatives:						
Credit default swaps	1	-	-	-	-	-
Inflation rate swaps	2	-	-	-	-	-
Swaptions	1	-	-	-	-	-
	615	11	(24)	326	-	(9)

The derivative financial instrument liabilities of £24m (2007: £9m) are expected to be settled within 12 months. The derivative financial instrument assets of £11m (2007: £nil) are expected to be recovered within 12 months.

K. Investment securities

	2008 £m	2007 £m
Equity securities and interests in pooled investment funds:		
Listed	13	20
Unlisted	5	5
Total equity securities and interests in pooled investment funds	18	25
Debt securities:		
Unlisted	50	1
Total debt securities	50	1
Total investment securities	68	26

The amount of debt securities expected to be recovered after more than 12 months is £1m (2007: £1m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

L. Other assets

	Notes	2008 £m	2007 £m
Outstanding receipt of proceeds from share issue		1	4
Due from related parties	W	37	18
Accrued income		-	3
Other		21	3
Total other assets		59	28

The carrying amounts of other assets approximate the fair values at the year end.

All other assets are expected to be recovered within 12 months.

M. Cash and cash equivalents

	2008 £m	2007 £m
Demand and term deposits with original maturity of less than three months	45	102
Other short-term investments	-	79
Total cash and cash equivalents	45	181

Demand and term deposits with original maturity of less than three months are subject to variable interest rates.

Other short-term investments include the Company's investments in Standard Life Investments (Global Liquidity Funds) plc, which are subject to a mixture of fixed and variable interest rates.

N. Share capital

Details of the Company's share capital are given in Note 24 of the consolidated financial statements.

O. Share premium reserve

Details of the premium arising on the shares issued by the Company are given in Note 25 of the consolidated financial statements.

P. Retained earnings

	Notes	2008 £m	2007 £m
At 1 January		220	(35)
Profit for the year attributable to equity holders		368	235
Dividends and appropriations		(220)	-
Transfer from merger reserve	Q	-	20
Transfer from equity compensation reserve for vested employee share-based payments	Q	8	-
At 31 December		376	220

Details of the dividends paid during the year by the Company are provided in Note 12 of the consolidated financial statements. Note 12 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2008.

Q. Reconciliation of movements in other reserves

	Notes	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Total £m
At 1 January 2008		3,194	18	303	3,515
Reserve credit for employee share-based payment schemes		-	10	-	10
Vested employee share-based payments – shares issued	P	-	(8)	-	(8)
Vested employee share-based payments – shares purchased		-	(2)	-	(2)
Aggregate deferred tax items recognised in equity		-	(1)	-	(1)
Dividends and appropriations		-	-	(37)	(37)
At 31 December 2008		3,194	17	266	3,477
At 1 January 2007		3,214	11	500	3,725
Reserve credit for employee share-based payment schemes		-	12	-	12
Transfer to retained earnings	G,P	(20)	-	-	(20)
Vested employee share-based payments – shares purchased		-	(5)	-	(5)
Dividends and appropriations		-	-	(197)	(197)
At 31 December 2007		3,194	18	303	3,515

During 2007 the Company received a dividend from a subsidiary undertaking, Standard Life Healthcare Limited, which was made partly from its pre-acquisition distributable reserves. As a result, £20m of the merger reserve was realised and transferred to retained earnings.

Dividends and appropriations of £37m (2007: £197m) paid during the year have been treated as a deduction from the special reserve. The remaining dividends and appropriations of £220m (2007: £nil) paid during the year have been treated as a deduction from retained earnings. In total, dividends and appropriations amounted to £257m (2007: £197m).

Further information on these reserves is given in Note 27 of the consolidated financial statements.

R. Subordinated liabilities

	2008 £m	2007 £m
Subordinated guaranteed bonds:		
6.75% £500,000,000 Fixed rate perpetual	502	502
6.375% €750,000,000 Fixed/floating rate 12 July 2022	741	561
Mutual Assurance Capital Securities:		
6.546 % £300,000,000 Fixed rate perpetual	314	314
5.314 % €360,000,000 Fixed rate perpetual	362	274
Total subordinated liabilities	1,919	1,651

The principal amount of subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £75m (2007: £66m) is expected to be settled within 12 months.

Further information on the terms and conditions of the subordinated liabilities is given in Note 34 of the consolidated financial statements.

S. Other liabilities

	Notes	2008 £m	2007 £m
Due to related parties	W	4	43
Insurance contract liability	W	-	10
Other liabilities		24	15
Total other liabilities		28	68

The carrying amounts of other liabilities approximate the fair values at the year end.

All other liabilities are expected to be settled within 12 months.

Insurance contract liability relates to a guarantee issued by the Company to an investment fund managed by a subsidiary of the Company to cover the difference between amortised cost and marked to market value of the underlying assets of a sub-fund should there be a need to sell assets below amortised cost to meet investor withdrawals. The guarantee is undated and is for a maximum of £5m (2007: £60m). The Company is exposed to insurance risk, as defined by IFRS 4 *Insurance Contracts*, arising from the guarantee, and profit and equity are sensitive to the assumed level of withdrawals.

The movement in the insurance contract liability during the year comprised:

	2008 £m	2007 £m
At 1 January	10	-
Withdrawal of guarantee	(10)	-
Guarantee issued	-	10
At 31 December	-	10

T. Risk management

(a) Overview

An overview of the Group risk management framework and policies is provided in Note 39 of the consolidated financial statements.

The Company is exposed to market, credit, liquidity and insurance risks, each of which are described below.

(b) Market risk

The Group defines market risk as the risk that arises from the Group's exposure to market movements which could result in income, the value of financial assets and financial liabilities, or the cash flows relating to these, fluctuating by different amounts. The most significant element of market risk for the Company arises from its exposure to fluctuations in interest rates. The Company is exposed to fluctuations in the fair value of future cash flows of financial instruments caused by changes in market interest rates. Financial assets and liabilities which are subject to the most significant exposure to interest rate risk include cash investments, derivative financial instruments and subordinated liabilities. The Company is also exposed to fluctuations in the equity securities markets, changes in the value of its holdings and the return on those holdings.

Appetites for market risk are managed through the Group market risk policy and the Company defines its own market risk policy adopting relevant minimum standards and limits contained within the Group policy. The Company is required to manage risk in accordance with the policy and to take mitigating action as appropriate to operate within defined risk appetites. The Company ensures that risks remain within the approved market risk appetite through the use of a number of specific controls and techniques including defined lists of permitted securities and/or application of investment constraints and the active use of derivatives to improve the matching characteristics of assets and liabilities.

The Company's investments are generally held in the currency of its operational geographical locations, principally to assist with matching of liabilities. However, on the basis that geographical diversification helps to reduce the risk profile of a portfolio, the Company may believe it is appropriate to hold non-domestic assets to support domestic liabilities. In these cases, derivative financial instruments may be employed to manage currency exposure.

Derivative instruments are also utilised to reduce risk arising from exposure to fluctuations in interest rates and equity indices. Transactions in derivatives are listed on a regulated market or are with an approved counterparty. In employing derivatives, the Company must always have sufficient cash equivalents or underlying assets to cover any potential obligation or exercise right.

(b)(i) Market risk concentrations

The Group restricts market risk concentrations by ensuring that exposure is divided among a number of instruments. For each type of asset within a portfolio, responsibility for setting adequately diversified benchmarks and for limiting the structure of market risk exposure is set by the Company.

The following tables provide information regarding the market risk exposure of the Company at 31 December 2008 and 31 December 2007 showing diversification by asset type and geographic region. The market risk exposure to foreign currency assets is either matched by liabilities held in the same currency or managed using derivative financial instruments.

The geographic classification for loans and receivables and cash and cash equivalents is determined by the currency of the underlying financial instruments.

	Geography							
	UK		Continental Europe		Canada		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Debt securities	50	1	-	-	-	-	50	1
Equity securities	18	5	-	20	-	-	18	25
Loans and receivables	365	334	1,149	835	-	203	1,514	1,372
Cash and cash equivalents	42	179	2	1	1	1	45	181
Derivative financial assets	11	-	-	-	-	-	11	-
Other financial assets							59	28
Total	486	519	1,151	856	1	204	1,697	1,607

(b)(ii) Sensitivity analysis – market risk

The table below illustrates the sensitivity of profit after tax and equity to reasonably possible variations in the key assumptions made in relation to the Company's most significant market risk exposures. The sensitivity analysis has been performed by calculating the sensitivity of profit after tax and equity to changes in equity security prices and to changes in interest rates as at the balance sheet date, assuming other assumptions remain unchanged. The results of the sensitivity analysis may also have been different from those illustrated had the tests been applied at a date other than the balance sheet date. When illustrating the impact of equity risk, the expectations of corporate earnings remain unchanged.

	Equity						Interest			
	+20%	-20%	+10%	-10%	+1%	-1%				
	2008 £m	2008 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Impact on profit after tax and equity	4	(4)	2	2	(2)	(2)	1	3	(1)	(3)

Limitations

The sensitivity analysis is non-linear and larger or smaller impacts should not be derived from these results. The sensitivity analysis represents the impact on profits as at the year end that the changes in assumptions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed.

Correlation between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

(c) Credit risk

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

Appetites for credit risk are managed through the Group credit risk policy. The Company defines its own credit risk policy, adopting relevant minimum standards and limits contained within the Group policy. The Company is required to manage risk in accordance with the Group policy and to take mitigating action as appropriate to operate within defined risk appetites.

T. Risk management continued

(c) Credit risk continued

In managing credit risk, the Company sets maximum exposure limits to types of financial instruments and counterparties. The limits are established using the following controls:

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum exposure limits are set with reference to credit ratings issued by Standard & Poor's and Moody's.
Derivative financial assets	Maximum exposure limits, net of collateral, are set with reference to long-term credit ratings issued by Standard & Poor's and Moody's.
Debt securities	Limits are set on the proportion of the total portfolio of debt securities which may be placed with counterparties rated below certain credit rating levels.
Other financial instruments and liabilities	Appropriate limits are set for other financial instruments and liabilities which the Company may be exposed to from time to time.

(c)(i) Credit exposure of financial assets

The table below provides information regarding the quality of financial assets exposed to credit risk that are neither past due nor impaired at the year end, by classifying financial assets according to Standard & Poor's credit ratings of the counterparties. The analysis also provides information on the concentration of credit risk. AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB are classified as below BBB. Assets that are not rated by Standard & Poor's but are rated by another agency are categorised on a basis consistent with the Standard & Poor's rating. If a financial asset is not rated by an external agency, it is classified as not rated, which includes assets such as loans to subsidiaries.

The total amount in the table below represents the Company's credit exposure to financial assets that are neither past due nor impaired at 31 December 2008 and 31 December 2007 without taking into account collateral held.

	Credit rating									
	AAA		AA		A		Not rated		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	-	-	-	-	49	-	1	1	50	1
Loans to subsidiaries and associates	-	-	-	-	-	-	1,514	1,372	1,514	1,372
Cash and cash equivalents	-	79	3	102	42	-	-	-	45	181
Derivative financial assets	-	-	-	-	2	-	9	-	11	-
Other assets	-	-	-	-	-	-	58	24	58	24
Total	-	79	3	102	93	-	1,582	1,397	1,678	1,578

At 31 December 2008, £1m (2007: £4m) of other assets were deemed to be past due by greater than one year. This amount was not in respect of rated assets. Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

At 31 December 2008, no financial assets are considered to be impaired (2007: £nil). An allowance account is not used by the Company to record separately the impairment of assets by credit losses. Instead, the carrying amount of an asset subject to any impairment charge is directly reduced by the amount of the impairment.

(c)(ii) Collateral accepted and pledged in respect of derivative financial instruments

At 31 December 2008, the Company had pledged £17m (2007: £nil) of cash as collateral for derivative financial liabilities.

(d) Liquidity risk

The Group risk management framework defines liquidity risk as the risk that the Group or individual Group companies, although solvent, do not have sufficient financial resources available to meet their obligations as they fall due, or can secure them only at excessive cost.

The appetite for liquidity risk is managed through the Group liquidity risk policy. The Company defines its own liquidity risk policy adopting relevant minimum standards and limits contained within the Group policy. The Company is required to manage risk in accordance with the Group policy and to take mitigating action as appropriate to operate within defined risk appetites.

The Company manages liquidity risk primarily by placing limits on the value of financial assets held which are neither quoted nor regularly traded on a recognised exchange and maintenance of a portfolio of committed bank facilities (a number of which are currently undrawn).

Liquidity risk is managed by the Company in consultation with the central Group treasury function. The Company is also responsible for the production and management of the contingency funding plan if required.

(d)(i) Maturity analysis

The cash flows payable by the Company under its financial liabilities have been analysed by remaining contractual and/or expected maturities at the balance sheet date.

Non-derivative contractual cash flows

The following tables show the contractual cash flows of non-derivative liabilities payable by the Company under these instruments by remaining contractual maturity at the balance sheet date. The amounts shown are the contractual undiscounted cash flows, whereas the Company manages inherent liquidity risk based on expected discounted cash flows.

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	No contractual maturity date £m	Total £m
2008								
Subordinated liabilities	118	1,151	652	508	635	-	-	3,064
Other liabilities	28	-	-	-	-	-	-	28
Total	146	1,151	652	508	635	-	-	3,092

	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Greater than 20 years £m	No contractual maturity date £m	Total £m
2007								
Subordinated liabilities	103	961	573	528	669	-	-	2,834
Other liabilities	68	-	-	-	-	-	-	68
Total	171	961	573	528	669	-	-	2,902

Other liabilities include contractual undiscounted cash flows relating to insurance contracts of £nil (2007: £10m).

The Company ensures that it can meet its financial obligations as they fall due by maintaining suitable levels of liquid assets.

Contractual cash flows on derivatives settled on a net basis

The Company uses derivatives that will be settled on a net basis. These derivatives consist mainly of interest rate swaps. At 31 December 2008 contractual undiscounted cash flows on derivatives settled on a net basis were £1m (2007: £nil).

Contractual cash flows on derivatives settled on a gross basis

The Company uses derivatives that will be settled on a gross basis. These derivatives include foreign exchange forwards and bond futures. At 31 December 2008 undiscounted contractual cash outflows on foreign exchange forwards amounted to £598m (2007: £9m), while inflows were £583m (2007: £nil). Outflows on bond futures were £1m (2007: £nil), offset by inflows of £3m (2007: £nil). These derivatives had a contractual maturity within one year.

(e) Insurance risk

Insurance risk is defined by the Group risk management framework as being the risk that arises from inherent uncertainties as to the occurrence, amount and timing of contract liabilities. Insurance risk is managed through the Group insurance policy. The Company is required to manage risk in accordance with the policy and take mitigating action as appropriate.

T. Risk management continued**(f) Reconciliation by category of financial instruments**

The following tables reconcile the Company's financial instruments by IAS 39 *Financial Instruments: Recognition and Measurement* categories to the line items presented in the Company balance sheet.

Financial assets are analysed by category as follows:

	At fair value through profit or loss		Loans and receivables £m	Cash and cash equivalents £m	Total £m
	Held for trading £m	Designated on initial recognition £m			
2008					
Investments in subsidiaries	-	134	-	-	134
Loans to subsidiaries	-	-	1,508	-	1,508
Loans to associates	-	-	6	-	6
Derivative financial assets	11	-	-	-	11
Investment securities	-	68	-	-	68
Other assets	-	-	59	-	59
Cash and cash equivalents	-	-	-	45	45
Total financial assets	11	202	1,573	45	1,831
Non-financial assets					5,004
Total assets	11	202	1,573	45	6,835
2007					
Investments in subsidiaries	-	113	-	-	113
Loans to subsidiaries	-	-	1,368	-	1,368
Loans to associates	-	-	4	-	4
Derivative financial assets	-	-	-	-	-
Investment securities	-	26	-	-	26
Other assets	-	-	28	-	28
Cash and cash equivalents	-	-	-	181	181
Total financial assets	-	139	1,400	181	1,720
Non-financial assets					4,754
Total assets	-	139	1,400	181	6,474

Financial liabilities are analysed by category as follows:

	At fair value through profit or loss		Financial liabilities at amortised cost £m	Total £m
	Held for trading £m	Designated on initial recognition £m		
2008				
Subordinated liabilities	-	-	1,919	1,919
Derivative financial liabilities	24	-	-	24
Other liabilities	-	-	28	28
Total financial liabilities	24	-	1,947	1,971
Non-financial liabilities				1
Total Liabilities	24	-	1,947	1,972
2007				
Subordinated liabilities	-	-	1,651	1,651
Derivative financial liabilities	9	-	-	9
Other liabilities	-	-	68	68
Total financial liabilities	9	-	1,719	1,728
Non-financial liabilities				2
Total Liabilities	9	-	1,719	1,730

U. Contingencies

(a) Legal proceedings and regulations

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

(b) Joint ventures and associates

The Company has entered into agreements to share in the assets and liabilities of joint venture and associate investments. The Directors do not anticipate any material losses from such investments, and the operations of such investments are not material in relation to the operations of the Company.

The Company's share of contingent liabilities of the joint ventures and associates is not significant in relation to the operations of the Company.

(c) Issued share capital

The Scheme of Demutualisation (the Scheme) of The Standard Life Assurance Company (SLAC) sets a ten-year time limit for those eligible members of SLAC who were not allocated shares at the date of demutualisation to claim their entitlement. As future issues of these shares are dependent upon the actions of eligible members, it is not practical to estimate the financial effect of this potential obligation.

(d) Guarantees

During the year ended 31 December 2007 the Company issued a guarantee to Standard Life Investments (Global Liquidity Funds) plc to cover the difference between amortised cost and marked to market value of the underlying assets of a sub-fund, should there be a need to sell assets below amortised cost to meet investor withdrawals. The guarantee was for a maximum of £60m. During the year the sub-fund was restructured and this guarantee was replaced by a revised agreement with a maximum guarantee of £5m in respect of another sub-fund. Guarantees in respect of related parties are shown in Note W.

V. Commitments

Under the trust deed in respect of the Group's UK defined benefit pension scheme, SLES (the principal employer) must pay contributions to the pension scheme as the trustees' actuary may certify necessary. The Company has guaranteed the obligations of SLES to the UK defined benefit pension scheme for a period of 15 years from 10 July 2006.

Loan commitments extended to associates amounted to £1m (2007: £nil).

W. Related party transactions

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

In the normal course of business, the Company enters into transactions with related parties that relate to insurance, banking and investment management business. Such related party transactions are at arm's length.

The year end balances with related parties arising from transactions carried out by the Company with related parties are as follows:

	Notes	2008 £m	2007 £m
Due from related parties:			
Subsidiaries	L	37	18
Loans to subsidiaries		1,508	1,368
Loans to associates		6	4
		1,551	1,390
Due to related parties:			
Subsidiaries	S	4	53
		4	53

W. Related party transactions continued**(a) Transactions with and balances from/(to) related parties continued**

	2008 £m	2007 £m
Revenues from related parties:		
Subsidiaries	518	393
	518	393
Expenses to related parties:		
Subsidiaries	62	83
	62	83

(b) Compensation of key management personnel

The Directors and key management personnel of the Company are considered to be the same as for the Group. Information on both Company and Group compensation paid to Directors and key management personnel can be found in Note 44 of the consolidated financial statements. Information on transactions with/balances from/to key management personnel can also be found in Note 44 of the consolidated financial statements.

X. Fair value of financial assets and liabilities

The estimated fair values of financial assets and liabilities whose carrying value does not approximate fair value are as follows:

	Notes	Carrying value £m	Fair value £m
At 31 December 2008			
Financial assets			
Loans to subsidiaries		1,508	1,162
Financial liabilities			
Subordinated guaranteed bonds	R	1,243	960
Mutual Assurance Capital Securities	R	676	415

	Notes	Carrying value £m	Fair value £m
At 31 December 2007			
Financial assets			
Loans to subsidiaries		1,368	1,411
Financial liabilities			
Subordinated guaranteed bonds	R	1,063	1,080
Mutual Assurance Capital Securities	R	588	563

The estimated fair values are calculated by discounting the expected future cash flows at current market rates. The carrying value of all other financial assets and liabilities approximates their fair value.

Glossary

Annuity

A periodic payment made for an agreed period of time (usually up to the death of the recipient) in return for a cash sum. The cash sum can be paid as one amount or as a series of premiums. If the annuity commences immediately after the payment of the sum it is termed an immediate annuity. If it commences at some future date it is termed a deferred annuity.

Annual premium equivalent (APE)

An industry measure of new business. The total of new annualised regular premiums plus 10% of single premiums written during the applicable period.

Assumptions

Variables applied to data used to project expected outcomes.

Acquisition costs

Expenses related to the procurement and processing of new business written including a share of overheads.

Back book management

We choose to analyse our EEV operating profit before tax in the three components which reflect the focus of our business effort – core, efficiency and back book management. Back book management includes all non-expense related operating variances and assumption changes for covered business plus those development costs directly related to back book management initiatives and, for non-covered business, specific costs attributed to back book management.

Board

The board of Directors of the Company.

CFO Forum

A high-level discussion group formed and attended by the Chief Financial Officers of major European listed, and some non-listed, insurance companies.

Company

Standard Life plc.

Core

We choose to analyse our EEV operating profit before tax in the three components which reflect the focus of our business effort – core, efficiency and back book management. Core includes new business contribution, expected return and development costs for covered business excluding those development costs directly related to back book management initiatives and, for non-covered business, IFRS underlying profit excluding specific costs attributable to back book management.

Cost income ratio

The ratio of total costs to total income for the year expressed as a percentage. This KPI indicates how much of total income is being employed to meet the cost base and measures the strategic driver of cost effectiveness in the banking business within UK financial services (UKFS).

Covered business

The business covered by the EEV methodology. This should include any contracts that are regarded by local insurance supervisors as long-term or life insurance business and may cover other long-term life insurance, short-term life insurance such as group risk business and long-term accident and health business. Where short-term healthcare is regarded as part of or ancillary to a company's long-term life insurance business, then it may be regarded as long-term business.

Deferred acquisition costs (DAC)

The method of accounting whereby acquisition costs on long-term business are deferred in the balance sheet as an asset and amortised over the life of those contracts. This leads to a smoothed recognition of up front expenses instead of the full cost in the year of sale.

Deferred income reserve (DIR)

The method of accounting whereby front end fees that relate to services to be provided in future periods are deferred in the balance sheet as a liability and amortised over the life of those contracts. This leads to a smoothed recognition of up front income instead of the full income in the year of sale.

Demutualisation

The process by which a mutual organisation owned by its members, such as a building society or insurance company, converts to a public limited company owned by its equity holders. The Standard Life Assurance Company demutualised and shares of Standard Life plc, the new holding company for the Standard Life Group, were listed on the London Stock Exchange on 10 July 2006.

Development costs

Costs that are considered to be non-recurring and are reported separately from other expenses in the EEV movement analysis.

Director

A director of the Company.

Discounted pay back period

A measure of capital efficiency that measures the time at which the value of expected cash flows (after tax) is sufficient to recover the capital invested to support the writing of new business. Cash flows are discounted at the appropriate risk discount rate.

Discounting

The reduction to present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money. The choice of a discount rate will usually greatly influence the value of insurance provisions, and may give indications on the conservatism of provisioning methods.

Dividend cover

This is a measure of how easily a company can pay its dividend from profit. It is calculated as IFRS operating profit after tax and minority interest divided by the total dividend for that financial year. The dividend for the financial year is the current year interim dividend plus the proposed final dividend.

Earnings before interest and tax (EBIT)

EBIT is defined as earnings before interest, taxation, foreign exchange gains and losses, profit on partial disposal of investment in associate, divergence on financial guarantee costs, movement on contract for differences and restructuring costs. This KPI measures directly the underlying operating profitability.

EBIT margin

This is an industry measure of performance for investment management companies. It is calculated as EBIT divided by total revenue.

Economic assumptions

Assumptions in relation to future interest rates, investment returns, inflation and tax. These assumptions and variances in relation to these assumptions are treated as non-operating profits/(losses) under EEV.

Efficiency

We choose to analyse our EEV operating profit before tax in the three components which reflect the focus of our business effort – core, efficiency and back book management. Efficiency includes covered business maintenance expense variances and assumption changes.

European Embedded Value (EEV)

The value to equity shareholders of the net assets plus the expected future profits on in-force business from a life assurance and pensions business. Prepared in accordance

with the EEV Principles and Guidance issued in May 2004 by the CFO Forum and the Additional Guidance issued in October 2005. EEV reports the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty inherent in future assumptions, the costs of holding required capital, the value of free surplus and TVOG.

EEV operating profit – covered business

Profit generated from new business sales and the in-force book of business, based on closing non-economic and opening economic assumptions.

EEV operating profit capital and cash generation

This is a measure of the underlying shareholder capital and cash flow of the Group and is measured as the EEV operating profit net worth (free surplus and required capital) on an after tax basis.

Expected return on EEV

Anticipated results based on applying opening assumptions to the opening EEV.

Experience variances

Current period differences between the actual experience incurred over the period and the assumptions used in the calculation of the embedded value excluding new business non-economic experience variances which are captured in new business contribution.

Financial options and guarantees

Terms relating to covered business conferring potentially valuable guarantees underlying, or options to change, the level and nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.

Free surplus

The amount of capital and any surplus allocated to, but not required to support, the in-force business covered by the EEV.

Group assets under administration (AUA)

A measure of the total assets that the Group administers on behalf of customers and institutional clients, it includes those assets for which the Group provides investment management services, as well as those assets that the Group administers where the customer has made a choice to select an external third party investment manager. Assets under administration reflect the value of the IFRS gross assets of the Group adjusted, where appropriate, for consolidation adjustments,

inter-company assets and intangible assets. In addition, the definition includes third party assets administered by the Group which are not included in the consolidated balance sheet.

Group capital surplus

This is a regulatory measure of our financial strength and compares the Group's capital resources to its capital resource requirements in accordance with the Financial Groups Directive.

Group, Standard Life Group or Standard Life

Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006, the Company and its subsidiaries.

Heritage With Profits Fund (HWPF)

The Heritage With Profits Fund contains all existing business – both with profits and non profit – written before demutualisation in the UK, Irish or German branches, with the exception of the classes of business which the Scheme of Demutualisation allocated to the Proprietary Business Fund. This HWPF also contains increments to existing business.

Individual Capital Assessment (ICA)

The process by which the Financial Services Authority (FSA) requires insurance companies to make an assessment of the regulated company's own capital requirements, which is then reviewed and agreed by the FSA.

In-force

Long-term business which has been written before the period end and which has not terminated before the period end.

Interest margin

Net interest income for the year as a percentage of average total assets during the year disclosed in basis points (1/100th of 1%). This is a measure of how much margin the Group is making on its banking assets and measures the driver of income generation for this business.

Internal rate of return (IRR)

A measure of rate of return on an investment and so an indicator of capital efficiency. The IRR is equivalent to the discount rate at which the present value of the after tax cash flows expected to be earned over the lifetime of new business written is equal to the capital invested to support the writing of the business.

Key Performance Indicator (KPI)

These are measures by reference to which the development, performance or position of the business can be measured effectively.

Maintenance expenses

Expenses related to the servicing of the in-force book of business (including investment and termination expenses and a share of overheads).

Market Consistent Embedded Value (MCEV)

The MCEV Principles were issued by the CFO Forum on 4 June 2008 to replace the current EEV Principles and Additional Guidance and were designed to improve the transparency and comparability of embedded value reporting. On 19 December 2008, the CFO Forum announced that it would be reviewing the MCEV Principles in light of the current turbulent economic conditions.

Mutual fund

A collective investment vehicle enabling investors to pool their money, which is then invested in a diverse portfolio of stocks or bonds, enabling investors to achieve a more diversified portfolio than they otherwise might have done by making an individual investment.

Net flows

Life and pensions net flows represents gross inflows less redemptions. Gross inflows are premiums and deposits recognised in the period on a regulatory basis (excluding any switches between funds). Redemptions are claims and annuity payments (excluding any reinsurance transactions and switches between funds).

Net worth

The market value of equity holders' funds and the shareholders' interest in the surplus held in the non profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets per regulatory returns.

New business contribution (NBC)

The expected present value of all future cash flows attributable to the equity holder from new business, as included within EEV operating profit.

New business strain (NBS)

Costs involved in acquiring new business (such as commission payments to intermediaries, expenses, reserves) affecting the insurance company's financial position at that point and where all of the income from that new business (including premiums and investment income) has not yet been received and will not be received until a point in the future. To begin with, therefore, a strain may be created where cash outflows exceed inflows.

NBS margin

New business strain as a percentage of PVNBP sales (see PVNBP below).

Non-covered business

Mainly includes third party investment management, banking, healthcare and other businesses not associated with the life assurance and pensions business. Non-covered business is excluded from the EEV methodology and is included within the Group EEV on an IFRS basis.

Non profit policy

A policy, including a unit linked policy, which is not a with profits policy.

Personal pension plan

An individual pension arrangement with particular tax advantages whereby individuals who are self-employed or those who are not members of employer-sponsored pension scheme arrangements can make provision for retirement or provide benefits for their dependents in a tax efficient manner.

Present value of in-force business (PVIF)

The present value of the projected future distributable profits after tax attributable to equity holders from the covered business in force at the valuation date, adjusted where appropriate, to take account of TVOG.

Present value of new business premiums (PVNBP)

The industry measure of insurance new business sales under the EEV methodology. It is calculated as 100% of single premiums plus the expected present value of new regular premiums.

Pro forma profit

Pre-demutualisation IFRS and EEV mutual figures adjusted to calculate a profit figure for the Group as if the holding company, Standard Life plc, had been listed at the beginning of that period. This information, where included, is unaudited and is prepared for illustrative purposes only.

Proprietary Business Fund

The Proprietary Business Fund in SLAL contains, among other things, certain classes of business – pension contribution insurance policies, income protection plan policies and a number of SIPP policies written before demutualisation, as well as most new insurance business written after demutualisation in the UK, Ireland and Germany.

PVNBP margin

PVNBP margin is NBC expressed as a percentage of PVNBP. This measures whether new business written is adding value or eroding value.

Recourse cash flow (RCF)

Certain cash flows arising in the HWPF on specified blocks of UK and Irish business, which are transferred out of the fund on a monthly basis and accrue to the ultimate benefit of equity holders, as determined by the Scheme of Demutualisation.

Regular premium

A regular premium contract (as opposed to a single premium contract), is one where the policyholder agrees at inception to make regular payments throughout the term of the contract.

Required capital

The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to equity holders is restricted.

Return on EEV (RoEV)

The annualised post-tax operating profit on an EEV basis expressed as a percentage of the opening embedded value, adjusted for dividends paid to equity holders.

Return on equity (RoE)

Calculated as IFRS underlying profit after tax divided by opening net assets.

Scheme of Demutualisation (the Scheme)

The scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, under which substantially all of the long-term business of SLAC was transferred to Standard Life Assurance Limited on 10 July 2006.

Single premium

A single premium contract (as opposed to a regular premium contract (see above)), involves the payment of one premium at inception with no obligation for the policyholder to make subsequent additional payments.

SIPP

A self invested personal pension which provides the policyholder with greater choice and flexibility as to the range of investments made, how those investments are managed, the administration of those assets and how retirement benefits are taken.

SLAC

The Standard Life Assurance Company (renamed The Standard Life Assurance Company 2006 on 10 July 2006).

Time value of options and guarantees (TVOG)

Represents the potential additional cost to equity holders where a financial option or guarantee exists which affects policyholder benefits and is exercisable at the option of the policyholder.

Total shareholder return

This is a measure of the overall return to shareholders and includes the movement in the share price and any dividends paid and reinvested.

Underlying profit

An IFRS profit measure the Group uses to provide a more meaningful analysis of the underlying business performance. Underlying profit is calculated by adjusting profit attributable to equity holders before tax for items such as volatility arising from accounting mismatches, impairment of intangibles and certain restructuring expenses.

Unit linked policy

A policy where the benefits are determined by reference to the investment performance of a specified pool of assets referred to as the unit linked fund.

With profits policy

A policy where, in addition to guaranteed benefits specified in the policy, additional bonuses may be payable from relevant surplus. The declaration of such bonuses (usually annually) reflects, amongst other things, the overall investment performance of the fund of which the policy forms part. Also known as a 'participating policy'.

Wrap platform

An investment platform which is essentially a trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account rather than as separate holdings.

Shareholder information

Registered office

Company registration number: SC286832
Standard Life House
30 Lothian Road, Edinburgh
EH1 2DH Scotland

Telephone: 0845 275 3000
or +44 (0)131 270 9060

Registrar: Computershare Investor Services PLC

Auditors: PricewaterhouseCoopers LLP

Solicitors: Slaughter and May

Brokers: UBS, Merrill Lynch

Shareholders' services

We offer a wide range of shareholder services, some details of which are set out below. If you need any further information about any of these services, please:

- Contact our registrar, Computershare on 0845 113 0045 if calling from the UK. International numbers for Computershare can be found on the last page of this report
- Go to the shareholder section of our website at www.standardlife.com/shareholders
- Contact us directly on 0845 275 3000

Sign up for e-communications

You can choose to receive your shareholder communications electronically – registering is easy, secure and free. Just go to www.standardlife.com/shareholders/ecomunications and follow the links to find out how. Signing up means:

- You'll receive an email when documents like the *Annual Report and Accounts*, *Summary Financial Report* and *AGM guide* are available on our website.

You can then read these online in an easy to use, searchable format instead of receiving paper copies in the post

- Voting instructions for the Annual General Meeting will be sent to you electronically
- You can download your dividend tax vouchers when you need them
- You can view your Standard Life Share Account statement online

Any information you receive electronically will be the same as the paper version – but you'll help us save your money, and conserve natural resources.

Preventing unsolicited mail

By law, Standard Life has to make its share register publicly available. Because of this, some registered shareholders may receive unsolicited mail. You could also be targeted by fraudulent 'investment specialists' using high-pressure cold-calling sales techniques – these are sometimes called 'boiler room scams'. You can find more information about this at the Financial Services Authority website www.moneymadeclear.fsa.gov.uk

If you are a certificated shareholder, your name and address will appear on a public register. Using a nominee company to hold your shares can help protect your privacy. You can transfer your shares into the Company-sponsored nominee – the Standard Life Share Account – by contacting Computershare, or you could get in touch with your broker to find out about their nominee services.

If you want to limit the amount of unsolicited mail you receive generally, please contact:

The Mailing Preference Service (MPS), DMA House, 70 Margaret Street, London W1W 8SS – or register online at www.mpsonline.org.uk

Analysis of registered shareholdings as at 31 December 2008:

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	66,990	54.58%	32,295,933	1.48%
1,001-5,000	49,515	40.34%	101,932,364	4.68%
5,001-10,000	3,539	2.88%	24,382,838	1.12%
10,001-100,000	2,218	1.81%	46,757,810	2.15%
*100,001+	479	0.39%	1,972,430,409	90.57%
Totals	122,741	100.00%	2,177,799,354	100.00%

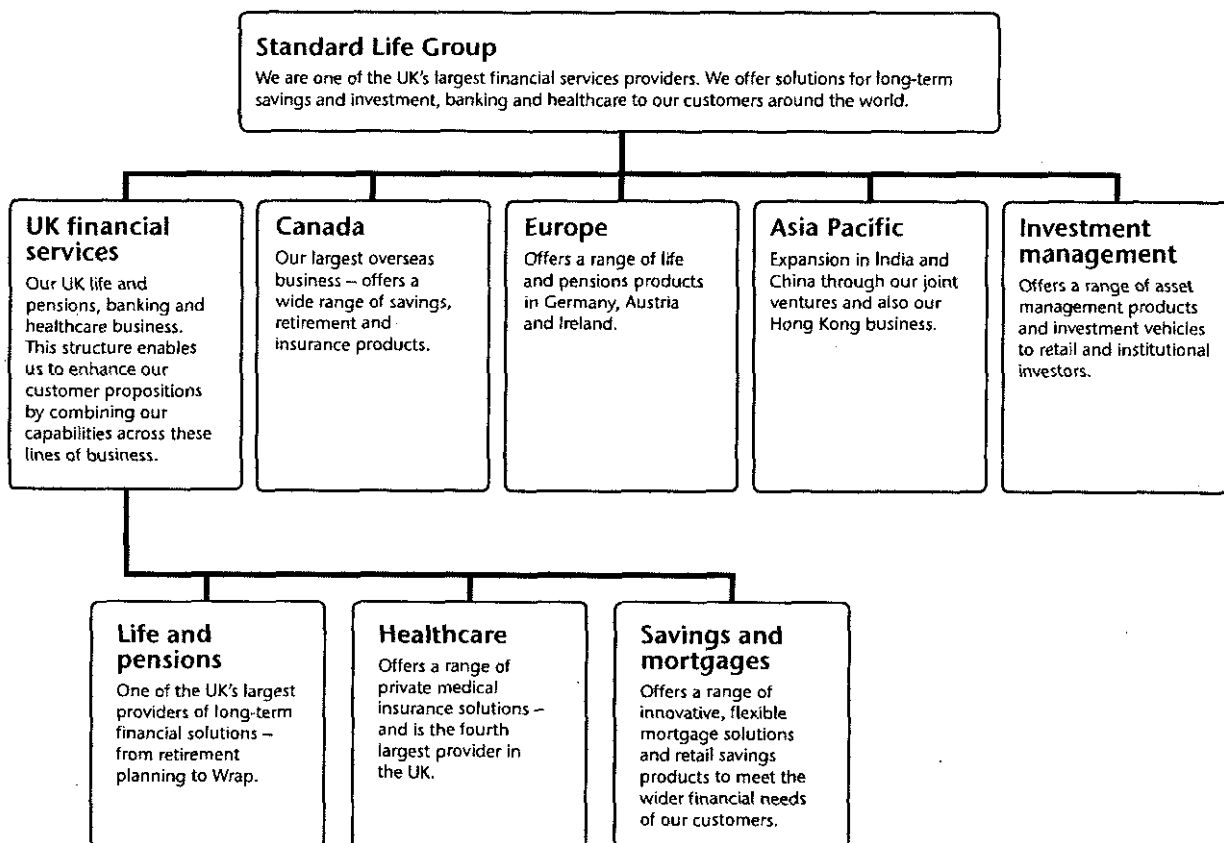
* These figures include the Company-sponsored nominee – the Standard Life Share Account – which had 1,332,515 participants holding 1,052,585,237 shares, and the Unclaimed Asset Trust, which had 151,391 participants holding 55,125,437 shares.

Financial calendar for 2009

2008 Q4 trading results	28 January
2008 Preliminary Results	12 March
Ex-dividend date for 2008 final dividend	18 March
Record date for 2008 final dividend	20 March
2009 Q1 trading results and interim management statement	30 April
Cut-off date for scrip election	13 May
Annual General Meeting	15 May
Dividend payment date (2008 final dividend)	29 May
2009 Interim Results and Q2 trading results	6 August
Ex-dividend date for 2009 interim dividend	12 August
Record date for 2009 interim dividend	14 August
2009 Q3 trading results and interim management statement	29 October
Interim dividend payment date	16 November

Group operating structure

Our Group operating structure is set out below:



Business overview

Governance information

Financial statements

Additional information

Contact details

We want to make sure you have answers to all your questions.

UK and Ireland



Web



@ Mail



Phone

For questions about the AGM or dividends, please contact Standard Life	www.standardlife.com	shareholders@standardlife.com	0845 275 3000 or +44 (0)131 270 9060
For general questions about your shareholding, please contact our registrar	www.computershare.com	sl.queries@computershare.co.uk Computershare Investor Services PLC PO Box 2656, The Pavilions, Bridgwater Road, Bristol BS3 9BG	0845 113 0045 or +353 (0)1 431 9829

Germany and Austria

For questions about the AGM, dividends or your shareholding, please contact our registrar	www.computershare.de	register@computershare.de Computershare Deutschland GmbH & Co.KG, Standard Life, Prannerstrasse 8, D-80333, München	+49 (0) 8930-90 36 25

Germany

For general enquiries, please contact Standard Life	www.standardlife.de	aktien@standardlife.de	01802-00 12 55

Austria

For general enquiries, please contact Standard Life	www.standardlife.at	aktien@standardlife.at	0810-53 00 45

Canada

For questions about the AGM, dividends or your shareholding, please contact our registrar	www.computershare.com	service@computershare.com Computershare Investor Services 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1	1-866-982-9939 or at the local number 514-982-9939
For general enquiries, please contact Standard Life	www.standardlife.ca	csc@standardlife.ca	1-888-841-6633

Contact details for Standard Life (Employee) Share Plan participants:

UK	www.computershare.com/standardlifeshareplans	Call on 0870 703 6252
Ireland	www.computershare.com/standardlifeshareplans	Call on 01-247-5417
Germany and Austria	www.computershare.com/standardlifeshareplans	Call on +44 (0) 870 703 6252
Canada	www.computershare.com/standardlifeshareplans	Call on 1-866-252-0242

Lines are open from 9am to 5pm, Monday to Friday. Please note that calls may be recorded/monitored and charges may vary.

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Secretary, registered office and head office:	M J Wood Standard Life plc, Standard Life House 30 Lothian Road, Edinburgh EH1 2DH Scotland

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Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures and share price information have been calculated as at 31 December 2008 (unless otherwise indicated).

Standard Life plc, registered in Scotland (SC286832), Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH. +44 (0)131 225 2552.

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