

WEDNESDAY



SV43ZTN9

SCT

27/04/2011

698

COMPANIES HOUSE

Annual Report and Accounts 2010

Standard Life plc

SC286832
31/12/2010

Standard Life ⁴

Group financial highlights



£7.2bn

Group net inflows -
11% increase

£3.8bn

Group capital surplus -
6% increase

£432m

Group IFRS profit
after tax attributable
to equity holders -
103% increase

£287m

Group EEV operating
profit capital and
cash generation -
23% decrease

£787m

Group EEV operating
profit before tax from
continuing operations -
7% decrease

£196.8bn

Group assets under
administration -
16% increase

£425m

Group IFRS operating
profit before tax from
continuing operations -
7% increase

£71.6bn

Standard Life Investments
third party funds
under management -
26% increase



Contents

1	Business overview
48	Governance information
87	Financial statements
268	Glossary
274	Shareholder information
276	Contact details

Chairman's statement

A successful year of transformation and delivery

Standard Life has had a good year. Our strong set of results, and the progress that we have made during 2010 in transforming our business, have put us in good shape to anticipate the changes that the savings and investments industry worldwide is facing in the years to come.

8.65p
Recommended
final dividend
payment per
share

Despite wider economic conditions remaining tough in 2010, we were able to create shareholder value through investing in growing our business, and by improving the efficiency of our operations and increasing our profitability. We are in a strong position financially and I'm pleased to report that once again, we've been able to increase the final dividend. The Board has recommended a final dividend payment of 8.65p per share. That makes a total of 13.0p per share for 2010 – a 6.2% increase on 2009. The payment will be made on 27 May 2011, if our shareholders vote to approve it. This increase reflects our confidence in our ability to grow future cash flows.

2010 was an important year for our company. David Nish took over as Chief Executive and has made tremendous progress in transforming how we operate. David and our new management team are working hard to drive cultural change across the organisation by increasing our pace of delivery and making us much more responsive to customer requirements. We've made great strides in putting our customers at the heart of everything we do and concentrating on making it easier for them to do business with us.

There will be significant change in the UK savings industry over the coming years driven by policy and regulatory changes, and by customer behaviour. Our strategy is well aligned to these changes and there's a lot of work going on behind the scenes to make sure we can capitalise on them when they come into effect. We believe that we have built a firm foundation to support continued profitable growth.

Long-term savings and investments are an important contributor to economic growth and we need stability in pensions, savings and fiscal policies if people are to be encouraged to save for the future. We are passionate advocates of this and we actively engage with policymakers and key influencers to encourage them to create an environment in which people have the opportunity to save and understand the benefits of doing so.

Strong corporate governance continues to be close to our hearts both in relation to our own affairs and within the companies in which we invest. Through Standard Life Investments, we actively monitor developments and encourage good practice. To increase the scrutiny of our own activities, we established a new Risk and Capital Committee, chaired by Lord Blackwell, our Senior Independent Director. This Committee supports the Board's key risk management responsibilities by overseeing and advising the Board on the Group's capital and liquidity risk management and on our risk strategy.

We have a responsibility to ensure that Standard Life is a sustainable business and contributes to the communities in which we operate. Last year I wrote about the Standard Life Charitable Trust, which we have set up using some of the shares that weren't claimed at the time of our demutualisation. I am very pleased that the Trust has decided to focus on working with people who are most in need, helping them develop the right skills needed to manage their own finances.

Finally, I hope you like our new visual identity on the front of this year's report. This is all part of how we are approaching our business differently. Our traditions, our financial strength and stability are very important to us but we won't stay in the forefront of our industry unless we continue to move our business forward and to provide our customers with the products and services that they need to help manage their lives.

My sincere thanks to you for your support, and to our people around the world for their continued hard work and dedication.

Gerry Grimstone, Chairman

Chief Executive's statement

A strong platform for profitable growth

My first year as Chief Executive has been another eventful and exciting one for your company. The business has made a huge amount of progress in building a strong platform for sustainable profitable growth. Our financial performance for 2010 was strong and we are beginning to see the benefits of the investment programme we outlined in March last year. Great thanks must go to our employees, who have worked very hard in challenging conditions to make this past year a success.

Delivering our strategy

Standard Life is a leading, long-term savings and investments business, with customers' needs at the heart of everything we do. Over the year we've increased the metabolic rate at which we are delivering our strategy. There is more to do but I am very pleased with the advances we are making.

In March 2010, we set our key strategic priorities and targeted a significant increase in the level of investment to grow our business. We are now just over one year into our three year transformation to deliver our strategy and drive improved performance. We are making strong progress and are firmly on track to deliver. Some highlights are:

Building on our strength in pension savings and corporate benefits

We delivered a number of exciting new propositions over the year, including the launch of our Corporate ISA and Trust Based Pensions, where we have already won several new schemes. We also significantly enhanced the web-based support we give both to our intermediaries and customers and launched Active Money Life Plan, an easy way of saving for retirement.

February 2011 saw a significant step-up in our delivery of propositions with the launch of Lifelens, our innovative benefits solution for Corporates. We have a strong pipeline of business for 2011 already and are implementing a number of schemes on this new technology.

We had a record year for UK corporate pension sales securing 182 new schemes, representing 72,000 employees in total. Our Vebnet business has also implemented 32 new clients with approximately 108,000 employees. Outside of the UK, our performance has also been strong, with our market share of Canadian corporate pensions sales more than doubling to 21%.

Focusing on the savings and investment needs of customers in our chosen segments

We have one of the fastest-growing Wrap platforms in the UK, with assets under administration recently passing the £7bn milestone. Our acquisition of threesixty gives additional depth to the support we provide to intermediaries. The acquisition of Focus Solutions brings a leading provider of software and consultancy to the Group and allows us to accelerate our multi-channel distribution strategy by offering end-to-end solutions to IFAs, bank distribution partners, and end customers.

In September we launched MyFolio, a proposition designed to help customers find the right investment solution for them. Since its launch MyFolio has quickly secured over £100m of AUM, with higher than expected investment into actively managed funds at Standard Life Investments. In February of this year we launched a new on-line ISA and a complete refresh of Adviserzone, our market-leading adviser platform.

Expanding the global reach of our investment management business

Standard Life Investments continued its excellent record of strong and profitable growth in 2010. Our Global Absolute Returns Strategies (GARS) fund now totals over £7bn and is among the top sellers on five of the UK's leading investment platforms. We have also achieved significant growth in our UK retail business, becoming the third largest manager by net retail sales of mutual funds. Significant progress has been made across a number of asset classes.

We took a 75.1% stake in Aida Capital to extend our alternative investments offering, and our strategic alliance with the Chuo Mitsui Asset Trust and Banking Company gives us access to the Japanese market and helps extend our global franchise.

Maximising the value from our joint venture relationships in Asia

Performance across our joint venture businesses in Asia has been very strong in 2010, with net flows increasing by 20%. Our Indian joint venture, HDFC Life, marked its tenth anniversary with a strong year for the business, with exceptional trading and a strong rise in market share despite difficult market conditions. HDFC Asset Management, in which we have a 40% share, is also the fastest growing and second largest mutual fund company in India. We continue to be focused on driving the performance from our business in China.

Focusing the Group portfolio

We've sold Standard Life Bank and Standard Life Healthcare. The acquisitions of Aida Capital, threesixty and Focus Solutions are all in line with our strategic, customer-centric focus on long-term savings and investments.

Transformation

In 2010 I focused on getting the Group in the right shape, putting the building blocks in place to drive the business forward over the coming years. One of my priorities was to make sure we have the right management team and operational framework to meet the opportunities and challenges ahead.

Some important appointments were made to my executive team during the first half of the year. In March, Christian Torkington joined as Group Information and Operations Director, and in May, Jackie Hunt became our Chief Financial Officer. You can read Jackie's statement on the Group's financial performance on page 4. Also in May, Sandy Begbie joined us as Group People and Transformation Director.

We've made a number of significant organisational changes, with a "Take to Market" focus established in each of our markets. This brings together distribution and marketing functions, allowing us to respond more effectively to changing customer needs and to develop new propositions faster. We've also continued to drive further efficiencies. In September, we announced a net reduction of 500 jobs in the UK, phasing out 600 existing roles while creating 100 new ones, by the end of 2011. Many of these moves have now happened, helping us to deliver the margin improvement we are targeting by 2012.

These changes are already delivering benefits, making our business more efficient, faster to market and improving our customers' experience. We believe this will make us more profitable and generate more cash for shareholders.

Bringing transformation to life

Our focus for 2011 is on bringing transformation to life for our customers.

Customers are at the heart of our business. We've been listening to what they want and now we're working to give them the services and support they need for the future. We've created new and innovative technologies to make it easier for our customers to deal with us. Our groundbreaking employee benefits platform, Lifelens, launched in February 2011. Lifelens is the only proposition in the market that offers a single, fully flexible savings and benefits solution for employers and employees. New technologies like this will play an increasingly important role in the way we operate.

Another major step in our ongoing transformation was the launch of our repositioned brand and a refreshed visual identity earlier this year. This was shaped by extensive customer research and insight and reflects the changing financial landscape.

A key part of our brand repositioning is to deliver even clearer communications to our customers to help them plan for their financial future. We want everyone who deals with Standard Life to look forward to the future with confidence and optimism.

To achieve our goals we need to create the strongest team, and that means continuing to attract new talent and developing our own talented people. Our investment in leadership development is key to this and I look forward to the opening of our new Training and Leadership Centre in April this year. A stronger focus on making performance matter has provided greater clarity for individuals and increased transparency on performance standards and reward.

To deliver sustainable long-term success we need to deliver against the expectations of all stakeholders. We recognise our responsibility to shape and influence what's happening around us and are committed to championing increased financial capability across communities and promoting financial inclusion in our society.

Looking forward

2011 promises to be a challenging but exciting year for Standard Life.

We are making great progress in achieving our ambitions. Our investment programme is delivering leading propositions for our customers and distribution partners. Our brand is robust and we have a strong pipeline of new business. Importantly, we have great people working for us. Our people make the difference each day and I thank them all for their enthusiasm, innovation and commitment to raise the bar during the last year.

We have considerable opportunities within our changing markets. I am confident that our clear strategy and approach will grow our business, delivering improved profits and cash flow. This will deliver improved shareholder returns.

David Nish, Chief Executive

Chief Financial Officer's statement

I joined Standard Life in early 2009 and became Interim Chief Financial Officer later that year. I was delighted to take on the role permanently in May 2010.

My priority has been to develop and put in place a finance strategy for the Group that helps drive improved performance across the Group, maximises the efficiency of our operations and manages our capital effectively. In 2010, we made great progress.

Change in reporting style

In July, we announced that we were adopting IFRS operating profit as our main performance measure. It's a simpler measure than we have used in the past and will make it easier to compare our performance against competitors. Switching to IFRS operating profit means that short-term market fluctuations no longer have a direct impact on our results.

In addition, we now analyse our business split by fee based and spread based business. 83% of our assets under administration and over 92% of our sales in 2010 relate to fee based business. This reflects our move from traditional life insurance business to long-term savings and investments.

This increased transparency makes our reporting simpler and helps us give shareholders and other stakeholders a better understanding of the Group's long-term performance.

We will still report on EEV because it gives a good representation of the way we are growing the long-term value of the business.

A simple business model

The majority of the business we sell is fee based – that means we earn fees for managing investors' assets. This is usually based on a percentage of the value of those assets. We drive profit and shareholder value by:

- Maximising the value of assets
- Maximising the revenues that we earn from those assets
- Being more cost-effective



Capital management

We are managing our capital effectively by making sure it is invested in line with our strategy. That means investing it in the right places and generating appropriate returns. In 2010 we sold our banking and healthcare businesses and acquired threesixty and a majority share in Aida Capital. In January 2011 we completed the purchase of Focus Solutions. These changes bring new capabilities into the Group and will allow us to concentrate on our core business propositions.

Our financial performance in 2010

Key highlights:

Good profits

- Group IFRS operating profit before tax from continuing operations increased by 7% to £425m (2009: £399m) despite significantly increasing the level of investment in our business
- Group IFRS profit after tax attributable to equity holders more than doubled to £432m (2009: £213m)

Growth in fee revenues and improving cost efficiency

- Revenue from fee business increased by 16% to £1,131m
- 41% increase in growth investment expensed to £149m
- Efficiency savings of £61m

IFRS operating profit before tax from continuing operations

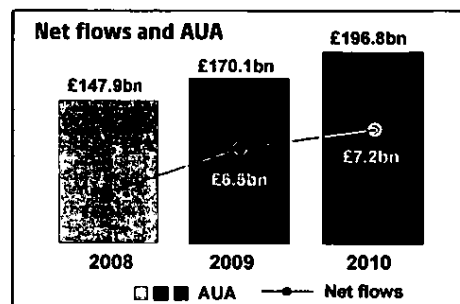
	2010 £m	2009 £m
Fee based revenue	1,131	972
Spread/risk margin	370	461
Total Income	1,501	1,433
Acquisition expenses	(267)	(240)
Maintenance expenses	(673)	(628)
Growth investment spend	(149)	(106)
Other	13	(60)
Group IFRS operating profit before tax from continuing operations	425	399

Positive net flows and increase in assets under administration (AUA)

- Net inflows up 11% to £7.2bn
- Group total assets under administration increased by 16% to £196.8bn

Strong cash flow

- Core operating capital and cash generation of £289m
- New business strain covered almost 3 times by capital and cash generation from existing business
- Final dividend of 8.65p making a total of 13.0p for 2010, representing 6.2% growth



In our **UK business**, IFRS operating profit increased by 5% to £234m. Fee revenues increased by 19% to £593m. Long-term savings net inflows increased by £1.8bn to £3.0bn and this contributed to a 13% increase in AUA to £119.2bn. In our corporate business, we launched Trust Based Pension in 2010 and, more recently in 2011 our employee benefits platform, Lifelens. In our retail business, Active Money Personal Pension was launched and customer numbers and assets on our SIPP and Wrap platforms continue to grow strongly.

These figures don't include Standard Life Bank and Standard Life Healthcare which were sold during 2010.

Standard Life Investments performed very strongly in 2010, continuing to build the momentum of previous years' investment performance and sales. Third party net inflows increased by 9% to £6.2bn and this helped drive third party assets under administration to a new record level of £71.6bn. IFRS operating profit before tax increased by 41% to £103m, reflecting the benefit of higher asset values and good margin net inflows. Strong investment performance over both short and longer time periods and excellent customer service underpin this continued growth.

In **Canada**, IFRS operating profit was broadly in line with the previous year at £110m. Fee revenues increased by 38% to £150m. Long-term savings net inflows were £63m, a fall from the previous year due to a higher proportion of regular premium new business won in pensions and higher withdrawals in mutual funds. AUA increased by 19% to £25.3bn. We have increased sales and market share in our core product segments of pension and retail investment funds.

In our wholly owned **International** businesses in Europe and Hong Kong we saw strong growth in sales and net inflows. Net inflows rose by 60% to £1.4bn and were strong in all territories. A fall in sales in Germany was more than offset by significant growth in Ireland and Hong Kong. IFRS operating profit fell by £12m to £38m, mainly due to the continuing run-off of revenue in respect of the German back book of business. AUA increased by £2bn to £11.1bn. The joint ventures in India and China have continued to grow, with increasing sales volumes in India and increasing net inflows in both businesses.

Investment in our business

We invested £201m in developing our business in 2010, as we ready it to meet the challenges of our future targets.

Future regulatory and accounting changes

- Solvency 2 is a major regulatory change for the EU insurance industry. It is due to be implemented in 2013. The new regime will transform how we manage and report risk and capital. There will be significant changes in how we measure liabilities and solvency for regulatory purposes. We have a large programme in place which will make sure we are ready for these changes.
- The International Accounting Standards Board has issued draft proposals for the accounting for insurance contracts. We have contributed to feedback on the proposals and are monitoring the impact.

I am pleased with the Group's financial results for 2010. I believe we are very well placed to deliver increased profits and cash flow in the future.

Jackie Hunt, Chief Financial Officer

Group at a glance

UK

- One of the largest pension, long-term savings and investment providers in the UK
- Main products are SIPP, corporate pensions and Wrap. Our Wrap platform continues to grow fast and now has over £6bn of assets under administration.
- £119.2bn of assets under administration and around four million customers

Canada

- A leading provider in the pension market and a top five life and pensions company in Canada
- Main products include a market-leading pension offering, a fast growing investment funds business and a strong disability offering
- £25.3bn of assets under administration and over 1.4 million retail and corporate customers

Global investment management

- One of the 50 largest asset managers in the world with £156.9bn of assets under management, of which £71.6bn (46%) are third party
- A global investment management business with over 800 institutional clients and a strong UK wholesale business
- Offer institutional and retail investors a number of broad solutions covering equities, bonds, property, private equity and multi asset

International

- Consists of four wholly owned businesses and two joint ventures. Our wholly owned businesses are based in Germany, Ireland (Ireland domestic business and the offshore bonds business) and Hong Kong. The joint ventures are based in China and India.
- Over half a million customers, offering high quality and customer-centric long-term savings and investments propositions
- £11.1bn of assets under administration in the wholly owned businesses and £1.2bn through the joint ventures

Business review

1.1 Group overview

There are exciting opportunities for Standard Life in our key markets. External market forces affect our results and can influence the Group's performance. We assess our ability to achieve our strategic objectives by monitoring a range of key performance indicators.

Industry overview

We have performed strongly during 2010 and are well placed to benefit from future regulatory and demographic changes in all our markets. We believe that changing customer behaviours, the Retail Distribution Review, auto enrolment and the continuing pensions savings gap will create opportunities for our business.

Higher market levels

Although the financial crisis continued to weigh heavily on the global economy in 2010, average market values were substantially higher than in 2009. For example, the average daily FTSE All-Share Index rose by 21% between 2009 and 2010. Combined with similar rises in other major world markets, this contributed to a 16% increase in our fee based revenue to £1,131m. Higher market levels have a positive impact on our business as a significant proportion of our revenue is based on a percentage fee applied to assets under administration.

Pension reform

The UK Government has recently announced pension reform measures that retain an annual allowance for pension contributions qualifying for tax relief. There will also be a rise in the state pension age for men and women to age 66 by 2020. We welcome the simple and straightforward nature of the pension tax relief rules as these remove much of the administrative burden that the previous proposals of tiered removal of tax relief based on income would have created.

The new three-year carry forward rule will also allow high earners, restricted by the current interim rules, to make larger contributions from 6 April 2011. Simplification of pension tax relief rules makes it easier for advisers and individuals to plan effectively for their retirement. This is more important than ever given the size of the pension savings gap. The Government also announced the end of compulsory annuitisation from April 2011. The move is intended to provide individuals with more flexibility over the use of their pension savings and may encourage more people to save for the long term.

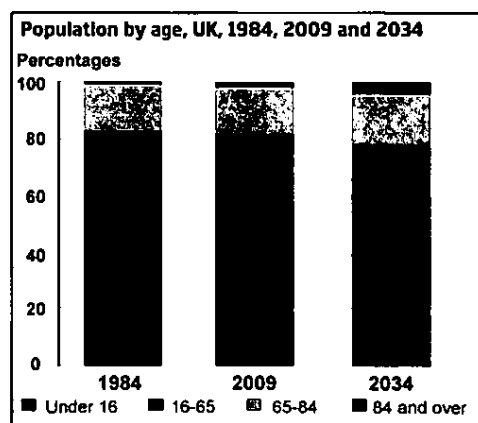
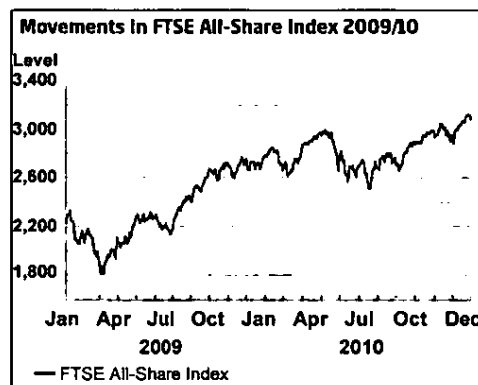
In Canada, the Federal Government announced its intention to create the legal environment for a new type of pension plan called the Pooled Registered Pension Plan (PRPP). This aims to make it easier and more affordable for small employers to offer pension plans and for self-employed individuals to participate. This new plan would be administered by the private sector and is expected to be in place in 2012 at the earliest. However, for this to happen, there will need to be provincial legislative changes. This initiative could increase the size of the pension plan market by improving accessibility to pension plans.

Changing demographics

Changing demographics continue to impact our key markets. The changes include: an ageing population, with people living longer whilst managing more extensive debt; diminishing state and employer pension provision; an increasing wealth gap between rich and poor; and lower long-term birth rates. In the UK, the structure of the population is changing as life expectancy rapidly increases. In 2009 there were 1.4 million people aged 85 and over in the UK and this is expected to increase to around 3.5 million by 2034. This emphasises the need for individuals to ensure that they have adequate pension provision to fund their retirement.

The UK currently has a significant pension savings gap. This gap is the difference between the income an individual needs for a comfortable retirement and the actual pension that they are on target to receive. The UK Government is making changes to increase the proportion of the population saving for retirement, including auto enrolment and the introduction of the National Employment Savings Trust (NEST). We believe that these steps will increase contributions to private pensions and that we are well placed to benefit from these changes.

The changes above, combined with improved technology and automation, are altering the way customers approach their finances. Our customers are increasingly self-reliant and willing to take a greater role in managing their savings. We have increased our growth investment in the business over 2010, including a significant investment in technology. Together with our recent acquisition of Focus Solutions, this will allow us to capitalise on the growing consumer demand for technology-enabled long-term savings and investment solutions.



Source: Office for National Statistics. Crown Copyright material is reproduced with the permission of the Office of Public Sector Information (OPSI).

1.1 Group overview continued

Government legislation and regulatory environment

There are currently a number of legislative and regulatory initiatives under discussion. The key initiatives and their potential impact on Standard Life are set out below:

	Description	Potential impact on Standard Life
Retail Distribution Review	<p>The Retail Distribution Review (RDR) is designed to increase transparency in retail financial services and to raise professional standards. The RDR is due to be implemented by the end of 2012. The review has significant implications for those providing retail financial advice and involves new qualification standards for all advisers. The objectives of the RDR are to:</p> <ul style="list-style-type: none"> • Improve the clarity with which firms describe their services and fees to consumers • Address the potential for adviser remuneration to distort consumer outcomes • Increase the professional standards of investment advisers 	<p>The RDR will bring a major change to the distribution landscape in the UK. While every significant change brings some inherent disruption and uncertainty, we believe that our customer-centric, capital-efficient approach means that we are particularly well placed to meet the proposed changes to the market in terms of removal of commission, increased transparency and professionalism.</p> <p>We have focused on building relationships with the new model advisers, who do not rely on commission to fund their business model and have the level of professionalism needed for a post-RDR world. We do not rely on paying commission to promote our propositions. Therefore, the ban on commission that will come as part of the RDR will effectively double the size of our accessible market.</p> <p>Our customer service, brand and technology enable us to win significant levels of business without paying commission. This will position us strongly once the playing field has been levelled through the RDR.</p>
Auto enrolment	<p>From October 2012 all employers will be required to automatically enrol eligible employees into a qualifying pension scheme and make combined employer and employee contributions of 8%. Not all employees are eligible for auto enrolment and employees have the right to opt out of the pension scheme if they wish.</p> <p>However, it is believed that the shift from 'opting in' to 'opting out' will increase the level of participation in corporate schemes from 50% to 80%.</p>	<p>As a provider of quality corporate pensions schemes, we welcome the introduction of auto enrolment in 2012. Millions of people in the UK are not saving enough to provide adequately for their retirement. Auto enrolment is an important step in improving the situation.</p> <p>We expect to benefit from auto enrolment from both more scheme wins as employers look to offer their employees a tailored solution, and also through increased participation in our current schemes as employees decide not to opt out.</p>
National Employment Savings Trust	<p>Employers who do not want to set up their own pension scheme or join an existing commercial scheme have the option to enrol their employees into a low-cost pension scheme called National Employment Savings Trust (NEST). Individuals will however, still have the choice of opting out. Implementation will be phased in over four years from 2012. Larger employers will have their duties imposed first, smaller employers last.</p> <p>This scheme aims to solve the problems of low portability and high charges. It is intended to operate as a large, multi-employer occupational pension scheme and extend the benefits of employer schemes to those who currently don't have access to them – typically those on low-to-moderate incomes.</p>	<p>NEST is targeted at employers with employees on low-to-moderate incomes. Many employers will be looking for greater flexibility when setting up a pension scheme, so we do not consider NEST to be a major threat to our corporate pensions business. Our position has been strengthened further with the introduction in February 2011 of our combined pension and flexible benefits proposition called Lifelens. This allows employers to offer even more flexibility and accessibility to their employees.</p> <p>There is some market belief that NEST will lead to generally lower margins. However, although marketed as a low cost option, NEST will have an initial charge of 1.8% with an annual management fee of 30 basis points. This is broadly comparable with many of the commercial options in the market at the moment. Therefore, we do not see a significant pressure on revenue margins after NEST is introduced.</p>

	Description	Potential impact on Standard Life
Solvency 2	<p>Solvency 2 is a major European regulatory change initiative which is currently due to be implemented on 1 January 2013, although firms will be required to be ready well in advance of this date.</p> <p>The Omnibus 2 Directive, published in January 2011, will amend the Solvency 2 Directive and is included in our implementation plans.</p> <p>Solvency 2 will affect risk and capital management, external reporting, supervision and business strategies of the European insurance industry.</p>	<p>We have been following the development of the new regime for many years and are actively involved in industry and regulatory discussions within the UK and Europe.</p> <p>We took part in the recent QIS5 exercise and have a formal development programme in place to ensure Standard Life is well prepared for the implementation of the new framework.</p>
IFRS 4 Phase II	<p>The International Accounting Standards Board (IASB) has published an exposure draft setting out draft proposals for a new accounting standard for insurance contracts (IFRS 4 Phase II).</p>	<p>We have actively contributed to industry responses to the proposals outlined in the exposure draft. The proposals will have a significant impact on reported earnings and business systems within the industry.</p>
Gender differentiation	<p>On 1 March 2011, the European Court of Justice ruled that the use of gender as a factor in determining premiums and benefits in insurance contracts will no longer be permitted. This change will take effect from 21 December 2012.</p>	<p>We currently use gender as a risk factor in calculating premiums and benefits for a number of our products. Following this ruling, we will not be making any immediate change to gender based rates used in our products. Looking ahead, we will ensure that the appropriate changes are implemented in accordance with the ruling but do not currently anticipate a significant impact on our results.</p>

Transforming our business

We've made significant progress in transforming how we operate to deliver our strategic priorities. In corporate, we recently launched the employee benefits platform, Lifelens. Lifelens is the only proposition in the market that offers a single, fully flexible savings and benefit solution for employers and employees. The strength of this proposition allows us to work across the Group to look at opportunities to distribute Lifelens internationally. We have also recently developed a new online ISA and re-launched our Adviserzone platform.

In retail, our flexible UK Active Money Personal Pension provides an entry-level retirement savings proposition. Our new strategic alliance with Chuo Mitsui Asset Trust and Banking Company assists us in expanding the global reach of our investment management business. The joint venture businesses in Asia continue to develop.

We continue to invest in our technology to ensure that our propositions deliver a competitive advantage through a model that lowers the cost to acquire and serve customers. By building more automation into our processes we will remove barriers to growth and give our customers more control over their finances. New technologies will play an increasingly important role in the way we operate.

In June 2010, 'Take to Market' divisions were created in all our businesses. This brought sales, marketing and distribution closer together, increasing our speed to market. Standard Life Investments and the UK Take to Market business are jointly developing investment solutions for customers. This includes the launch of MyFolio, a proposition designed to help customers find the right investment solution for them. Since its launch in September 2010, MyFolio has already secured over £100m of assets under management, with higher than expected investment into actively managed funds at Standard Life Investments.

In September 2010, we announced changes to our organisational structure to support our transformation. This included reducing the size and cost of our group corporate centre. We confirmed that we would remove up to 600 jobs across the business and create up to 100 new jobs to support delivery of our strategy.

In February 2011, we took another important step on our transformation journey when we launched our brand repositioning and new visual identity. A key part of our brand repositioning is to deliver even clearer communications to our customers to help them plan for their financial future.

We are also driving an increased focus on performance throughout the Group. This includes aligning management and staff incentives to improve performance and increase Group IFRS operating profits. More details on our management incentives are included in Section 1.8 and the Directors' remuneration report.

These changes will make our business more efficient, faster to market and improve our customers' experiences. We believe this will make us more profitable and generate more cash.

1.1 Group overview continued

Objectives and strategy

Our strategic objectives and our performance against them are illustrated below. Find out more on how our businesses performed in Section 1.4 – Business segment performance. Our strategic objectives and ultimately our ability to generate value for our shareholders may be subject to financial and non-financial risks. Principal risks and our risk management approach are discussed in more detail in Section 1.6 – Risk management.

Our aspirations

Success will be achieved by providing our customers with the confidence to look forward to a well-planned financial future, as a result of the long-term savings and investment propositions we have provided.



Our goal

Driving shareholder value through being a leading, customer-centric business focused on long-term savings and investment propositions in our chosen markets.



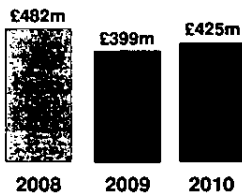
Our business model



IFRS profits

The focus of our business is driving IFRS profitability. We have reduced the number of key performance indicators used to assess our performance and have also changed our main profit measure to IFRS operating profit. We believe that these changes will help to simplify our reporting and improve understanding of our operating performance. In addition, the changes will better reflect our internal management approach while also allowing for greater comparability with others in the industry.

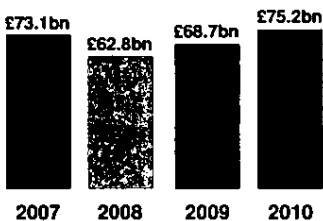
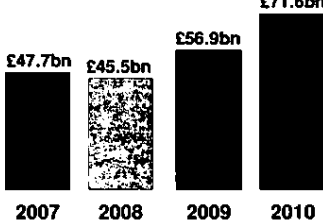
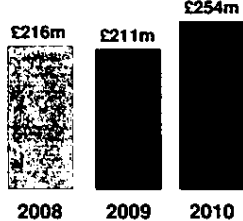
Group IFRS operating profit



Profitability increased in 2010 due to the growth in fee revenue and improving cost efficiency.

Our strategic priorities	Building on our strengths in our pension savings and corporate benefits markets										
	We have a strong brand and competitive positioning in corporate markets, being one of the leading providers in both the UK and Canada. These markets continue to provide a significant opportunity for us.										
Our performance in 2010	<p>UK corporate AUA</p> <table border="1"> <thead> <tr> <th>Year</th> <th>AUA (£bn)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>£26.0bn</td> </tr> <tr> <td>2008</td> <td>£23.0bn</td> </tr> <tr> <td>2009</td> <td>£29.9bn</td> </tr> <tr> <td>2010</td> <td>£36.8bn</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • We delivered a number of exciting new propositions including Trust Based Pensions and our exciting new employee benefits platform, Lifelens • A record year for UK corporate pension sales with 182 new schemes • Our Vebnet business implemented 32 new clients with c108,000 employees • In Canada we achieved a 19% market share of group pensions defined contribution new business and our overall pension market share is now up to 21% 	Year	AUA (£bn)	2007	£26.0bn	2008	£23.0bn	2009	£29.9bn	2010	£36.8bn
Year	AUA (£bn)										
2007	£26.0bn										
2008	£23.0bn										
2009	£29.9bn										
2010	£36.8bn										

Competitive advantages Where we will create and leverage distinctive capabilities	Brand
	Technology
	Customer insight
	Investment performance

Focusing on the savings and investment needs of customers in our chosen retail segments	Expanding the global reach of our investment management business	Maximising value from the joint venture relationships in Asia																												
<p>We see many opportunities in our retail markets, where we are focusing on the savings and investment needs of individual customers in our chosen segments. We continue to build on our track record for innovation and strength in distribution.</p>	<p>The strength of the Group is enhanced by the excellent investment performance record of Standard Life Investments. Our focus remains on sustaining that level of performance and on building an investment platform that can support our growth ambitions.</p>	<p>We manage these businesses, where we have a minority interest, as strategic investments with a view to maximising their long-term value. The operations in China and India give us the opportunity to participate in sizeable markets with major growth potential.</p>																												
<p>UK retail AUA</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>AUA (£bn)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>£73.1bn</td> </tr> <tr> <td>2008</td> <td>£62.8bn</td> </tr> <tr> <td>2009</td> <td>£68.7bn</td> </tr> <tr> <td>2010</td> <td>£75.2bn</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • We further improved the web-based support we give to both our intermediaries and customers • We launched new propositions such as Active Money Life Plan, an easy way of saving for retirement • Acquired threesixty, giving additional depth to the support we provide intermediaries • Acquired Focus Solutions, a leading provider of software and consultancy 	Year	AUA (£bn)	2007	£73.1bn	2008	£62.8bn	2009	£68.7bn	2010	£75.2bn	<p>Third party AUM</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>AUM (£bn)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>£47.7bn</td> </tr> <tr> <td>2008</td> <td>£45.5bn</td> </tr> <tr> <td>2009</td> <td>£56.9bn</td> </tr> <tr> <td>2010</td> <td>£71.6bn</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Standard Life Investments continued its excellent record of strong and profitable growth • Our global absolute returns strategies (GARS) fund totals £7bn and is among the top sellers on five of the UK's leading investment platforms • We took a 75.1% stake in Aida Capital to extend our alternative investments offering • Strategic alliance signed with Chuo Mitsui Asset Trust and Banking Company 	Year	AUM (£bn)	2007	£47.7bn	2008	£45.5bn	2009	£56.9bn	2010	£71.6bn	<p>Joint venture net flows</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Net flows (£m)</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>£216m</td> </tr> <tr> <td>2009</td> <td>£211m</td> </tr> <tr> <td>2010</td> <td>£254m</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • November 2010 marked the tenth anniversary of our Indian joint venture, now rebranded HDFC Life. This business had a strong year with exceptional trading and a steady rise in market share • In China, we are working with our joint venture partner to drive the performance of the business 	Year	Net flows (£m)	2008	£216m	2009	£211m	2010	£254m
Year	AUA (£bn)																													
2007	£73.1bn																													
2008	£62.8bn																													
2009	£68.7bn																													
2010	£75.2bn																													
Year	AUM (£bn)																													
2007	£47.7bn																													
2008	£45.5bn																													
2009	£56.9bn																													
2010	£71.6bn																													
Year	Net flows (£m)																													
2008	£216m																													
2009	£211m																													
2010	£254m																													

A trusted brand that generates valuable customer loyalty and a predisposition to buy from us.

Advanced use of technology to drive rapid innovation in our propositions and enable a market-leading, cost-efficient operation.

Distinctive capabilities in accessing, and communicating directly with, customers, both in sales and service.

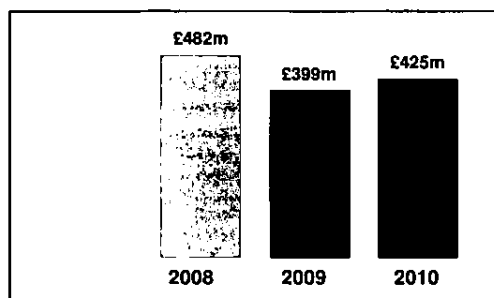
Superior investment performance which we leverage across our markets and propositions.

1.1 Group overview continued

Key performance indicators

In tracking our performance, we are focused on achieving several key financial objectives. These measures provide a clear understanding of how we performed against our strategic objectives.

IFRS operating profit before tax

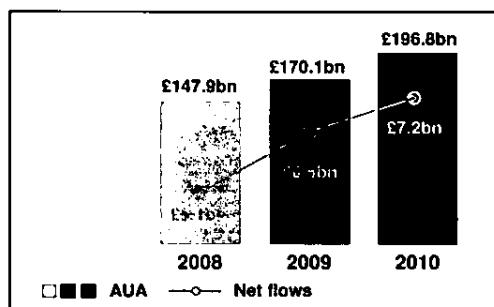


IFRS operating profit, in association with distributable reserves, demonstrates our ability to deliver returns for our shareholders and provides an indication of our dividend paying capability.

IFRS operating profit before tax increased by 7% to £425m. Profitability in 2010 benefited by £59m from a change in the basis of future pension increases in the UK staff pension scheme. In 2010, profitability was impacted by reduced profits from annuity business and increased investment in the business. The 2010 results included a £5m (2009: £63m) release of reserves following the review of our UK deferred annuity data. The 2008 result included several one-off items that contributed £72m to profitability.

Find out more in Section 1.2 – IFRS – Group.

Net flows and assets under administration

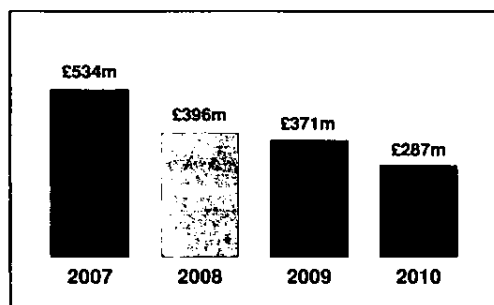


As a long-term savings and investments business, net flows and assets under administration (AUA) are key drivers of shareholder value. We aim to grow AUA by focusing on our customers and meeting their needs with innovative propositions.

Total Group AUA increased by 16% to £196.8bn due to a significant increase in fee business AUA both in the long-term savings and third party investment management business. Total Group net flows increased by 11% to £7.2bn with strong flows in the UK and third party investment management businesses.

Find out more in Section 1.2 – IFRS – Group.

EEV operating capital and cash generation

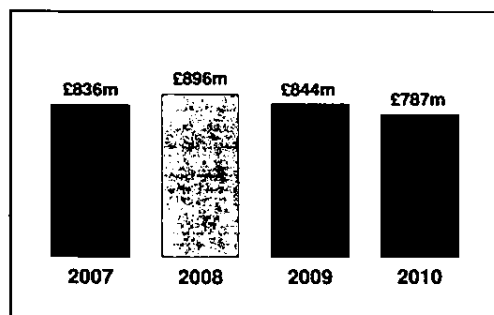


This measures our ability to generate capital and cash from our business. This allows for further investment in the business and the payment of dividends to our shareholders.

EEV operating capital and cash generation decreased by 23% to £287m. This was mainly due to lower capital and cash from activities to manage our existing book of business and higher growth investment spend in 2010.

Find out more in Section 1.5 – Capital and cash generation.

EEV operating profit before tax



This measures our ability to effectively manage our existing book of business and to write profitable new business.

EEV operating profit before tax fell by 7% to £787m. This included a 24% increase in core operating profit, which was due to higher new business profitability and expected returns on existing business. The fall in 2010 profitability primarily reflected higher profits from activities to manage our existing book of business in 2009.

Find out more in Section 1.3 – EEV – Group.

1.2 IFRS - Group

The IFRS results demonstrate our ability to deliver high quality returns for shareholders and the ongoing dividend paying capability of the Group. We will continue to streamline operational processes and enhance efficiency to reduce costs.

IFRS highlights

	2010	2009	Movement
IFRS operating profit before tax from continuing operations ¹	£425m	£399m	7%
IFRS profit after tax attributable to equity holders of Standard Life plc	£432m	£213m	103%
Assets under administration	£196.8bn	£170.1bn	16%

¹ Profit from continuing operations excludes Standard Life Bank plc and Standard Life Healthcare Limited, which were sold on 1 January 2010 and 31 July 2010 respectively.

IFRS profit

IFRS profit for the year was £493m (2009: £180m). This comprised profit after tax attributable to equity holders of £432m (2009: £213m) and profit attributable to non-controlling interests of £61m (2009: loss £33m). The IFRS result included a 7% increase in operating profit before tax from continuing operations from £399m to £425m. Non-operating profits were £85m (2009: loss £255m).

IFRS operating profit before tax from continuing operations

	2010 £m	2009 £m
Fee based revenue	1,131	972
Spread/risk margin	370	461
Total income	1,501	1,433
Acquisition expenses	(267)	(240)
Maintenance expenses	(673)	(628)
Growth investment spend	(149)	(106)
Joint venture businesses	(23)	(27)
Group corporate centre costs	(50)	(50)
Capital management	27	17
Other	59	-
Group IFRS operating profit before tax from continuing operations	425	399

The key movements in IFRS operating profit before tax from continuing operations were:

- Increased fee revenue of £159m from higher asset levels and the strong level of net inflows
- Reduced spread/risk margin of £91m, impacted by reduced annuity volumes and the £5m (2009: £63m) deferred annuity reserves release
- Increased growth investment spend in the business of £43m
- Other expenses increased by £72m due to the less than proportionate rise in the cost of writing new business and higher costs associated with maintaining a larger book of business. Acquisition expenses expressed as a proportion of sales fell from 171bps in 2009 to 149bps and maintenance expenses as a proportion of average customer assets reduced from 47bps in 2009 to 42bps
- Other relates to a change in the basis of future pension increases in the UK staff pension scheme which contributed £59m in 2010

Further explanations for the movements in IFRS operating profit before tax are provided below:

Group IFRS operating profit before tax increased to £425m. Fee business revenue, which mainly relates to asset management charges, increased by 16% to £1,131m. This was due to higher asset values following positive market movements and the strong growth in net inflows.

Spread/risk margin includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and reserving changes. Spread/risk margin reduced due to lower annuity volumes resulting from changes in our pricing due to market conditions and changes in operating assumptions in the UK. The 2010 result also included a £5m (2009: £63m) release of reserves following the review of UK deferred annuity data.

We have continued to invest for future growth in the business. This led to growth investment spend included in IFRS operating profit before tax increasing in 2010 to £149m, with a number of customer propositions launched during the year. The total amount invested in 2010 was £201m (2009: £128m). This includes additional investment in our joint ventures in Asia and also capitalised investment spend that does not impact profitability in 2010.

1.2 IFRS - Group continued

Acquisition expenses are the costs we incur in writing new business. Acquisition expenses increased to £267m reflecting the strong growth in sales volumes. Acquisition expenses expressed as a proportion of sales improved to 149bps (2009: 171bps).

Maintenance expenses mainly relate to the ongoing costs that we incur to service and administer customer policies. These costs increased to £673m. Maintenance expenses expressed as a proportion of average AUA improved to 42bps (2009: 47bps).

The improvement in both of the expense trends demonstrates the scalability of our business. Growth in new business and customer assets has led to greater levels of efficiency.

In 2010 we achieved a margin improvement of £61m. This includes £34m in the second half of the year relating to our 2012 target. We are on track to meet our target of a further £100m margin improvement by 2012. The previous target of £75m was achieved six months earlier than our original target.

Segmental analysis of IFRS operating profit

UK

UK IFRS operating profit before tax from continuing operations increased to £234m. The average revenue yield on fee business increased to 77bps (2009: 75bps). The average revenue yield is a measure of fee business revenue expressed as a proportion of average fee based AUA in the year. Profitability was boosted by an increase in revenue from our existing fee based business and a £59m benefit from the change in the UK pension scheme.

This was partly offset by a reduction in spread/risk margin. The 2010 results included a £5m (2009: £63m) release of reserves following the review of our deferred annuity data.

The 2008 result included several one-off items that contributed £101m to profitability.

Canada

Canada recorded an operating profit before tax of £110m. 2010 results benefited from an increase in fee based revenue, as well as a release of reserves due to a review of annuity policy data and changes to reinsurance arrangements. The average revenue yield on fee business increased slightly to 118bps (2009: 116bps). 2009 results benefited from management actions to improve asset and liability matching, which decreased policyholder liabilities.

International

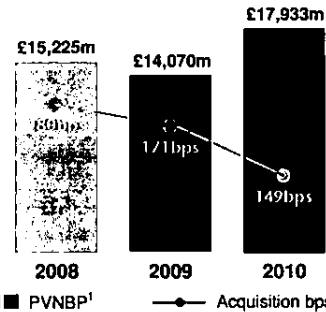
IFRS operating profit before tax of the wholly owned International businesses decreased to £38m (2009: £50m). This was mainly due to the decreasing transfer of profit to shareholders from the Heritage With Profits Fund (HWPF) in Germany. The average revenue yield on fee business was lower at 212bps (2009: 248bps), reflecting the continued shift away from premium based charges in Germany. This contributed to a fall in profitability in Germany to £42m (2009: £55m).

The joint ventures in India and China contributed an IFRS operating loss before tax of £23m (2009: loss £27m) to the Group, reflecting the continuing investment in developing the operations in these markets.

Global investment management

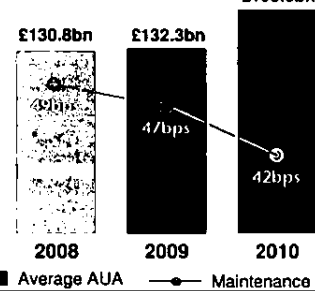
Global investment management IFRS operating profit before tax increased to £103m. This was mainly due to a rise in revenue of 29% as a result of higher average market values and increased third party new business flows. Third party average revenue yield on fee business increased to 35bps (2009: 34bps) with strong sales in higher margin products including GARS.

Acquisition expenses expressed as a proportion of sales

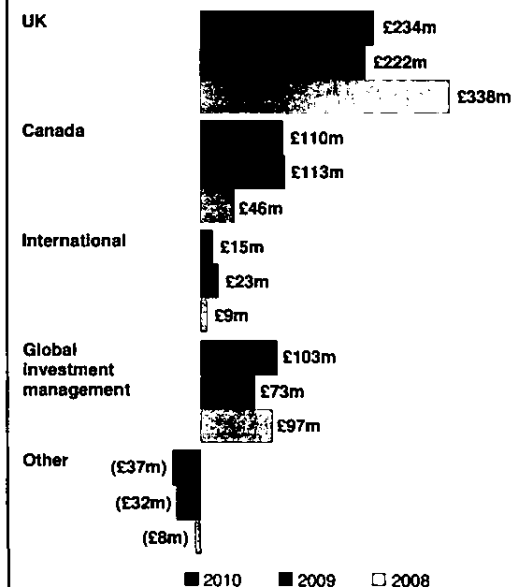


¹ PVNBP excludes Asia joint ventures.

Maintenance expenses expressed as a proportion of average AUA



IFRS operating profit before tax from continuing operations £425m (2009: £399m, 2008: £482m)



Other

Group corporate centre costs increased to £54m (2009: £50m) due to increased investment in the business, including growth investment spend of £4m. Other income remained broadly unchanged at £17m (2009: £18m).

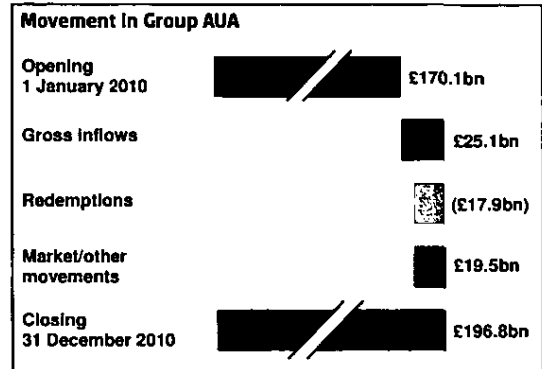
Find out more about the IFRS operating results of our businesses in Section 1.4 – Business segment performance.

IFRS non-operating profit/(loss) before tax from continuing operations

IFRS non-operating profit was £85m compared with a loss of £255m in 2009. The increase primarily relates to short-term fluctuations in investment return and economic assumptions which produced non-operating gains of £127m in 2010 compared with losses of £214m in 2009. Non-operating restructuring and corporate transaction expenses increased to £71m (2009: £52m).

Assets under administration and net flows

Demand for our innovative products and services remained strong and led to good growth in net inflows which increased by 11% to £7.2bn. Supported by positive market movements, this led to a 16% increase in assets under administration (AUA) to £196.8bn. Of the total AUA, 83% (2009: 82%) related to fee business. The overall increase in AUA was driven by a significant increase in fee business AUA in the long-term savings and third party investment management businesses. Fee business AUA rose by 17% to £163.1bn (2009: £138.9bn). This increase was driven by a 14% growth in net flows to £7.9bn (2009: £6.9bn). Spread/risk business AUA increased by 5% to £23.5bn. This was due to positive market movements offsetting the £1.0bn (2009: £0.6bn) of net outflows. Find out more about the AUA and net flows of our businesses in Section 1.4 – Business segment performance.



1.3 EEV - Group

EEV measures shareholders' value of net assets and expected future profits on the existing book of business. The EEV results reflect our continuing focus on building a leading long-term savings and investments business by managing our existing book of business effectively and writing profitable new business.

EEV highlights

	2010	2009	Movement
EEV per share	322p	288p	12%
EEV operating profit before tax from continuing operations ¹	£787m	£844m	(7%)
EEV profit before tax	£1,152m	£474m	143%
Return on embedded value from continuing operations ¹	8.7%	9.9%	(1.2% points)

¹ Continuing operations exclude Standard Life Bank plc and Standard Life Healthcare Limited, which were sold on 1 January 2010 and 31 July 2010 respectively.

Group embedded value

Group embedded value increased to £7,321m (2009: £6,435m) representing an EEV per share of 322p. EEV per share has increased by 46p before dividend distributions, representing a return of 16% on the opening EEV per share.

This movement included operating profit from continuing operations of £538m after tax (24p per share). This resulted in a return on embedded value (RoEV) of 8.7%. Non-operating profit from continuing operations was £258m after tax (12p per share). See below for more detail on the operating and non-operating results on a before tax basis.

Non-trading foreign exchange movements were positive £152m. Actuarial gains of £125m after tax largely reflect the £149m after tax increase in the surplus of the UK pension scheme.

The closing EEV of £7,321m consists of £3,483m of net worth or shareholder net assets and £3,838m from the present value of in-force business (PVIF). The increase in total EEV of £886m consists of a movement in net worth of positive £432m and a movement in the PVIF of positive £454m.

Find out more in Section 1.5 – Capital and cash generation on the movements in EEV shareholder net assets (net worth).

EEV profit

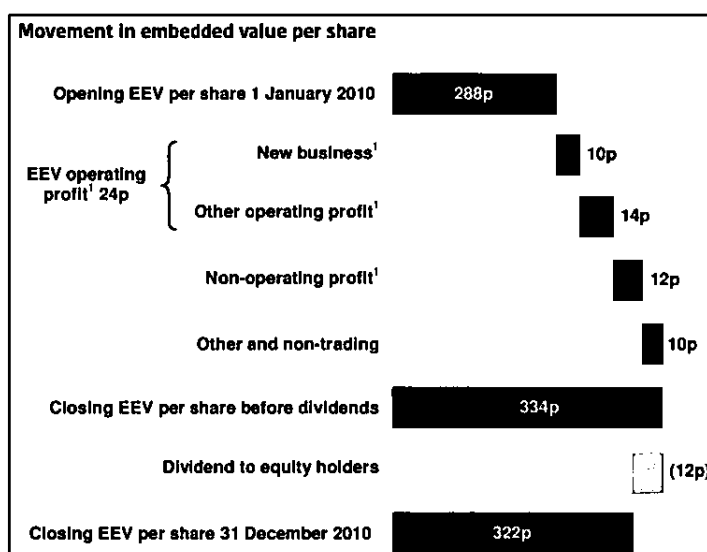
EEV profit before tax of £1,152m (2009: £474m) includes an operating profit from continuing operations of £787m (2009: £844m) and a non-operating profit from continuing operations of £348m (2009: loss £463m). EEV profit from discontinued operations was £17m before tax (2009: £93m).

There's more detail about EEV operating profit and non-operating profits in the following sections.

EEV operating profit before tax from continuing operations

EEV operating profit from continuing operations decreased by 7%. Whilst core profits increased by £120m and efficiency profits rose by £146m, back book profits fell by £323m reflecting the large one-off profits we made in 2009.

Core profits increased by 24% to £629m due to the new business we sold and an improved expected return from our existing business. This also drove an increase in our core RoEV from 6.1% to 7.2%. New business contribution (NBC) increased by 45% – find out more about this under New business profitability. Expected return on our existing business increased by 13% to £422m (2009: £375m).



¹ Profits are shown net of tax.

	EEV operating profit before tax		RoEV	
	2010 £m	2009 £m	2010 %	2009 %
Core	629	509	7.2	6.1
Efficiency	132	(14)	1.6	(0.2)
Back book management	26	349	(0.1)	4.0
Total	787	844	8.7	9.9

Our core non-covered business (predominantly our investment management business and other businesses that support our long-term savings businesses) produced an operating loss of £37m (2009: loss £22m). This was mainly due to higher spend on growth investment.

The total increase in growth investment spend across our business reduced EEV operating profit, but this will help us take advantage of opportunities for profitable growth in the future.

Profit from efficiency gains was mainly due to £130m in positive expense assumption changes across all of our long-term savings businesses, but particularly in Canada and the UK. These positive expense assumptions mainly reflect the reduction in the ongoing expenses of managing our covered business and the growth in business volumes.

Operating profit from back book management of £26m included a £59m one-off operating profit from the change in the UK pension scheme. We made significant profits last year from one-off activities to reduce market risk associated with the HWPF. This was the main contributor to the overall decrease in EEV operating profit in 2010.

New business profitability

	PVNBP £m		NBC £m		PVNBP margin %		IRR %		Undiscounted payback (years) ¹	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
UK	12,956	10,180	173	139	1.3	1.4	18	16	6	6
Canada	3,048	2,460	68	46	2.2	1.9	24	14	6	7
International	2,479	1,908	67	28	2.7	1.5	14	10	6	8
Total	18,483	14,548	308	213	1.7	1.5	17	14	6	7

¹ 2010 payback period is calculated on an undiscounted basis. Prior to this, the calculation was on a discounted basis. The 2009 comparative has been restated.

Improved new business profitability was due to higher sales volumes across the Group and increased margins in our overseas businesses. The present value of new business premiums (PVNBP) for the Group totalled £18,483m and was 27% greater than sales volumes in 2009. The total internal rate of return (IRR) for the Group was 17% (2009: 14%) and the undiscounted payback period shortened to 6 years (2009: 7 years).

Find out more on new business profitability for each of our businesses in Section 1.4 – Business segment performance.

EEV non-operating profit/(loss) before tax from continuing operations

Total EEV non-operating profit before tax from continuing operations of £348m (2009: loss £463m) was mainly due to a positive investment variance of £578m (2009: £70m). This primarily reflects higher investment returns than had been anticipated. The loss from economic assumption changes was £209m (2009: loss £539m). This mainly arose from the use of lower projected investment returns.

Restructuring and corporate transaction costs of £71m (2009: £52m) primarily represent costs incurred as part of our Group Transformation and Solvency 2 Programmes. Volatility arising from adjustments for different accounting bases resulted in a gain of £51m (2009: £67m).

1.4 Business segment performance

Business segment overview

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

	UK	Canada																
Focus	Delivering innovative customer-centric propositions to the UK long-term savings and investments market.	Providing long-term savings, investment and insurance solutions to more than 1.4 million Canadian customers.																
Strategy	We believe that the UK is a fundamentally exciting market, with great potential for our business. Our strong existing presence provides significant opportunities for us to drive profitable growth within long-term savings and investments. We believe that ongoing market changes, including pensions reform, growing demand for using technology, the savings gap and the Retail Distribution Review, will create new opportunities for us.	In Canada we will continue to differentiate our business by providing innovative retirement and investment solutions combined with a world-class customer experience. We continue to actively promote ourselves as a long-term savings and investments business in our chosen markets. New products and features will be developed specifically to meet customers' needs for financial security.																
2010 highlights	<ul style="list-style-type: none"> • AUA increased by £13.6bn to £119.2bn driven by strong net inflows and positive market movements • IFRS operating profit before tax up 5% to £234m • IFRS average fee revenue yield increased by 2bps to 77bps • In corporate, we launched Trust Based Pension in 2010 and more recently, Lifelens, our employee benefits platform in 2011 • In retail, AUA on our Wrap platform increased by 69% to £6.1bn and we launched our entry-level retirement savings proposition, Active Money Personal Pension • Restructure of UK business, including the creation of a new Take to Market function 	<ul style="list-style-type: none"> • AUA grew by 9% in constant currency to £25.3bn • IFRS operating profit before tax broadly maintained at £110m • IFRS average fee revenue yield increased by 2bps to 118bps • Strong sales growth in our core product segments of pension and retail investment funds led to an increase in market share • Highest rated retail sales team for the second year in a row, as recognised by retail advisers • Strong disability management solution and health and wellness offerings 																
Performance	<p>IFRS operating profit before tax</p> <table border="1"> <tr><th>Year</th><th>IFRS operating profit before tax (£m)</th></tr> <tr><td>2008</td><td>£338m</td></tr> <tr><td>2009</td><td>£222m</td></tr> <tr><td>2010</td><td>£234m</td></tr> </table> <p>IFRS operating profit before tax increased to £234m, mainly due to an increase in revenue from our existing fee based business and a benefit from the change in the UK pension scheme. This was partly offset by a reduction in spread/risk margin and higher growth investment spend. The 2008 result included several one-off items that contributed £101m to profitability.</p>	Year	IFRS operating profit before tax (£m)	2008	£338m	2009	£222m	2010	£234m	<p>IFRS operating profit before tax</p> <table border="1"> <tr><th>Year</th><th>IFRS operating profit before tax (£m)</th></tr> <tr><td>2008</td><td>£46m</td></tr> <tr><td>2009</td><td>£113m</td></tr> <tr><td>2010</td><td>£110m</td></tr> </table> <p>IFRS operating profit before tax remained broadly stable at £110m. Total income increased to £372m (2009: £330m), with fee business contributing £150m and spread/risk business £222m.</p>	Year	IFRS operating profit before tax (£m)	2008	£46m	2009	£113m	2010	£110m
Year	IFRS operating profit before tax (£m)																	
2008	£338m																	
2009	£222m																	
2010	£234m																	
Year	IFRS operating profit before tax (£m)																	
2008	£46m																	
2009	£113m																	
2010	£110m																	

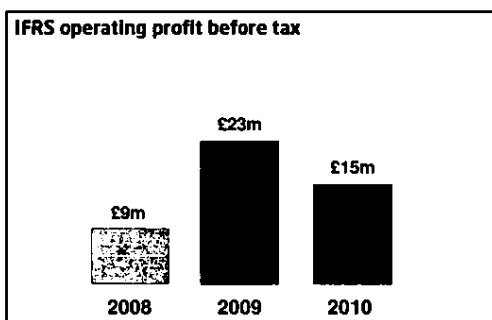
International

Providing high quality and customer-centric long-term savings and investment propositions in Ireland (Ireland domestic business and the offshore bonds business), Germany, Hong Kong and through our joint ventures based in India and China.

Our strategy is to maximise our long-term growth prospects by leveraging our existing international business and global investment management capabilities. Investment is being made in new capital-efficient individual wealth propositions using the existing Group infrastructure.

The joint ventures continue to follow strategies to increase value by seeking profitable growth.

- Net inflows of £1.7bn were significantly higher due to reduced claims levels in Ireland domestic business and strong growth in new business in Ireland
- AUA increased by 24% to £12.3bn
- IFRS operating profit before tax decreased to £15m
- IFRS average fee revenue yield decreased to 212bps
- Sales in India increased by 15% in constant currency
- Market share in India rose from 8% to 12%, driven by strong growth in the bancassurance channel
- In China, regular premium business increased by 12% in constant currency



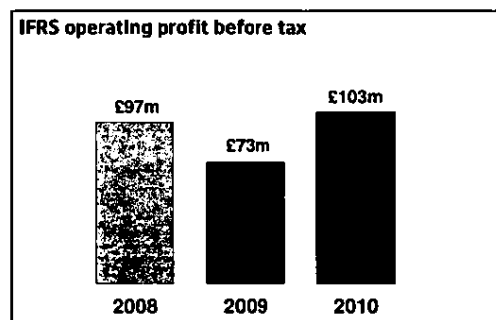
IFRS operating profit before tax decreased to £15m, mainly due to the expected reduction in the transfer of profit to shareholders from the Heritage With Profits Fund in Germany.

Global investment management

Building a successful and sustainable investment management business – with growth driven by investment performance and supported by exceptional client service.

We will keep pursuing our strategy of building on the strong and profitable momentum we have in this market. We will continue to expand our capability in order to deliver a wide range of solutions for clients that help diversify our revenue and profitability. Changes in the market environment and client needs provide many new opportunities.

- Third party AUM up 26% to a record level of £71.6bn
- Strong growth in net inflows, excluding money market funds to £7.3bn, representing 14% of opening AUM
- Strong growth in UK wholesale business with mutual fund net sales of £2.2bn
- Strong net sales of GARS up £3.2bn to £4.0bn
- Earnings before interest and tax up 33% to £106m
- Revenue up 29% as a result of higher third party new business flows
- Average fee revenue yield increased to 35bps
- Third party money weighted average investment performance is 29th percentile over one year and solid second quartile over longer time periods



IFRS operating profit before tax increased to £103m, mainly due to higher revenue from increased new business flows, mostly into higher margin products. Operating costs remained tightly controlled but allowed for continued investment in the business to maintain longer term growth.

1.4 Business segment performance continued

1.4.1 UK

We are one of the largest providers in the long-term savings and investments business in the UK, offering solutions to both the retail and corporate markets. We offer a wide range of insurance and investment wrappers. In 2010, we began transforming our operations, investing in new customer-centric propositions and increasing our speed to market. On 31 July 2010 the sale of Standard Life Healthcare Limited was completed.

Financial highlights

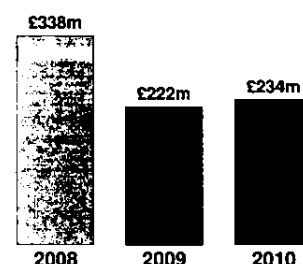
	2010	2009	Movement
IFRS operating profit before tax from continuing operations ¹	£234m	£222m	5%
Assets under administration	£119.2bn	£105.6bn	13%
Net flows	£2,997m	£1,214m	147%
EEV covered business operating profit before tax	£428m	£649m	(34%)
EEV non-covered business operating profit/(loss) before tax from continuing operations ¹	£28m	(£18m)	256%

¹ Continuing operations exclude Standard Life Bank plc and Standard Life Healthcare Limited, which were sold on 1 January 2010 and 31 July 2010 respectively.

IFRS operating profit before tax

	2010 £m	2009 £m
Fee based revenue	593	498
Spread/risk margin	148	240
Total income	741	738
Acquisition expenses	(172)	(166)
Maintenance expenses	(312)	(291)
Growth investment spend	(61)	(31)
Capital management	(21)	(28)
Other	59	-
UK IFRS operating profit before tax from continuing operations	234	222

UK IFRS operating profit before tax



UK long-term savings and investments IFRS operating profit before tax was £234m (2009: £222m). Fee based revenue increased due to higher annual management charge income. This was driven by higher average AUA, due to both strong growth in new inflows and positive market movements during the year. The average revenue yield on fee business increased slightly to 77bps (2009: 75bps).

The spread/risk margin reduced due to changes in operating assumptions and lower annuity volumes that resulted from market-led changes in our pricing. The spread/risk margin result in 2010 benefited from investment strategy changes, partially offset by a mortality assumption change which together contributed £30m to the result. The 2010 result also included a £5m (2009: £63m) release of reserves following the review of our deferred annuity data.

Initiatives to significantly increase our AUA were tightly controlled. As a result, acquisition expenses were only slightly higher than last year. Maintenance expenses increased, mainly because of Vebnet and Standard Life Wealth forming part of the UK business in 2010.

We have continued to invest in growing our business. Growth investment spend increased to £61m, with a number of customer propositions launched during the year.

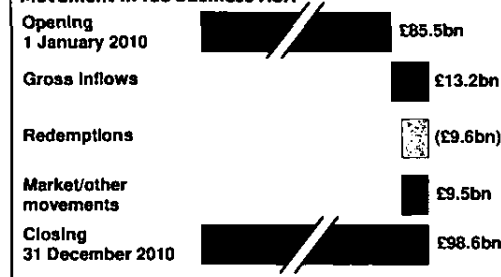
Other relates to a £59m benefit from the change in the UK pension scheme in 2010.

The 2008 result included several one-off items that contributed £101m to profitability.

Assets under administration and net flows

Assets under administration (AUA) grew by £13.6bn to £119.2bn. Fee based business, which accounts for the majority of total AUA, increased by 15% to £98.6bn (2009: £85.5bn) due to strong net inflows and positive market movements. Spread/risk business AUA has increased by £0.3bn to £13.4bn due to positive market movements. As at 31 December 2010, 63% of total fee based AUA related to retail business (2009: 65%) and 37% to corporate business (2009: 35%).

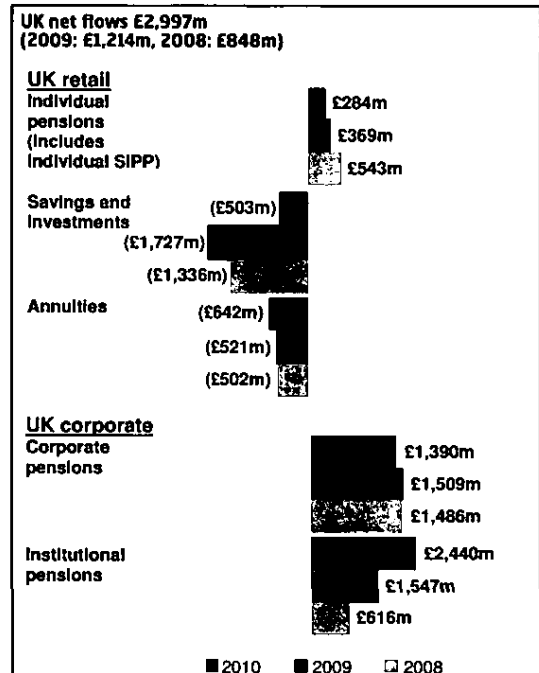
Movement in fee business AUA



Total UK net inflows for the year increased by 147% to £2,997m. Within this, fee based business net inflows more than doubled to £3,611m (2009: £1,698m), while net outflows for spread/risk business were £614m (2009: £484m). At a product level, retail net outflows of £833m were £1,009m lower than 2009. This reflected strong self invested personal pension (SIPP) and mutual funds inflows. However, this was partly offset by increased outflows across all pension products as customers took retirement benefits before the minimum age changed from 50 to 55 in April 2010. Outflows decreased across our pension products after the age change came into effect.

The reduction in savings and investments net outflows was mainly due to lower investment bonds net outflows of £807m. Outflows were higher in 2009 due to our decision not to renew bulk investment bond deals, which contributed £581m to net outflows. We also experienced lower legacy life net outflows of £988m in 2010.

Corporate net inflows of £3,830m (2009: £3,056m) increased by 25% due to the success in winning new institutional pension mandates. There were significant inflows into GARS and fixed income funds offered through Standard Life Investments. This was slightly offset by corporate pension net inflows of £1,390m (2009: £1,509m) being 8% lower than last year. An increase in outflows, mainly due to the 50 to 55 age change were partially offset by higher inflows from strong sales levels.



Graph excludes protection (2010: £28m; 2009: £37m; 2008: £41m).

New business performance

	PVNBP £m ¹		NBC £m		IRR %		Undiscounted payback (years)	
	2010	2009	2010	2009	2010	2009	2010	2009
Individual pensions ² (F)	3,858	3,388	19	7	9	7	8	10
Savings and investments (F)	1,997	1,406	7	(3)	9	5	8	12
Annuities (S/R)	341	448	56	76	Infinite	Infinite	Immediate	Immediate
UK retail	6,197	5,244	82	80	18	18	6	6
Corporate pensions ² (F)	3,287	2,640	45	34	11	10	10	10
Institutional pensions (F)	3,472	2,296	46	25	>40	>40	<3	<3
UK corporate	6,759	4,936	91	59	18	15	6	7
UK total	12,956	10,180	173	139	18	16	6	6
Split of total								
Fee business (F)	12,614	9,730	117	63	13	10	7	9
Spread/risk business (S/R)	342	450	56	76	Infinite	Infinite	Immediate	Immediate

¹ UK retail and UK total PVNBP includes protection of £1m (2009: £2m) which is classed as spread/risk business.

² Retail Trustee Investment Plan has been reclassified from corporate pensions to individual pensions in 2010. The impact of this was PVNBP £25m (2009: £22m). There was no impact on NBC, IRR and undiscounted payback.

PVNBP sales increased by 27% to £12,956m. In our retail business, PVNBP increased by 18% to £6,197m. Individual pensions, which includes individual SIPP, rose by 14% to £3,858m. Within this, individual SIPP sales were up by 18% to £3,461m. This was driven by strong growth in new customer accounts, increased activity around the tax year end and higher average market values boosting incoming transfer values. Savings and investment sales grew by 42% to £1,997m with mutual fund sales increasing by 53% to £1,795m, reflecting significant growth in sales through our Wrap platform. This was partly offset by investment bonds sales which fell by 14% to £202m.

Corporate sales grew by 37% to £6,759m. Within this, corporate pensions increased by 25% to £3,287m. This rise was due to our success in winning new schemes with a higher average value compared to 2009, combined with an increase in the number of new members and increments into existing schemes. Also, our enhanced trustee-based pension proposition was successful in attracting both new and existing schemes and contributed £319m to sales. Institutional pension sales increased by 51% to £3,472m, reflecting strong growth in new customers.

New business contribution (NBC) increased to £173m, while the PVNBP margin fell to 1.3% (2009: 1.4%). The internal rate of return (IRR) increased to 18% and the payback period was maintained at 6 years.

1.4 Business segment performance continued

1.4.1 UK continued

EEV operating profit before tax

UK EEV operating profit, including HWPF time value of options and guarantees and non-covered business, decreased to £456m (2009: £631m) largely due to a decrease in operating profit from back book management activities. This was partially offset by a £34m increase in NBC. In addition, the return on the present value of in-force business was higher due to both a higher opening embedded value and a higher risk discount rate. Development spend increased to £30m (2009: £18m), reflecting our further investment in developing our corporate and retail propositions and our brand. Reducing the ongoing expenses of managing our business contributed to an efficiency profit of £44m (2009: loss £26m).

Delivering our strategy

In our corporate business, we successfully launched our trustee-based pension proposition and our employee benefits platform, Lifelens. This offers a compelling proposition for both employees and employers because it combines corporate savings and benefits, education and communication in one place. This innovative offering has attracted significant interest from new and existing customers, with the first customers moving onto the platform in 2011.

We also continued to offer our customers innovative solutions, as demonstrated by the Logica scheme win. With a tailored savings and benefits package, this makes the most of Vebnet's experience in the employee benefits market. We believe the flexibility and sustainability of our corporate offering, combined with the innovative, customer-centric propositions that we are developing, will allow us to build on our strong position in the UK corporate market.

Our retail business successfully launched the Active Money Personal Pension in February 2010. This extends our reach in the individual pensions market, with a product which adapts to the changing needs of each customer. We also continued to see strong growth in our individual SIPP customer base during the year. The total number of customer accounts increased by 28% to 107,100 (2009: 83,900). Responding to adviser feedback, we continued to enhance our Active Money SIPP. New developments included offering customers the option of using their own solicitor and widening the panel of lenders for property transactions. These updates will help to ensure that our SIPP remains innovative, competitive and market-leading.

AUA on our Wrap platform continued to grow significantly and was up 69% to £6.1bn as at 31 December 2010 (2009: £3.6bn). This was partly due to a significant increase in the number of advisers using the platform. 820 adviser firms now use the platform compared to 583 at 31 December 2009. This contributed to an 80% increase in customer numbers to 57,000 as at 31 December 2010 (2009: 31,600). We made a number of enhancements to the platform based on adviser feedback. This included introducing model portfolios and continuing to develop back-office integration functionality for advisers. We believe this customer-centric approach to introducing enhancements is one of the reasons our Wrap platform has been awarded the highest possible 'eee' rating by the Finance and Technology Research Centre (FTRC) for five consecutive years.

In March 2010, we announced our intention to transform how we operate by investing significantly in our propositions and increasing our speed to market, making us more nimble and allowing us to respond quickly to customer growth opportunities. We have already made significant progress. During 2010, we restructured the UK business, which included the creation of a new Take to Market function and established an Operations Transformation Programme. The new operating model will enhance customers' experience and deliver increased value and efficiencies by increasing automation and making it easier for customers to self-serve.

Also in March 2010, we announced the purchase of the remaining 75% stake in the intermediary support services business, threesixty, having held a 25% stake since May 2007. This acquisition adds further depth to our propositions in the intermediary market and supports our long-term distribution capability. We have already begun work with threesixty to develop the business for the benefit of our independent financial adviser client firms.

In June 2010, we established a team to focus on the direct-to-customer market. As a result we have rebuilt our customer website, making more products available to buy online and launched the MyFolio fund range.

In January 2011, we announced the completion of the acquisition of Focus Solutions for £48m. This will enhance and accelerate delivery of our market-leading solutions and services for intermediaries and other distribution channels. This acquisition is relevant to our core intermediary market and will help us to grow our retail bank and direct-to-customer distribution.

1.4.2 Canada

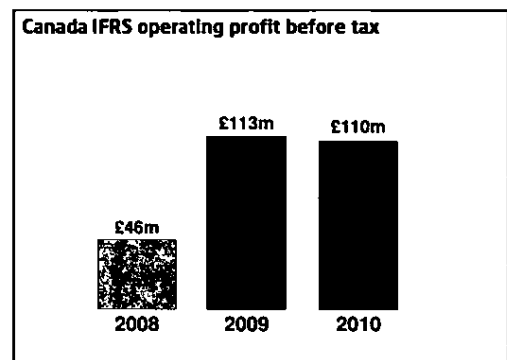
Our long-term savings and investments business in Canada offers a range of savings, retirement and insurance products. With a strong focus on the needs of our 1.4 million Canadian retail and corporate customers, we continue to build client and distributor relationships, while also introducing innovative solutions to protect clients' assets.

Financial highlights

	2010	2009	Movement
IFRS operating profit before tax	£110m	£113m	(3%)
Assets under administration	£25.3bn	£21.3bn	19%
Net flows	£63m	£361m	(83%)
EEV operating profit before tax	£250m	£192m	30%

IFRS operating profit before tax

	2010 £m	2009 £m
Fee based revenue	150	109
Spread/risk margin	222	221
Total Income	372	330
Acquisition expenses	(64)	(60)
Maintenance expenses	(193)	(156)
Growth investment spend	(35)	(30)
Capital management	30	29
Canada IFRS operating profit before tax	110	113



Operating profit before tax fell slightly to £110m (2009: £113m). Fee based revenue benefited from an increase in management charge income and surplus income from higher AUA. The average revenue yield on fee business was 118bps (2009: 116bps). This reflected changes in the product mix, including an increase in retail funds.

Spread/risk margin remained broadly in line with 2009. The 2010 result was impacted by policyholder liabilities increasing by £13m (2009: £34m) and included management actions to improve asset and liability matching and reduce future volatility. One-off changes also included a release of reserves due to a review of annuity policy data, modelling changes and changes to reinsurance arrangements.

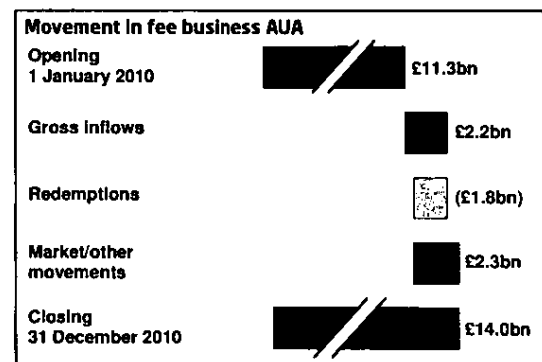
Maintenance expenses included a charge of £14m following an assessment of the methodology and amortisation period for deferred acquisition costs. The rise in AUA also impacts maintenance expenses due to the increased ongoing costs to service and administer these assets.

The business maintained its strong credit profile, with a mortgage portfolio average loan to value ratio of 45% (2009: 46%). No credit losses were experienced during the period.

Assets under administration and net flows

AUA increased by £4.0bn during the year driven by positive market movements and stable net inflows into fee business. In particular, individual savings and retirement experienced strong net flows. Our fee business grew strongly and now accounts for 55% (2009: 53%) of total AUA. Spread/risk AUA increased to £10.1bn (2009: £9.2bn), also driven by positive market movements. This was partially offset by scheduled annuity payments.

Net flows decreased by 84% in constant currency to £63m, due to lower inflows within the spread/risk business and higher claims and withdrawals. These more than offset the strong growth in gross inflows achieved across our fee business. In our retail fee business, which includes individual segregated funds and mutual funds, net inflows increased to £119m (2009: £81m). This reflects the strength of our savings and investments propositions, our well-positioned offering and strong adviser relationships. The recovery in equity markets during 2010 improved customer sentiment and this also increased net flows.



1.4 Business segment performance continued

1.4.2 Canada continued

In our retail spread/risk business, net outflows increased from £72m to £328m, mainly due to lower term funds sales and maturing term deposits sold in 2009 when product demand was very high. Total group savings and retirement net inflows decreased by 39% in constant currency to £193m (2009: £287m). This was despite strong sales and an increase in market share. Large mandates won during the year only provided marginal inflows, consisting mostly of future annually recurring premiums. Group insurance net inflows increased by 10% in constant currency to £79m (2009: £65m), as the strength of our innovative disability offering helped us make gains in a contracting market. Total net inflows, excluding scheduled payments relating to non-core legacy annuity products decreased by 38% in constant currency to £584m (2009: £844m).

New business performance

PVNB sales increased by 12% in constant currency to £3,048m (2009: £2,460m). Sales in our retail line, which includes individual insurance, savings and retirement and mutual funds, increased by 4% in constant currency to £975m (2009: £848m). Group savings and retirement sales increased by 35% in constant currency to £1,466m (2009: £981m) with close to two-thirds of sales comprising of recurring annual premiums. Excluding large wins in both years, sales have increased by 22% in constant currency. Group insurance sales decreased by 13% in constant currency to £607m (2009: £631m), reflecting a contracted business environment.

New business contribution increased by 34% in constant currency to £68m (2009: £46m) and PVNB margin improved to 2.2% (2009: 1.9%). This was the result of a more profitable sales mix, with higher sales of individual segregated funds and mutual funds. Internal rate of return increased to 24% (2009: 14%). This was mainly due to the change in sales mix. The undiscounted payback period shortened to 6 years (2009: 7 years).

EEV operating profit before tax

EEV operating profit before tax increased by 18% in constant currency to £250m (2009: £192m). This was mainly due to efficiency gains and higher new business contribution. Expense experience gains and assumption changes resulted in a profit of £73m (2009: loss £8m). Back book management delivered a loss of £41m (2009: gain £23m), largely due to a reduction in expected fee income in our group savings and retirement line. This was partly offset by favourable experience following a review of annuity policy data.

Delivering our strategy

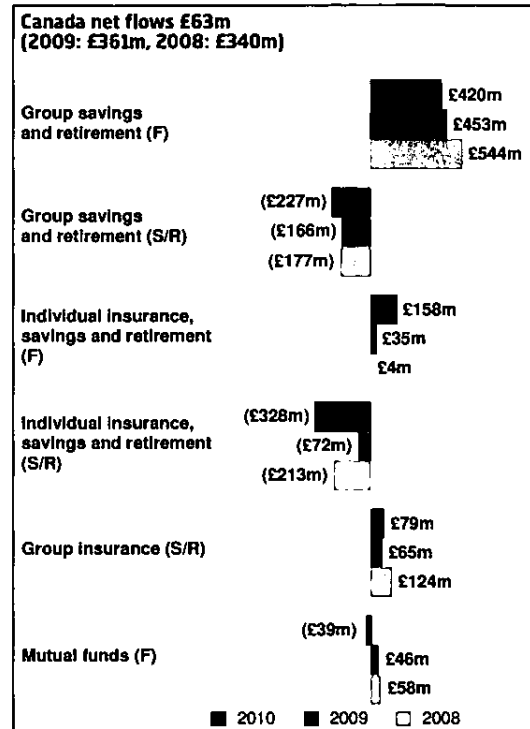
In line with our strategy, we have continued to focus on increasing our visibility in the market. In 2010, we launched the second phase of our award-winning advertising campaign, which included online marketing and social media. A new organisational structure has also been adopted to allow our business to react more quickly to new business opportunities.

In our group savings and retirement line, we have focused on expanding in the large case segments and continued to build our core propositions. In the small market segment, we continue to evolve our Express product by launching web tools to support our advisers in their sales process. We also revamped our Plan for Life statements, highlighting the important information members need to make informed decisions about their retirement income planning. The update was well received by clients and intermediaries.

In the first quarter of 2011, we will launch a trust application platform. This will enable us to deliver a combined offering of stock plans and stock options within our regular defined contribution proposition.

The progress we have made in improving our retail sales function and building solid distribution relationships was acknowledged by an industry survey. Our retail sales team received a top ranking from retail advisers for the second year in a row, recognising the strength of our business consultancy model and the strong relationships that we have built with our advisers. We also launched our new Corporate Class Mutual Fund series featuring tax-efficient funds. This allows non-registered investors to enjoy all the benefits of our traditional range of funds with an added layer of tax efficiency. At the beginning of 2011, we launched a new Distributor Relationship Management system as part of our continuous effort to deliver propositions that meet the evolving needs of our customers. The system provides an overview of our adviser relationships and will help to extend our distribution reach.

In our group insurance line, we continue to provide additional support to customers and improve our product offering. Our new flexible benefit administration and enrolment tool was instrumental in delivering key new accounts. We are also actively promoting our disability management expertise as part of our comprehensive benefit offering and as a stand-alone offer.



1.4.3 International

Our International business is made up of four wholly owned businesses and two joint ventures. Our wholly owned businesses are Standard Life International Limited (offshore bonds business based in Dublin), Standard Life Ireland (Ireland domestic business), Standard Life Germany (operating in Germany and Austria) and Standard Life Asia (based in Hong Kong). The joint ventures are based in China and India. International offers long-term savings and investments products.

Financial highlights - wholly owned

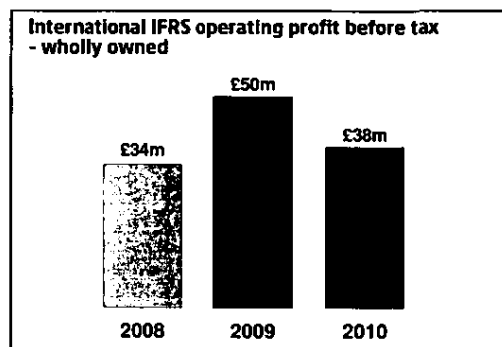
	2010	2009	Movement
IFRS operating profit before tax	£38m	£50m	(24%)
Assets under administration	£11.1bn	£9.1bn	22%
Net flows	£1,412m	£881m	60%
EEV covered business operating profit before tax	£90m	£30m	200%
EEV non-covered business operating loss before tax	(£7m)	(£6m)	(17%)

Financial highlights - joint ventures (Standard Life's share)

	2010	2009	Movement
IFRS operating loss before tax	(£23m)	(£27m)	15%
Assets under administration	£1.2bn	£0.8bn	50%
Net flows	£254m	£211m	20%
EEV covered business operating profit/(loss) before tax	£3m	(£1m)	400%

IFRS operating profit before tax

	2010 £m	2009 £m
Fee based revenue	212	208
Acquisition expenses	(31)	(14)
Maintenance expenses	(129)	(127)
Growth investment spend	(15)	(17)
Capital management	1	-
Total wholly owned	38	50
Joint venture businesses	(23)	(27)
International IFRS operating profit before tax	15	23



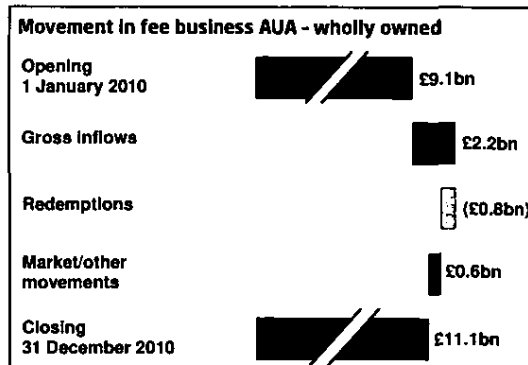
IFRS operating profit before tax of the wholly owned businesses decreased by 24% to £38m (2009: £50m). Profitability in Germany fell to £42m (2009: £55m) and in Ireland domestic business remained broadly stable at £8m (2009: £9m). The offshore bonds business recorded a loss of £9m (2009: loss £10m). In Germany, the fall in profitability was mainly due to the reducing transfer of profit to shareholders from the HWPF in accordance with the Scheme of Demutualisation. This was partly offset by rising profits from the post-demutualisation business. Most revenue in Germany is from premium based charges. During 2010 fee business revenue bps fell to 310bps (2009: 413bps) because of the reduction in charges from pre-demutualisation business. Profitability in Ireland benefited from increased management charge income and lower operating costs. This led to a rise in the average revenue yield on fee business to 81bps (2009: 74bps). Hong Kong recorded a profit of £4m (2009: £2m) due to strong sales and margins growth. The International result also includes central costs relating to business development.

Assets under administration and net flows

AUA in the wholly owned businesses grew by £2.0bn to £11.1bn (2009: £9.1bn) due to high net inflows in the year. In Ireland, AUA increased to £4.2bn (2009: £3.7bn) for the domestic business and to £1.8bn (2009: £1.2bn) for offshore bonds. AUA in Germany rose by 24% in constant currency to £5.0bn (2009: £4.2bn).

Net flows of the wholly owned businesses increased by 60% to £1,412m. This was mainly due to strong growth in sales in Ireland.

Ireland domestic business net inflows of £215m (2009: £111m) were higher due to strong sales growth and lower claims. Net flows of offshore bonds increased to £496m (2009: £157m) due to higher inflows from new business, particularly from our Wrap platform.



1.4 Business segment performance continued

1.4.3 International continued

Net flows in Germany were £666m (2009: £701m), a 1% decrease in constant currency. The market remained challenging for the whole industry, especially the IFA segment, leading to a fall in new business levels.

Our Hong Kong operation continues to deliver strong growth, with net flows up 185% in constant currency to £35m (2009: £12m).

New business performance

PVNB sales in the wholly owned businesses increased by 35% to £1,929m (2009: £1,430m). In Ireland domestic business, sales increased by 22% in constant currency to £598m (2009: £512m) due to our strong investment proposition and the launch of a new pensions product. We benefited as customers moved towards financial institutions they perceived as being more secure. Offshore bonds sales were 89% higher at £700m (2009: £370m) due to an improved proposition and better market conditions. In Germany, sales of £337m (2009: £407m) were 14% lower than 2009 in constant currency.

Hong Kong performed very well and increased its market share. PVNB sales of £294m (2009: £141m) were up 108% in constant currency. This was mainly due to the distribution of the core unit linked savings product and the launch of a new product in quarter four offering 300 funds on an open architecture, targeting the established affluent and high net worth customer segments.

NBC in the wholly owned businesses increased to £44m (2009: £17m). This was mainly due to cost efficiencies and higher sales levels in Ireland and Hong Kong.

EEV operating profit before tax

EEV operating profit before tax of the wholly owned businesses, including non-covered business, increased to £83m (2009: £24m). This increase was mainly due to increased profits from new business and the positive persistency in Ireland and Germany. The NBC for Ireland and Hong Kong increased due to higher sales levels. PVNB margin was 2.3%.

Delivering our strategy

International operates as a customer-centric long-term savings and investments business. The Europe and Asia divisions were combined into one International business at the start of 2010. This will enable synergies, make it easier to share ideas and improve efficiency. The streamlined structure will position International to grow profitability and provide new solutions for customers and distributors.

We have improved our product investment range by adding the GARS products, which generated sales across Germany, Austria and Ireland. In Germany we started to strengthen our corporate propositions and will continue with this in 2011. In Ireland domestic business, we carried out a customer insight and market segmentation exercise to help us keep improving the way we deal with our customers and IFAs. In the offshore bonds business, we strengthened our propositions with the addition of a number of discretionary fund managers. We widened our distribution route through strategic deals and by increasing engagement with the UK sales force.

Standard Life Asia is now recognised as a leading provider of long-term savings and investments products through intermediaries in the Hong Kong market. The business grew its market share significantly with targeted sales and marketing activity and superior market-leading propositions, like the newly launched Harvest Supreme proposition.

These initiatives maintained and strengthened our market presence in the countries where International operates and have contributed to higher new business levels and strong net flows.

Joint Ventures - India and China

In China and India our focus is on increasing long-term shareholder value by delivering products that meet our customers' needs.

The joint ventures contributed an IFRS operating loss before tax of £23m (2009: loss £27m) to the Group, reflecting the continued progression of the business and our commitment to invest in the region.

In India, PVNB was £444m (2009: £362m), up 15% in constant currency. In China, sales fell by 10% in constant currency to £106m (2009: £116m). This reflects a greater focus on profitability by increasing the proportion of regular premium business.

Net flows in the joint ventures increased by 14% in constant currency to £254m (2009: £211m), mainly driven by India where strong growth and market share gains reflected success in the bancassurance channel.

EEV covered business operating profit before tax for the joint ventures was £3m (2009: loss £1m). Sales increased by 9% in constant currency and led to a strong rise in NBC to £23m (2009: £11m). This resulted in a PVNB margin of 4.3%.

In India, regulatory changes that affect unit linked business were implemented from 1 September 2010 and will have a severe negative impact on sales and margins across the industry in the short term. However, effective initial management of the changes helped increase our market share in the private market to 12% in 2010 (2009: 8%). We remain confident about our future competitive positioning, with our individual business emerging as the leading private player during the fourth quarter of 2010.

In China, the outcome of negotiations with Bank of China over a possible deal was not as we would have hoped. We are now focused on developing our joint venture partnership to deliver a successful business that meets customer needs in this growth market.

1.4.4 Global investment management

Our focus at Standard Life Investments is on delivering superior investment performance, supported by exceptional client service. Standard Life Investments operates as a global team, with an investment process underpinned by its 'focus on change' philosophy. This has proved itself to be robust and repeatable in both good and bad market conditions. Over the 12 years since its inception, Standard Life Investments has delivered a strong track record of profitable organic growth, a trend which continued during 2010.

Financial highlights

	2010	2009	Movement
IFRS operating profit before tax	£103m	£73m	41%
Earnings before interest and tax (EBIT)	£106m	£80m	33%
EBIT margin	33%	32%	1% point
Third party assets under management (AUM)	£71.6bn	£56.9bn	26%
Total assets under management	£156.9bn	£138.7bn	13%
Third party net inflows (excluding money market funds) ¹	£7,269m	£4,848m	50%

¹ Total third party net inflows in 2010 were £6,200m (2009: £5,674m).

Standard Life Investments performed strongly in 2010, despite volatile and subdued markets. The sales growth of past periods was maintained with strong inflows of institutional and wholesale business of £6.2bn. After removing the structural outflows of money market assets, the underlying net inflow was £7.3bn. These flows increased third party AUM to a record level of £71.6bn (2009: £56.9bn). The increase in new business flows and a rise in average market values resulted in strong revenue growth of 29%, driving EBIT up 33% to £106m (2009: £80m) and EBIT margin to 33% (2009: 32%). Our continued focus on serving existing clients and winning new clients through strong investment performance, product innovation, global distribution and high levels of customer service has paid off. The economic recovery remains subdued and fragile but this robust performance shows that Standard Life Investments can prosper in difficult conditions and is in good shape to benefit from a future return to stability.

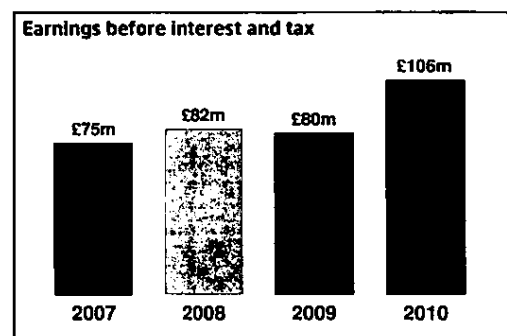
Profitability

IFRS operating profit before tax increased by 41% to £103m.

Revenue rose by 29% because of increased third party new business flows, many of which were into higher margin products, such as GARS and UK mutual funds, and stronger market conditions. This raised the average revenue yield on third party AUM to 35bps (2009: 34bps).

Operating costs were tightly controlled while allowing for continued investment in the business to maintain our longer term growth. These measures resulted in an increased EBIT of 33% to £106m and an EBIT margin of 33% (2009: 32%).

Lower interest expense also contributed to the increased IFRS operating profit. A subordinated loan of £30m was repaid at the end of 2009 and a further £15m subordinated loan was repaid at the end of 2010, leaving the business with no gearing.



Financial market overview

Despite the financial crisis continuing to weigh heavily on the global economy in 2010, average market values in 2010 were substantially higher than in 2009. The average daily FTSE All-Share Index, for example, rose 21% between the two years. Combined with rises in other major world markets, this led to an increase in asset management revenues. We continue to maintain strong third party sales across institutional, wholesale and customer segments.

Investment performance

Investment performance was strong during 2010 and we continued to deliver a robust investment performance over the longer term. The money-weighted average active investment performance over all time periods – one, three, five and ten years – continues to be above median for our third party business. Our mutual fund and unit trust range strength is shown by the proportion of eligible and actively managed funds (23 out of 28) rated A or above by Standard & Poor's in the UK.

The pipeline for institutional business is still encouraging with fixed income and GARS products attracting a lot of interest, increasingly from outside the UK. There is also very positive demand for our mutual funds in the UK and for our SICAV funds in continental Europe.

1.4 Business segment performance *continued*

1.4.4 Global investment management *continued*

Assets under management and net flows

We achieved third party net inflows of £7,269m (2009: £4,848m), after removing the structural outflows from money market funds. This was a 50% increase from 2009, representing 14% of opening third party AUM. Total third party net inflows were £6,200m. UK mutual funds net inflows rose significantly to £2,221m (2009: £669m). A notable number of new institutional clients were won in the UK and Europe during the year, increasing the institutional client base in these markets by 32%. Our high overall retention rates are reflected in nearly £1bn of net inflows generated from existing institutional clients.

Third party AUM was up by 26% to a record level of £71.6bn (2009: £56.9bn). This was caused by strong inflows in the UK and international markets and the recovery of market levels in 2010. Third party AUM now represents 46% of total AUM (2009: 41%). In-house AUM increased to £85.3bn (2009: £81.8bn) with favourable market movements offsetting outflows from the with profits business and from the sale of Standard Life Bank plc. As a result, total assets managed by Standard Life Investments stood at a record level of £156.9bn (2009: £138.7bn).

Delivering our strategy

We entered into a strategic alliance with Chuo Mitsui Asset Trust and Banking Company, one of the largest trust banks in Japan, for reciprocal asset management services. The alliance sees Standard Life Investments provide advice on Chuo Mitsui's Global Equity Funds and Chuo Mitsui manage and advise on Standard Life Investments' Japanese Equity funds. We will also be able to market each other's investment strategies through our respective distribution networks.

Our successful GARS proposition is now available to institutional investment clients in the USA, Canada and Australia where we have secured a number of new mandates. It has also recently been launched in a SICAV wrapper to access the international market. US expansion progressed well with the launch of our first segregated GARS mandate in the region and continued strong interest in the offshore GARS product.

In the UK wholesale space we had particular success with our GARS product which achieved a market-leading 39% share of 2010 sales within the absolute return sector, and the UK Smaller Companies Fund which achieved a 42% market share of 2010 sales within its relevant sector.

MyFolio was successfully launched in September 2010, following collaborative working across the Group. This is a proposition designed to help customers find the right investment solution. MyFolio has proved successful since its launch, providing new business flows into Standard Life Investments' actively managed funds. We expect MyFolio to continue its positive growth during 2011.

Standard Life Investments also extended its range of alternative assets during 2010 by acquiring a 75.1% stake in Aida Capital Limited, a London-based FSA registered fund of hedge funds manager.

During 2010 we also made some enhancements to our infrastructure. This included restructuring our Global Client Group, investing in our people (880 staff at 31 December 2010, up from 783 at the beginning of the year) and investing in our core operational platforms.

Our pipeline of new product initiatives is strong, and we are confident that we will continue to meet the ever changing demands of our clients through new and innovative products.

1.5 Capital and cash generation

Our strategy remains focused on careful capital management and generating cash. The emphasis on capital-efficient products is important as it demonstrates our ability to write profitable new business without committing high levels of capital.

Capital and cash generation highlights

	2010	2009	Movement
EEV operating capital and cash generation from continuing operations ¹	£287m	£371m	(23%)
Group capital surplus ²	£3.8bn	£3.6bn	6%
EEV	£7,321m	£6,435m	14%
IFRS equity attributable to equity holders of Standard Life plc	£3,903m	£3,457m	13%

¹ Continuing operations exclude Standard Life Bank plc and Standard Life Healthcare Limited, which were sold on 1 January 2010 and 31 July 2010 respectively.

² 2010 based on estimated regulatory returns. 2009 based on final regulatory returns.

Group EEV capital and cash generation

Capital and cash generation enables the Group to invest in new business and profitable growth opportunities. Gross operating capital and cash generation before investment in new business and growth investment spend was £596m (2009: £617m). Excluding the contribution from back book management activities of £10m (2009: £71m), which is more variable from year to year, adjusted capital and cash generation was £586m. This represents an increase of 7% from £546m in 2009.

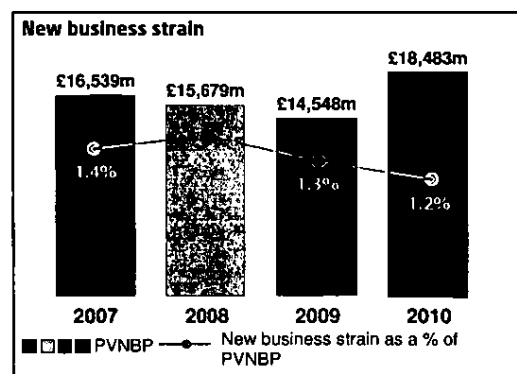
	2010 £m	2009 £m
UK	372	395
Canada	128	131
International	97	102
Non-covered	(1)	(11)
Gross operating capital and cash generation from continuing operations	596	617
New business strain	(220)	(188)
Growth investment spend	(89)	(58)
Operating capital and cash generation from continuing operations	287	371
Dividend declared (£m)	295	272
Coverage of gross operating capital and cash to new business strain	2.7	3.3
Coverage of operating capital and cash to dividend declared	1.0	1.4

New business strain (NBS) is a measure of the cost of selling new business. Whilst NBS has increased to £220m, this was lower than growth in new business sales volumes. As a result, the NBS margin (NBS/PVNBP) fell from 1.3% to 1.2%.

The growth in NBS contributed to a fall in the coverage ratio of gross operating capital and cash to NBS, which was down from 3.3 to 2.7. This was also due to a decrease in capital and cash from management of the existing book of business. The decrease in capital and cash from back book management activities contributed 0.3 to the fall in the coverage of gross operating capital and cash to NBS.

We remain committed to our strategy of investing in capital-efficient products which deliver high capital returns and fast recovery of investment. The total internal rate of return (IRR) for new business was 17% (2009: 14%) and the payback period was 6 years (2009: 7 years). Find out more on new business profitability in Section 1.3 – EEV – Group.

Coverage of operating capital and cash to dividend was 1.0 compared to 1.4 for 2009. The decrease in back book management capital and cash and the increase in growth investment spend were the main contributors to the total decrease in the ratio.



1.5 Capital and cash generation *continued*

In overall terms, our EEV operating capital and cash generation from continuing operations has decreased to £287m. This was mainly due to a fall in capital and cash generation from back book management activities which generated £10m capital and cash in 2010. In 2009, back book management activities generated £71m which included the benefit of a release of UK deferred annuity reserves.

Capital and cash generation from existing business after new business sales of £384m was the main contributor to our operating capital and cash generation. There was negative capital and cash contribution from our growth investment activities. This is reflected in our core covered business development expenses of £48m (2009: £32m) and it also contributed to the increased losses from our core non-covered businesses from £19m to £47m.

	2010			2009		
	Free surplus movement £m	Required capital movement £m	Net worth movement £m	Free surplus movement £m	Required capital movement £m	Net worth movement £m
Capital and cash generation from existing business	626	(22)	604	567	(21)	546
New business strain	(265)	45	(220)	(252)	64	(188)
Covered business capital and cash generation from new business and expected return	361	23	384	315	43	358
Covered business development expenses	(48)	-	(48)	(32)	-	(32)
Non-covered business core capital and cash generation	(47)	-	(47)	(19)	-	(19)
Core	266	23	289	264	43	307
Efficiency	(12)	-	(12)	(8)	1	(7)
Back book management	66	(56)	10	65	6	71
EEV operating capital and cash generation from continuing operations	320	(33)	287	321	50	371
Capital and cash generation from non-operating items	93	41	134	(394)	12	(382)
Total EEV capital and cash generation from continuing operations	413	8	421	(73)	62	(11)
Capital and cash generation from discontinued operations	20	-	20	49	-	49
Total EEV capital and cash generation	433	8	441	(24)	62	38

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

Non-operating capital and cash generation from continuing operations was £134m (2009: negative £382m). This increase was mainly due to higher than expected market returns over the period.

Reconciliation of IFRS operating profit to EEV operating capital and cash generation

As with EEV operating capital and cash generation, IFRS operating profit removes the impact of short-term economic volatility. Whilst there is clear alignment between IFRS operating profit and EEV operating capital and cash generation, there are differences which include:

- £14m from the difference in the treatment of assets and liabilities. EEV capital and cash is more consistent with local statutory valuation bases, which for some territories and certain classes of investment liabilities are measured differently for IFRS reporting. This difference primarily reflects a higher increase in reserves in the UK EEV capital and cash compared to IFRS operating profit.
- £35m from the difference in the treatment of deferred acquisition costs/deferred income recognition, intangibles, tax and other. The impact of different methodologies in respect of expected income is the main reason for the movement. In EEV operating profit this income is included on an expected return basis, but the actual fees are included in IFRS operating profit.

IFRS operating profit after tax from continuing operations	£336m
Impact of different treatment of assets and liabilities	(£14m)
DAC/DIR, intangibles, tax and other	(£35m)
EEV operating capital and cash generation from continuing operations	£287m

Holding company capital and cash flows

In addition to the movement in capital and cash on an EEV basis, the following summary provides an analysis of holding company cash flows and capital in relation to the Group's ultimate holding company, Standard Life plc, and its overseas holding company, Standard Life Oversea Holdings Limited. The capital position is based on these companies' net assets, excluding investments in operating subsidiaries.

	2010 £m	2009 £m
Opening capital 1 January	602	623
Dividends received from subsidiaries	286	190
Additional investments in subsidiaries	(75)	(20)
Group corporate centre costs	(54)	(50)
Cash dividends paid to shareholders	(186)	(158)
Other	92	17
Closing capital 31 December	665	602

Dividends

During the year, we paid the final dividend for 2009 of 8.09p per share, amounting to £180m and the 2010 interim dividend amounting to £98m. In 2009, the previous dividend reinvestment plan (DRIP) was discontinued and a new Scrip dividend scheme introduced. This reduced the cash required to pay the 2009 final dividend from £180m to £134m and the 2010 interim dividend from £98m to £52m. We propose a final dividend of 8.65p per share, making a total of 13.00p (2009: 12.24p). This represents an increase of 6.2%, reflecting the solid progress made during the year. We will continue to apply our existing progressive dividend policy, taking account of market conditions and our financial performance.

Capital management

Objectives and measures of Group capital

The Group's processes of capital and risk management are aligned to support our strategic objective of driving sustainable, high quality returns for our shareholders. The different measures of capital reflect the regulatory environment we operate in and the bases that we consider effective for managing the business.

Capital management policy

Matters related to the management of our 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 our overall management framework. It operates alongside and complements our other policies and processes, in particular our risk policies and strategic planning process and provides a framework for effective and consistent management of capital. We continue to develop our Enterprise Risk Management framework to robustly link the processes of capital allocation, value creation and risk management.

Credit ratings

External credit ratings agencies perform independent assessments of the financial strength of companies. The current insurer financial strength ratings for Standard Life Assurance Limited (SLAL) are A1/Stable and A+/Stable from Moody's and Standard & Poor's respectively. These ratings are unchanged from those reported in the Half Year Results 2010.

Group capital surplus

	2010 £bn	2009 £bn
Shareholders' capital resources	3.0	2.7
Capital resources arising from subordinated debt	1.8	2.1
SLAL long-term business funds	2.6	1.6
Group capital resources	7.4	6.4
Group capital resource requirement	(3.6)	(2.8)
Group capital surplus	3.8	3.6
Group solvency cover	205%	230%

2010 figures above based on estimated regulatory returns. 2009 based on final regulatory returns. The 2010 figures have been prepared on an Insurance Groups Directive (IGD) basis; previous periods on a Financial Groups Directive (FGD) basis.

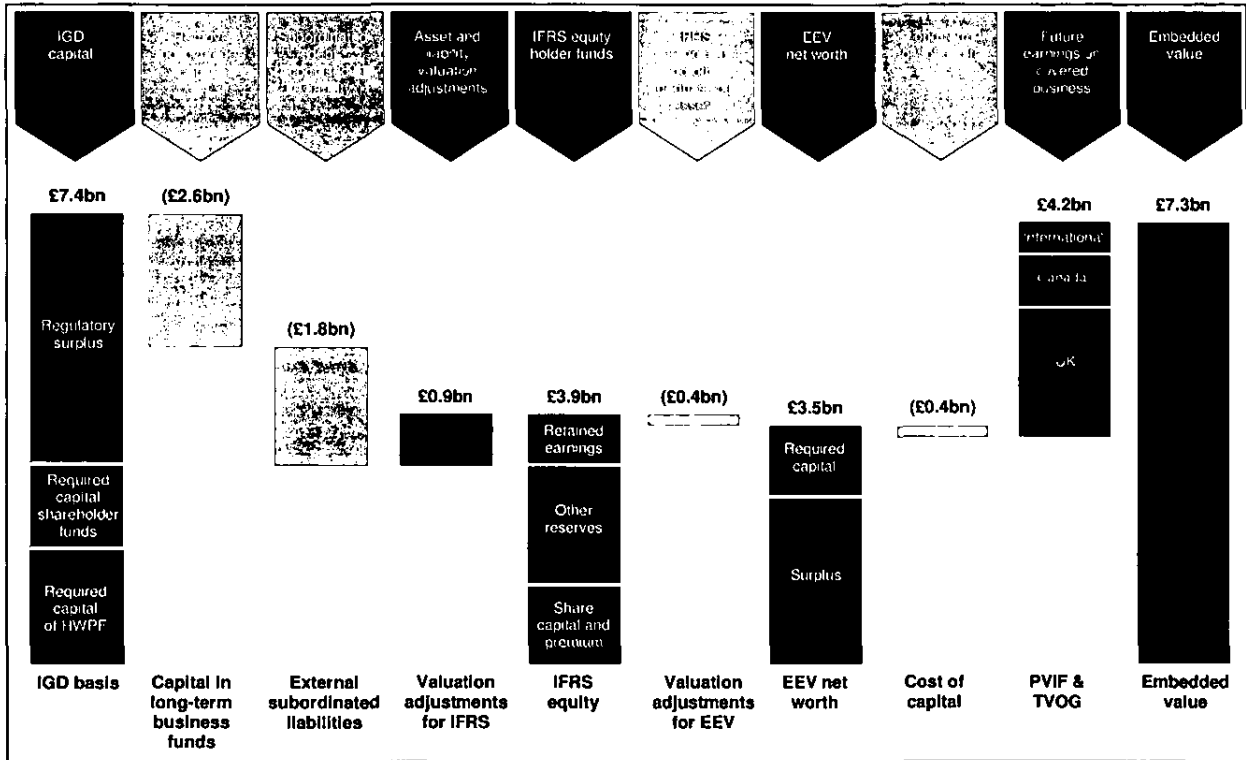
Following the sale of Standard Life Bank plc on 1 January 2010 we are now classified as an 'insurance group' as defined by the IGD. In 2010, our capital surplus remained robust, increasing by £0.2bn to £3.8bn. Capital resources increased to £7.4bn, largely due to higher market levels. The quality of our capital remains strong, with only £0.5bn (2009: £0.8bn) and £0.7bn (2009: £0.7bn) of total Group capital resources classified as upper tier 2 and lower tier 2 respectively. Lower tier 2 capital contributes only 18% (2009: 19%) to the Group capital surplus and further illustrates the strength of our capital position.

The IGD surplus remains largely insensitive to a further 40% fall in equities from the 31 December 2010 position, with the surplus estimated to reduce by approximately £0.2bn. A 100bps rise in yields is estimated to reduce the surplus by approximately £0.1bn.

1.5 Capital and cash generation *continued*

Reconciliation of key capital measures

The following diagram illustrates the key differences between regulatory, IFRS and EEV capital measures at 31 December 2010:



1.6 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.

Risk management framework

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

During 2010, we established a Group Board level Risk and Capital Committee in line with the Walker Review recommendations. The Committee serves to oversee, challenge and advise the Group Board on:

- The Group's current risk appetite, tolerance and strategy, material risk exposures and future risk strategy and their impact on capital
- The structure of the Group's Enterprise Risk Management Framework and its suitability to react to forward-looking issues and the changing nature of risks
- The risk aspects of major investments, major product developments and other corporate transactions
- Material actuarial matters affecting the Group
- Material risk and capital matters affecting the Heritage With Profits Fund

Key risks facing the Group

Market risk

Definition	The risk that arises from the Group's exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.
Appetite	The Group has no appetite for market risk exposures except where they arise as a consequence of core strategic activity, principally as a consequence of revenue streams being exposed to market risks.

Equity and property risk

Equity and property risk for the Group mainly relates to the risk that the value of future fund charges on unit linked funds, collective investment schemes, segregated funds and future recourse cash flow payments from the HWPF will fall (or that burnthrough costs to the shareholder arise) if the value of assets under management falls due to adverse market conditions.

There is currently no restriction on cash flows due from the HWPF. The key existing mitigants to reduce the risk of burnthrough from the HWPF include the actively managed investment policy for asset shares, the dynamic guarantee deduction framework and hedging of the cost of guarantees for certain contracts. The fund remains well capitalised and market risk mitigants continue to perform in line with expectations.

Canada has exposure to equity and property risks as a consequence of direct holdings in such assets. These holdings have been acquired for a number of reasons, including an expectation that such assets would increase returns to shareholders. A hedge was put in place during the year that reduces the risk arising from the limited policyholder guarantees on segregated fund business.

The Group is also exposed to equity and property risk through the potential impact of market movements on the value of assets held in defined benefit pension schemes operated by the Group.

Fixed interest risk

Shareholder exposure to fixed interest risk arises from a number of sources, but is mainly attributable to asset liability mismatches in certain portfolios of liabilities. The extent of such mismatches has been reduced over the course of the year, most notably through improvements in cash flow matching of annuities written in the UK. Mismatches in Canada arise mainly as a consequence of the difficulty in obtaining long-dated fixed income assets to match the long-term liability cash flow which gives rise to reinvestment risk.

Risk also arises as a consequence of burnthrough from the HWPF. However, as noted above, this fund remains well capitalised, so burnthrough cost is low and there is currently no restriction on transfers.

The Group is also exposed to fixed interest risk through the potential impact of yield curve movements on the value of assets held in defined benefit pension schemes operated by the Group.

Currency risk

Foreign exchange risk is the risk that the value of overseas operations and profits generated by them falls in Sterling terms when Sterling appreciates against the local currency.

The principal sources of currency risk arise from the Group's investments in overseas subsidiaries and joint ventures, primarily Canada and Asia (including HDFC Life and Heng An Standard Life). Hedges exist to limit the size of the exposure relating to Canada.

The UK business also has Euro exposure as a consequence of branch business undertaken in Ireland and Germany and its investment in Standard Life International Limited. Other exposures arise largely as a consequence of holdings in overseas assets within business units and variances in charges taken from unit linked funds and collective investment schemes.

1.6 Risk management *continued*

Similar to equity and property risk, the Group is also exposed to currency risk through the potential impact of market movements on the value of assets held in defined benefit pension schemes operated by the Group.

Credit risk

Definition	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 assets due to a widening of mortgage, bond and swap spreads.
Appetite	The Group has an appetite for credit risk to the extent that acceptance of this risk optimises the Group risk adjusted return. However, the Group has limited appetite for significant losses arising from counterparty failures and will therefore establish robust risk limits which Group companies must adhere to.

Shareholder exposure to credit risk arises from a number of sources. In the UK business, the principal exposures are in respect of the corporate bonds held to back annuities written post-demutualisation and the assets held to back the subordinated debt liability. In Canada, the main component of credit risk arises from the use of corporate bonds and commercial mortgages to back annuities.

Credit risk also arises as a consequence of burnthrough from the HWPF, though as noted above, this fund remains well capitalised, burnthrough cost is low and there is currently no restriction on transfers. Further credit risk exposure arises from variations in the value of future fund charges on unit linked funds and collective investment schemes that are invested in corporate bonds.

The previously disclosed 'Contract for Differences' between Standard Life Assurance Limited and Standard Life Investments was closed out during the year and the Group's exposure to credit risk arising from asset backed securities has been reduced. The credit risk associated with swap spread widening has also been reduced over the course of the year following the implementation of cash flow matching of annuities written in the UK business post-demutualisation.

In addition, credit risk arises from holding cash and cash equivalents, debt securities and the reinsurance of certain insurance liabilities to various counterparties.

The Group is also exposed to credit risk through the potential impact of widening credit spreads or credit losses on the value of assets held in defined benefit pension schemes operated by the Group.

All credit portfolios are subject to strict limits on permissible counterparty exposures and continue to perform well despite adverse economic conditions. Where appropriate, collateralisation is used to reduce credit risk.

Demographic and expense risk

Definition	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. For the purpose of risk management this includes liabilities of insurance and investment contracts.
Appetite	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.

The Group's principal exposures are to persistency and longevity risk, arising as a consequence of normal business activity.

Persistency

Persistency within the UK business arises mainly as a consequence of variances in the value of future fund charges on unit linked funds and future recourse cash flow payments from the HWPF. Generally the value of such charges will fall if withdrawals are higher than expected.

This risk is controlled through business retention activities and regular monitoring of persistency experience, as well as through product design.

Similar risks exist in respect of Standard Life Investment's third party assets under management and segregated funds business written by Canada.

Longevity

Longevity risk reflects the risk that annuitants live longer than expected. The principal risk to the Group arises in respect of annuity contracts written by the UK business and Canada.

The Group continues to write annuity contracts and to acquire additional risk as a consequence as we believe the business to be sufficiently profitable to justify the risks of doing so.

This risk is controlled through regular monitoring of the size of the exposure, longevity experience and control of business volumes.

The Group is also exposed to the risk that members of the defined benefit pension schemes operated by the Group live longer than expected.

Liquidity risk

Definition	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 cost.
Appetite	The Group has no appetite to fail to meet its liabilities as they fall due.

The Group manages and mitigates liquidity risk by employing a variety of techniques as appropriate, including:

- Maintaining portfolios of assets that match the expected timing of payments of liabilities
- Close monitoring and active anticipation of the level of withdrawals based on expected customer behaviour
- Central co-ordination and management of group-wide contingency funding plans
- Central co-ordination of strategic planning and funding requirements
- Central monitoring, assessment and oversight of the investment of assets within the Group
- Maintaining a portfolio (currently undrawn) of committed bank facilities

The Group also has the ability to invoke deferral terms on the majority of unit linked contracts. As at 31 December 2010 there were no funds subject to deferral.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Group considers the extent of liquidity risk arising from its activities to be de-minimis.

Operational and strategic risks

Definition	Operational risk is 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. Strategic risk is the risk associated with the robustness of the strategic planning process and threats to achieving the strategy.
Appetite	The Group has an appetite for operational risks where exposures arise as a consequence of core strategic activity. However, the Group has limited appetite for large operational losses due to the likely related reputational damage and opportunity costs. 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.

Operational and strategic risk exposures are actively managed with action planning and progress monitoring in place. The operational risk processes and systems have been extensively revised and enhanced, together with a substantial programme of education and skill improvements within the business. During 2010 the overall risk structure was revised with the creation of Chief Risk Officers within the UK business, Standard Life Investments and the International business.

Operational risk is identified, assessed, managed and reported in a consistent and coherent way across the Group and is recorded on a single global system. The assessment of operational risk is linked to the objectives of each business, function or department. Assessment considers financial impact, reputational impact, customer impact and strategic impact. We measure impact of risk both before the application of controls/mitigation and post application. This ensures we are aware of control/mitigation dependencies. Where risk is considered outwith appetite, or where the control environment is considered in need of improvement, then action plans are created, maintained and delivered. These have visibility at a Group level and are actively managed.

Key operational and strategic risk themes include:

- Management of existing processes including the identification and implementation of control improvements
- Management of information security: control enhancement and control performance monitoring
- Management of third party providers: identification of exposures, collaborative control enhancement and robust performance indicators
- Projects and programmes: managing change and execution of projects through effective control and embedding business as usual controls as part of the design of future processes
- People: identification and management of the people risks (succession planning, skilling and resource levels)
- Delivering the strategic plan: ensuring that the risks associated with the delivery of our strategic plan are identified, assessed, understood and mitigated

Reputational risk

Appetite	The Group has an extremely low appetite for significant reputational damage or regulatory censure. This appetite statement is embedded in our Group's risk culture and is reflected in our Group's values, mission and vision.
-----------------	--

Find out more in Note 42 – Risk management of the IFRS Group financial statements, including an indication of the sensitivity of the IFRS profit after tax and a description of the key mitigations to specific risks. Sensitivities of the EEV are presented in Note 16 – Sensitivity analysis of the EEV financial information.

1.7 Our customers

We serve a wide variety of customers – individuals, financial advisers, corporate customers and large institutions. Making sure we give our customers exactly what they need, in the way they need it, is central to our success. We continue to drive our transformation by putting customers at the heart of everything we do.

We believe it's our responsibility to help customers get to grips with their finances. So even in these uncertain times, they can look forward to the future with confidence and optimism. At the same time, they're reassured by the knowledge that we're secure and that we'll invest their money responsibly.

Putting customers at the heart of our work means we've got to keep listening, responding and developing our understanding of their needs and challenges. We know that customers want us to treat their money responsibly. We believe it's our job to look after their money better than they could themselves.

Our approach

Our approach to putting customers first has four main pillars:

- Making sure we offer products that are easy to access, understand and have tangible long-term benefits
- Being transparent about how our products work and what charges are involved
- Helping customers handle their finances effectively, empowering them so they can make informed choices
- Making sure that Standard Life is easy to deal with and that we respond to customer needs

Building even better relationships

In 2010, we spoke to 8,500 customers and 7,500 potential customers. We asked them about our service and communications and how helpful or otherwise they found them. We ran 16 sessions across the UK where our senior team, including David Nish and our non-executive Directors met up with groups of customers to hear their views and opinions. We now have approximately 900 members in our online community, with 200 regular, active users who give us frequent feedback on topics like our literature, products, new propositions and the effects of the first budget of the new government.

New us, new look

In February 2011 we took another important step on our transformation journey when we launched our new brand and visual identity. It's a clear signal that our focus is very sharply on the customer. Our brand is more than just a new look – it's about the way we work and it underpins the experiences we create. It strengthens our relationships with customers and differentiates us strongly from competitors. We're an organisation that helps customers look forward to their financial future with confidence and optimism. This is summed up in our new strapline, The Way Forward.

The results

In 2010, this resulted in a number of initiatives with customers at their heart including:

Active Money Personal Pension

Our research showed us that 28-40 year olds in the UK needed a different kind of pension product. They needed different ways of interacting with us, as well as high levels of flexibility. We developed the Active Money Personal Pension for them. After testing its content and application process, we got hugely positive feedback, with customers describing their experience as modern, straightforward, informative, friendly, easy, sensible, flexible, professional, clear and personal. In November, we launched the option for customers to apply directly online.

www.standardlife.co.uk relaunches

We listened to what our customers told us and we redeveloped our website to meet their needs more closely. This meant improving the structure and design, and simplifying the content.

Our website now:

- Engages customers with clear, interactive and open content designed to help them get to grips with their finances
- Lets customers apply for the Active Money Personal Pension online
- Has tools to help customers become more confident in making financial decisions

Supporting financial advisers

We're also broadening and deepening our relationship with advisers. Last year we launched a campaign to get advisers' feedback on the technology we offer. We asked them what would make a difference to them, and ultimately, their customers. This is our core focus. Based on feedback, we widened our pension proposition to cover both personal pensions and the specialist SIPP market. This now lets our IFA partners offer more choice to customers.

We are very focused on supporting advisers through the changes that will occur once the requirements of the Retail Distribution Review are implemented. A key development will be an enhanced retail investment platform. This solution will allow advisers to access all of their customers' assets and trade on all of their customers' assets on a single platform. In February 2011 we launched the first phase of this solution via our award-winning Adviserzone, with additional enhancements being made throughout the year.

We want to go beyond the traditional product provider relationship with advisers. A good example of this was our acquisition of threesixty and Focus Solutions – businesses who offer specialist support to advisers. We also took steps to help advisers manage

their investment process by launching a new investment proposition. To make it easier for them to manage risk effectively, we made a number of improvements to our platform, including introducing bulk re-balancing.

Corporate customers

We redesigned the pack employees receive when they join their corporate pension scheme. We worked with employees throughout the redesign to make sure our ideas were working. The new pack gives them the information they want in a format they like. In 2010, more than 400,000 employees managed their flexible benefit options through our technology.

In February 2011, we launched the employee benefits platform, Lifelens. This cutting-edge technology lets employers offer and showcase all employee benefits and rewards through one single application. It means all members of corporate savings schemes get an easily accessible, personalised, single view of their benefits package. It directly promotes financial wellbeing by giving customers greater ownership of their benefits package.

Treating Customers Fairly

We have embedded the Financial Service Authority's Treating Customers Fairly (TCF) principles across the business. In 2010 we carried out a review to make sure that TCF is linked to and supports our strategy of putting customers at the heart of our business. The review showed that TCF is still embedded and highlighted opportunities to enhance our approach. We're implementing this throughout 2011.

Satisfied customers

UK

We're keeping close tabs on our customers' thoughts and views of the service we give. We do a survey twice a year with customers who have been in touch with us recently. It shows the long-term trend is very positive. In 2010, 69% of customers we surveyed said they'd be likely or very likely to recommend Standard Life to family or friends. We've also introduced a new way for people to give us feedback on our service levels straight after they've talked to us on the phone.

In 2010 our UK business was recognised with awards, including:

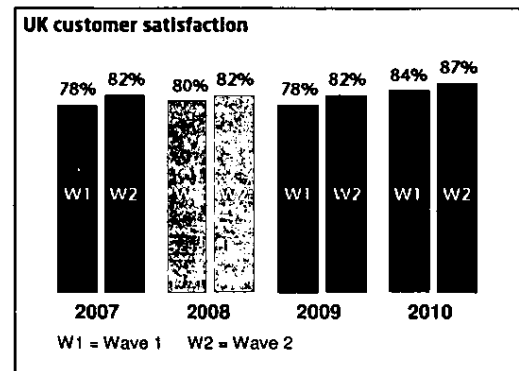
- Financial Adviser Service Awards:
 - Life and pensions five star provider award
- Finance and Technology Research Centre (FTRC):
 - Group SIPP received the top 'eee' rating for four consecutive years
 - Group Personal Pension 'eee' rating for five consecutive years
 - Group Contracted-in Money Purchase 'eee' rating for four consecutive years
 - SIPP and SIPP specialist 'eee' rating for three consecutive years
 - Wrap platform 'eee' rating
- UK Pensions Awards:
 - Bundled/Full Service Defined Contribution Provider of the Year
- Financial Adviser Life & Pensions Awards:
 - SIPP and/or SSAS Provider of the Year for five consecutive years
 - Best Income Drawdown Provider for four consecutive years
- Aberdeen UK Platform Awards:
 - Wrap Platform of the Year
- Professional Adviser Awards:
 - Best Website for IFAs

Canada

High quality customer service is the basis of our growth strategy. We focus on building retention and strong customer relationships. In 2010, our client retention level based on internal methodology was 94.4%. We're constantly investing in technology, training and processes to help us provide the level of service our customers need and expect. This includes continuing to enhance web-based functionality across our group lines. This makes it easier for both sponsors and participants to administer our products.

Our customer focus has earned us a number of awards throughout the year, including:

- Best Financial Services Integrated Advertising for our 'One key, countless possibilities' multimedia campaign, highlighting our success in connecting with our customers
- Insurance and Financial Communicators Association Awards:
 - Award of Excellence: Group Savings and Retirement – 'Welcome kits'
 - Award of Excellence: Group Savings and Retirement Summary of Pension Legislation in Canada
- Environics Adviser Perception Study:
 - Ranked first in seven out of nine criteria measuring the quality of the wholesaler
- Excellent rating in the DALBAR Trends and Best Practices in Defined Contribution Pension Plan Statements report



Source: ORC International.

1.7 Our customers *continued*

International

One of our core values is to deliver exceptional customer service and always put our customers at the heart of our thinking. In 2010, we actively managed our customer relationships which led to very good customer retention in Ireland and Germany. In Hong Kong we developed additional web-enabled services which will add further customer value to our propositions.

All International operations are committed to maintaining the highest level of customer service. This commitment to customer service was acknowledged during 2010 by various awards received by our operations including:

- The German business won two awards for outstanding service and broker support
- The offshore bonds business received an International Adviser Award for 'Best Adviser Support and Customer Service – UK Offshore'
- The offshore bond business also received two significant awards at the International Fund and Product Awards 2010, which recognises achievement in the offshore financial services industry: one for the Best International Life Product (UK) for our International Bond and one for the Best Service Initiative for our online trading
- In India, HDFC Life's YoungStar Super plan was voted Product of the Year 2010 in the insurance category by a consumer survey on product innovation

Global investment management

Our business is underpinned by strong investment performance achieved by rigorously applying our 'focus on change' investment philosophy. High quality support by our client service teams – combined with this strong investment performance – won us a number of awards in 2010 including:

- Best Investment Service Provider 1993 to 2010 from Financial Adviser in recognition of our long-term commitment to the IFA community over the last 18 years
- Investment Provider 5-Star Award at the Financial Adviser Service Awards. Standard Life Investments has secured success in the 5-Star category in 14 of the last 15 years
- The Scottish Financial Services Award in recognition of its role in promoting stewardship and for excellent performance
- The Standard Life UK Smaller Companies Trust Plc has, for the fourth year running, won the UK Smaller Companies category at the Moneywise Investment Trust Awards
- Best Fund – Equity Global High UK category at the Lipper Awards for the performance of its Managed Fund over a three and five year period

1.8 Our people

To become a more customer-focused business we need to develop and harness the talents of our people, working closely with them to make change happen. We believe that highly engaged people are more productive and have a positive effect on profit and shareholder value. So, in 2010, we began transforming our performance, talent and leadership practices to help strengthen the relationship that each individual employee has with our business. During 2011 we will continue to focus on increasing leadership capability, ensuring our leaders are equipped to help our people grow and fulfil their potential.

Employee engagement

Building on our previous annual surveys of employee engagement, in quarter 2 2010 we launched the Transformation Tracker as a mechanism by which we could capture our people's views and attitudes towards our transformational journey. Their feedback was then utilised to help shape our activities and ensure that communications were fit for purpose, relevant and effective.

The second Transformation Tracker ran in November 2010, with the results we expected following a period of significant change. We will use these results to build on our successes this year, and to inform how we do things in 2011.

In 2011 we will be launching our refreshed approach to monitoring, measuring and tracking employee engagement within Standard Life. We're working with the Hay Group on a new survey that will give us a more complete view of what influences each employee's relationship with Standard Life.

We have embarked on a group-wide programme of activity to bring to life what we stand for as an organisation when we are at our best. A wide cross-section of our people have been coming together to share stories of what it looks and feels like when we do the right thing for our customers, collaborate with each other and care about our stakeholders in all of our geographies and communities. The richness of these stories contributes to strengthening the environment we work in, and in delivery of our core business objectives.

Leadership and talent

A priority is to ensure that we have the depth and flexibility of talent we need for the future, as well as powerful and consistent leadership at all levels of the business. In 2010 we made good progress in moving towards these objectives. We made significant changes at senior levels, with 40% of executives leaving during the year and many others moving to new roles that will support our transformation and new organisation design. At the same time we increased the ratio of internal appointments into this level as a result of previous investment in building talent pipelines.

All our executives are in the process of completing 360 degree feedback against our leadership framework and establishing individual development plans. In the autumn we ran a series of 'leadership conversations' across different parts of the Group for people leaders, to deepen their understanding of their role in leading our transformation and support their development as leaders. Through these sessions, and other activities across the Group, all people leaders are expected to establish a development plan to build and develop their leadership and support delivery of personal objectives.

During the year we also introduced three new leadership development programmes, tailored to the needs of team, area and senior leaders. Pilots have been run successfully across the Group in 2010. The roll out timetable in Canada is well under way. Places are available for 480 UK and European leaders in 2011.

We continue to invest in building the strength and depth of our talent up through the organisation. A group-wide organisational review created the opportunity to make a number of key appointments at senior levels and to move and reposition our talent for the future. We have begun our third intake into ADS (Accelerated Development Support), our process to support the development of senior leaders with high potential, taking the total numbers involved to 60. In addition, we launched a similar process for emerging leaders and will extend this further in 2011. The quality and effectiveness of our talent processes was recognised through ADS being awarded the Talent Management Programme of the Year by Hr NETWORK (Scotland).

We continue to attract and recruit high calibre graduate entrants across the range of our programmes, with just under 40 new people joining Standard Life in 2010, along with a number of interns.

As a consequence of these and other activities, the strength of our internal talent pipelines and depth of succession coverage is steadily improving. We will also continue to strengthen our senior leadership and executive populations as required.

Senior management incentivisation

Our senior management are incentivised with a remuneration package which comprises a fixed salary, an annual bonus and a Long-Term Incentive Plan (LTIP), designed to deliver our long-term strategy.

The annual bonus measures performance against clear financial and non-financial (customer, people and strategic) targets set out in personal scorecards for both Group and personal outcomes.

The 2010 and 2011 LTIP targets are entirely focused on IFRS operating profit before tax (excluding joint ventures) designed to deliver our three-year strategic plan. Full details of the LTIP targets are included in the Directors' remuneration report.

1.9 Basis of preparation

Overview

Our Business review for the year to 31 December 2010 has been prepared in line with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the Financial Services Authority (FSA). The Chairman's statement, the Chief Executive's statement, the Chief Financial Officer's statement, the Sustainability section and the Corporate governance report form part of this Business review. Under section 417 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, 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 1.6 – Risk management and Note 42 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 have been 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 IFRS operating profit and European Embedded Value (EEV) information. All non-GAAP measures should be read together with the Group's IFRS income statement, statement of financial position and statement of cash flows, which are presented in the Group financial statements section of this report.

IFRS and EEV reporting

The financial results are prepared on both an IFRS basis and an EEV 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. The IFRS financial results in Section 1.2 of the Business review and in the Group financial statements section of this report have been prepared on the basis of the IFRS accounting policies applied by the Group in the Group financial statements section of this report. The EEV basis has been determined in accordance with the EEV Principles and Guidance issued in May 2004 and October 2005 by the Chief Financial Officers (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 long-term savings 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 information section of this report have been prepared in accordance with the EEV methodology applied by the Group in Note 17 of the EEV financial information section of this report for 2010, and in the relevant EEV methodology notes included in the Annual Report and Accounts 2009 in respect of the comparative period.

IFRS and EEV operating profit

The 2010 IFRS reconciliation of consolidated operating profit to profit for the year, presented on page 91 of this report, presents profit before tax attributable to equity holders adjusted for non-operating items. The 2010 EEV consolidated income statement on page 206, presents EEV profit showing both operating and non-operating items. By presenting IFRS and EEV results in this way, the Directors believe they are presenting a more meaningful indication of the underlying business performance of the Group.

Key differences between the IFRS and EEV bases

IFRS	EEV
<p>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.</p>	<p>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.</p>
<p>Profit on in-force business is the statutory surplus for the period adjusted for the amortisation of deferred acquisition costs.</p>	<p>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.</p>

Page intentionally left blank

Sustainability

Standard Life believes that acting responsibly and with integrity is essential to our long-term success and that it can also create value for our customers, shareholders, employees and the communities we work in. Sustainability is firmly at the heart of our overall business strategy. That means always understanding our long-term economic, environmental and social impacts, and ensuring our organisation focuses on the needs and expectations of our customers.

Being a sustainable business

As a major business, we believe we have responsibilities to our customers, our people, our shareholders and society in general. To make sure we are focusing on the right things, we listen to our stakeholders and act on what's important to them – which is good for the long-term sustainability of our business and helps us make a meaningful contribution to society too.

A new strategy

2010 was a year of change for Standard Life. We looked at how we could do more to meet the expectations of our stakeholders and support the aims of our business. Our Group Transformation Programme was established in Q1, 2010 to help enable us to realise the strategic vision of becoming a truly customer-focused, long-term savings and investment company. Since then, we've introduced a new leadership structure and implemented organisational changes across our business. David Nish talks about all these changes in the Chief Executive statement.

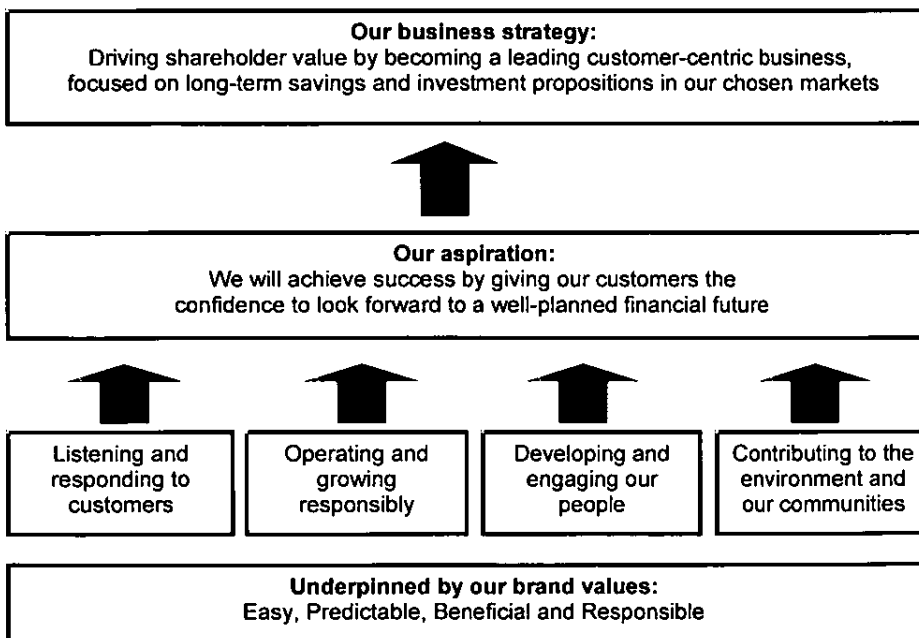
In February 2010, we also began a comprehensive review of our Corporate Responsibility (CR) strategy. This involved developing a new strategy for Sustainability, which ties our responsibilities to our stakeholders more closely to our long-term business objectives. It's the next ambitious step on our journey – being a good corporate citizen and more importantly a sustainable business. It builds on what we've already achieved with four key pillars:

- Listening and responding to customers
- Operating and growing responsibly
- Developing and engaging our people
- Contributing to the environment and our communities

The Corporate Responsibility Committee agreed our new sustainable business strategy in 2010, and since then we have been working to put it in place across the Group.

Sustainable business strategy

Sustainable business strategy framework



Improving financial capability

The recent economic downturn has made many people look closely at what businesses do for society. In the UK, only 53% of people aged 18 to 65 are actively saving, and only one in six believe they are saving enough for retirement. We want to change this.

Our business aspiration is 'to help our customers look forward to their financial future with confidence and optimism'. So it makes sense that our community and education activities are focused on equipping people with the skills and knowledge they need to help them do that.

The Standard Life Charitable Trust (SLCT) was set up in 2009 and its focus is mainly to help people in need develop skills to manage their money. SLCT is currently in discussions with several partners about potential projects.

Pillar 1: Listening and responding to customers

We want our customers to become our greatest supporters, so we've been listening more closely to what they tell us. To put it simply, we are working harder to earn the right to play a more important role in their lives. That's why we've put customer relationships at the heart of our business and sustainability strategy.

By working more closely with the people who save and invest with us, we aim to understand more about what's important to them. So we can respond in ways that meet their needs and strengthen their relationship with us.

Our approach has four key elements:

- Providing accessible products and services that are easy to understand and help customers to face their financial futures with confidence
- Being open about our products and how they work, and highlighting any charges customers might need to pay
- Educating people about finance, so they can make informed choices
- Making sure that Standard Life is easy to deal with and responds to customer needs

Customer satisfaction

Customers are at the heart of what we do. By keeping a close eye on our relationships with them, we quickly find out where we could do better. Then we invest in the technology, training and processes that will help us give customers the service they want from us.

For example, twice a year, we carry out a customer satisfaction survey with UK customers who have recently contacted us. The results show that we're doing better over time. In 2010, our overall customer satisfaction rating went up to 84% in wave 1 and 87% in wave 2 (2009: 78% and 82%). 69% of customers we surveyed said they would be 'likely' or 'very likely' to recommend Standard Life to family or friends. We also won a number of awards for good customer service. You can find out more about these on page 37.

We are firmly committed to the Financial Services Authority's Treating Customers Fairly (TCF) principles and have implemented these across our business. In 2010, we carried out a review to make sure that TCF is linked to and supports our strategy of putting customers at the heart of our business. The review showed that TCF is embedded across our business, and highlighted opportunities to further enhance our approach. We're implementing this throughout 2011.

Responding to customer feedback

We aim to be open, honest and helpful when communicating with our customers. In 2010, 16,371 people took part in our research activities and 8,854 of these were our customers. Based on their feedback, one of the first improvements we made was to refine our telephone system's voice recognition. When customers call us, they now hear exactly how long it will take to get through to a team member, and an explanation of how the system works.

Customers often commented on our 0845 numbers, because they saw them as expensive. As a result, we changed some of our customer service lines to 0800 freephone numbers in December. We also made it easier to use our online services outside business hours and we began sending out a new 'in-a-nutshell' booklet with annual statements, to help customers find more information on our website. You can read more about how we are listening and responding to customers at www.standardlifelistens.com

In 2010, we resolved 5,838 complaints, the number of complaints significantly down from 13,046 in 2009. We have had fewer complaints across all complaint types, with significant reductions in the number of complaints relating to the Pension Sterling Fund (down to 665 from 2,667 in 2009) and to poor investment performance.

Pillar 2: Operating and growing responsibly

We believe in managing and growing our business responsibly. For us this means:

- Investing responsibly and with integrity
- Reducing and managing risk
- Responsible sourcing

Standard Life Investments supports the principles of good stewardship set out in the Financial Reporting Council's UK Stewardship Code, published in July 2010. We believe it's important for companies and long-term investors to have relationships based on accountability, engagement and trust. We also know we must be accountable for the stewardship of our customers' assets. Because of this, we aim to talk openly and honestly with investors about how we engage with the companies in their portfolios. The feedback from investors shapes our approach.

Investing responsibly

We analyse policies and practices on governance, environmental and social matters as an integral part of our investment process. Standard Life is also a signatory to the six United Nations Principles for Responsible Investment.

Where possible, we use our influence to encourage best practice standards in the way these issues are managed at the companies we invest in. Our aim is to protect and enhance the value of our clients' investments. That's why we voted at 1,954 shareholder meetings during 2010 and had 557 meetings with company directors, company secretaries and other senior managers.

Responsible sourcing

In 2010, we spent £299 million on purchasing products and services ranging from IT to catering. Making sure the products and services we buy are sustainable and responsibly sourced is something we take seriously. We have introduced a due diligence questionnaire to make sure our suppliers are financially stable, and we request information on their environmental, health and safety, diversity and social awareness policies as part of this process.

Representatives from Group Procurement and our Sustainable Business team sit on the Financial Services Purchasing Forum's Corporate Social Responsibility Sub-Group, through which we keep up with best practice.

Pillar 3: Developing and engaging our people

We can only be a successful and sustainable customer-focused business if we have the right team. So we work to recruit, retain and develop the best people for the job. To do that, we have to be clear about the skills and resources we need to support our business goals. In 2010, our people strategy focused on attracting and developing talent; encouraging, recognising and rewarding good performance; and managing our workforce fairly and supportively as we transform our business.

Attracting talent

In 2010, we introduced our new resourcing strategy. This is helping us find new talent from more sources and is raising our profile in our chosen job markets. We are already seeing positive benefits of our new resourcing strategy including reduced recruitment costs.

Developing our talent

We are focusing on talent and leadership as one of the ways of delivering our business goals and transforming us into a more customer-focused organisation. We've established a Group-wide integrated leadership development framework designed to meet Standard Life's specific leadership aspirations. Currently, there are 59 senior leaders participating in our Accelerated Development Support (ADS) programme, which is designed to strengthen our succession planning and develop a talent pipeline across the business.

Making performance matter

Our aim is to be a truly customer-centric business. To make that happen, we need a high-performance environment and a shared vision that encourages accountability and responsibility across the Group and links our strategic ambitions at every level: individual, team and business unit.

During 2010, we kept developing our Making Performance Matter programme. This helps individual employees become more accountable, by linking performance with reward. To ensure everyone is focused on achieving our business goals, we developed performance scorecards for the Group Executive Team and introduced measurable objectives for all our other employees. Our pay and bonus schemes support this by recognising and rewarding good performance.

Effective leadership

To turn our business goals into reality and meet our strategic objectives, we need strong, effective leaders. Our Group-wide leadership framework sets out our aspirations and the qualities that will help us make sure our performance is sustainable, our people are engaged and our leaders are effective. Over time, we will use it to select people for specific roles, identify leadership potential, drive career development, and advise on performance and reward.

In 2010, we focused particularly on developing our leaders. This included:

- Updating our group-wide leadership programme in line with our strategy
- Providing 360° feedback and individual development plans for all our Executives and Directors
- Piloting a new leadership development programme, to be rolled out among 480 UK, Canadian and European leaders in 2011
- Strengthening talent succession throughout our organisation
- Over 800 Standard Life senior employees attending the Leadership Conversations event in November 2010

Pillar 4: Contributing to the environment and our communities

We aim to work responsibly and with integrity. As well as influencing better environmental practices through responsible investing and sourcing, we also work to minimise the effect our business has on the environment, and support the communities we work in.

Considering the environment

Climate change is a key consideration for every responsible company. We are committed to making sure that our business is sustainable and prepared for a low-carbon economy. Our environmental strategy is to consume less of the world's resources, recycle more waste, and dispose of what remains as sensitively as possible. We apply this to all our main environmental issues. These are energy, paper use, waste and emissions from business travel. Our environment policy covers 100% of our wholly owned businesses.

In 2010, our carbon footprint was 23,000 tonnes. This means we have reduced our Group carbon footprint by 22% since 2006. The amount of energy our Group used remained stable at 61,050 MWh – a reduction of 19% since 2006. We continued to invest in energy reduction projects such as 'free-cooling' chillers for our main data centre and low-energy LED lighting for our head office estate. We also cut our paper consumption again. This was down 5% on 2009 and is now 32% lower than in 2006. We've achieved this by communicating with more stakeholders online, improving our in-house printing and print management capabilities, and reducing waste.

We use a network of environmental champions, policy owners and Green Teams to help us roll out environment programmes around the Group. Where possible, we also invite local partners into our buildings to provide practical advice and help our people reduce their carbon footprint.

In November 2010, Standard Life was recognised at the Green Business Awards as one of the top five carbon performers. We were a 'highly commended' runner-up in the Carbon Emission Performance category, with energy savings of more than 40% over the last 10 years.

We also:

- Ranked 12th in the FTSE 350 Carbon league table, topping the life insurance sector
- Gained a listing in the Carbon Disclosure Project FTSE350 Leadership index with a score of 82%
- Took part in ClimateWise, the Carbon Disclosure Project and the Prince's Mayday Network
- Won a 'Financial World Innovation Award' for our Group Secretariat's continued efforts to promote online and email communications. They've reduced paper use in mailings by 37% since 2007.

Community Investment

In 2010, our community work covered the three areas of our Corporate Community Investment (CCI) framework. These were:

- **Working Life:** providing people, including our own employees, with skills and knowledge for employment and to help them through life
- **Financial Life:** supporting initiatives to help people develop their financial capability
- **Healthy Life:** helping individuals and communities to develop positive health and wellbeing

Throughout the year we ran:

- 377 Step up in Life workshops, which helped thousands of young people with job applications and interviews
- 86 Skills for Life workshops, helping around 2,000 young people develop key communication, problem-solving and customer service skills

We also continued to work with Haven Enterprises, a social enterprise based in Glasgow, to offer temporary employment contracts to disadvantaged people to help them with the transition to work. A similar model operates in Canada with people from the West Montreal Re-adaption Center.

We supported too many projects to cover them all in detail here, but you can find out more at www.standardlife.com/sustainability

As part of our new sustainable business strategy, we reviewed our CCI policy, which covers activities like these. Going forward, our community work will focus more on helping people develop financial skills and employability, and on getting our employees involved.

Supporting charities

We want to support charities long-term to bring lasting benefits to communities, so we give our people the opportunity to get involved with an array of different charities. We use the London Benchmarking Group, a member-driven group of more than 100 leading companies, to help us to manage, measure and report on the contributions we make to the wider community. In 2010, our people volunteered 14,824 hours to good causes and our total spend on community activities was £5.9m.

Charitable fundraising is one of the ways we can help address important issues in wider society. In 2010 our people made a valuable contribution to projects ranging from cancer research and disaster relief to those supporting children and young people. Standard Life matched the funds they raised, and together we donated £1.41m. We also sponsored the only Royal National Institute for the Blind Welfare Rights Officer in Scotland. The officer helps visually impaired people to become more financially secure. This sponsorship has helped visually impaired people claim over £1 million in benefits they were entitled to and might otherwise have missed out on.

Looking forward

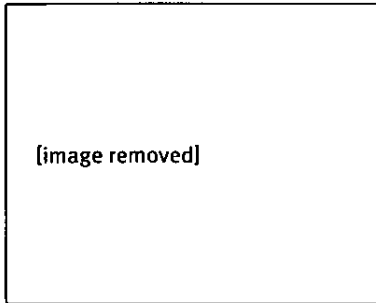
We will keep thinking long term to ensure that our business is sustainable. Going forward, we aim to concentrate more on our customers and the issues that affect them.

More specifically, in the year ahead, we will:

- Embed our sustainable business strategy across our business
- Develop a new Corporate Community Investment framework and range of suitable programmes
- Refocus some of our community and education programmes on improving financial capability
- Continue to understand and take action to address the needs and expectations of our customers, people and other stakeholders

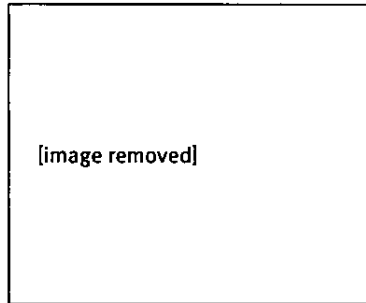
Page intentionally left blank

Board of Directors



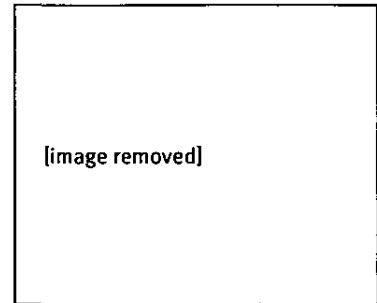
Gerry Grimstone
Chairman

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.



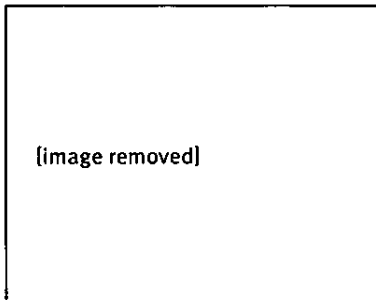
David Nish
Chief Executive

Appointed Chief Executive on 1 January 2010, having been Group Finance Director since November 2006 when he was appointed to the Board. He is also a Non-Executive Director of Northern Foods plc and a board member of the Association of British Insurers. David was previously a Partner with Price Waterhouse, and subsequently Group Finance Director and then Executive Director, Infrastructure Division at Scottish Power plc.



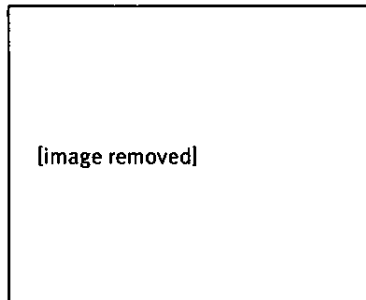
Jackie Hunt
Chief Financial Officer

Appointed a Director and Chief Financial Officer in May 2010. Jackie joined Standard Life in January 2009. Before this, she held various senior management roles at Aviva, including Chief Financial Officer at Norwich Union. After qualifying as a Chartered Accountant with Deloitte & Touche in South Africa, Jackie worked for PricewaterhouseCoopers and Royal & Sun Alliance before joining Aviva in 2003.



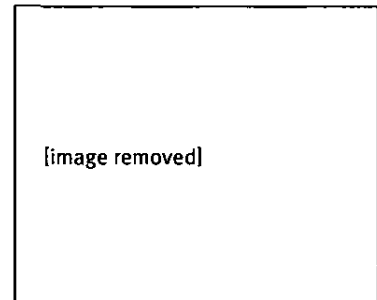
Colin Buchan
Non-Executive Director

Appointed Director in January 2008. He is Non-Executive Chairman of Standard Life Investments Limited. Colin is also a Non-Executive Director of The Royal Bank of Scotland Group plc and Blackrock World Mining Trust plc. He was formerly Global Head of Equities at UBS Warburg and a member of the Group Management Board of UBS AG.



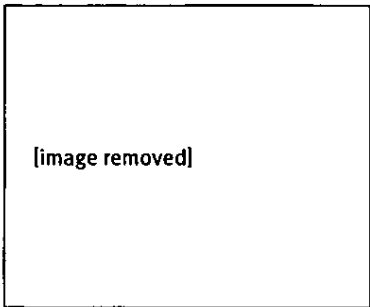
Crawford Gillies
Non-Executive Director

Appointed Director in January 2007. He is also Chairman of Scottish Enterprise, Control Risks Group Holdings Limited and Touch EMAS Limited. Crawford spent 22 years with Bain & Company Inc, the international management consultants, where he was Managing Director Europe. He was an independent member of the DTI's Management and Strategy Boards from 2002 to 2007, and chaired the DTI's Audit and Risk Committee from 2003 to 2007.



David Grigson
Non-Executive Director

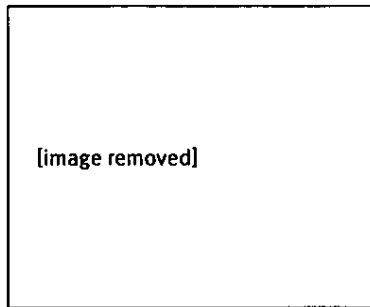
Appointed Director in November 2009. He is also Chairman of Creston plc and a Non-Executive Director of Ocado Group plc. David spent much of his career in senior financial executive positions, firstly with Emap plc where he served as Group Finance Director from 1989 to 2000, and more recently with Reuters Group plc, where he was Chief Financial Officer from 2000 to 2008, when Reuters Group became Thomson Reuters Limited.



[image removed]

Keith Skeoch
Executive Director

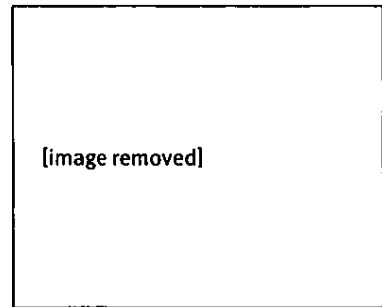
Appointed Director in May 2006, having been a director of The Standard Life Assurance Company since March 2006. He is Chief Executive of Standard Life Investments Limited. Keith joined Standard Life Investments in 1999 as Chief Investment Officer after nearly 20 years' investment experience at James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



[image removed]

Kent Atkinson
Non-Executive Director

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., the Senior Independent Director, Chairman of the Audit Committee and a member of the Risk Committee of UK Asset Resolution Limited (which includes Northern Rock (Asset Management) plc and Bradford and Bingley plc), and a Non-Executive Director of Gemalto N.V. From 1994 to 2002, Kent was Group Finance Director at Lloyds TSB Group plc and then a Non-Executive Director until 2003.



[image removed]

Lord Blackwell
Non-Executive Director

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. Lord Blackwell is also Chairman of Interserve plc, a Non-Executive Director of Halma plc, a board member of Ofcom, and a Non-Executive Commissioner of Postcomm, 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, Director of Group Development at National Westminster Bank until 2000.

Board Committee members

Audit and Compliance Committee

- Kent Atkinson (Chairman)
- Lord Blackwell
- Crawford Gillies
- David Grigson
- Baroness McDonagh

Risk and Capital Committee

- Lord Blackwell (Chairman)
- Kent Atkinson
- David Grigson
- Sheelagh Whittaker

Remuneration Committee

- Crawford Gillies (Chairman)
- Lord Blackwell
- Colin Buchan
- Sheelagh Whittaker

Nomination and Governance Committee

- Gerry Grimstone (Chairman)
- Lord Blackwell
- Colin Buchan
- Baroness McDonagh
- David Nish

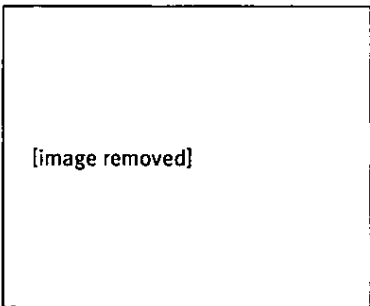
Investment Committee

- Colin Buchan (Chairman)
- Kent Atkinson
- Crawford Gillies

Corporate Responsibility Committee

- Gerry Grimstone (Chairman)
- Baroness McDonagh
- David Nish

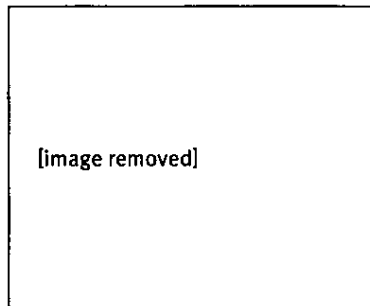
You can find out more about how these Committees operate – including the duties of the members – on pages 62 to 66.



[image removed]

Baroness McDonagh
Non-Executive Director

Appointed Director in March 2007. She is also a Non-Executive Director of TBI Limited. Margaret is a business consultant, having previously been General Manager of Express Newspapers. From 1998 to 2001, she was the General Secretary of the Labour Party. She was appointed a Life Peer in 2004.



[image removed]

Sheelagh Whittaker
Non-Executive Director

Appointed Director in September 2009. She is also a Non-Executive Director of Imperial Oil Limited in Canada, where she chairs the Corporate Governance and Nominations Committee. From 1993 to her retirement in 2005, Sheelagh worked worldwide for Electronic Data Systems in various key leadership roles, initially as President and CEO of EDS Canada and finally as Managing Director, UK Middle East and Africa. Before this, she was Vice President, Planning and Corporate Affairs at the Canadian Broadcasting Corporation and then President and CEO of Canadian Satellite Communications Inc.

Directors' report

The Directors present their annual report on the affairs of the Standard Life Group (the Group), together with the audited International Financial Reporting Standards (IFRS), European Embedded Value (EEV) and Company financial statements, for the year ended 31 December 2010.

Reporting for the year ended 31 December 2010

The Company is the holding company of the Group. The principal activities of the Group are to provide long-term savings and pensions, protection and investment management products and solutions. You can find out about the activities of the Company's principal subsidiary undertakings and their overseas branches 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. This was prepared by the Executive team in conjunction with the Board and forms the management report. Reviews of the operating and financial performance of the Group for the year ended 31 December 2010, of any important events after the year end and of likely future developments are given in the Chief Executive's statement and the Business review.

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

The results of the Group on both IFRS and EEV bases are presented in 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 of the Business review. There is information about the Group's use of financial instruments and related financial risk management matters in Note 42 to the Group financial statements.

The Directors' responsibility statement follows on page 56 and forms part of this report.

Forward-looking statements

The Chairman's statement, Chief Executive's statement, Chief Financial Officer's statement, Business review and other sections of this Annual Report and Accounts 2010 may contain forward-looking statements about the Group's current plans, goals and expectations on future financial conditions, performance, results, strategy and objectives. Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks', 'anticipates' and other words of similar meaning are forward-looking. All forward-looking statements involve risk and uncertainty. This is 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 2010.

Dividend

The Board recommends paying a final dividend for 2010 of 8.65p per ordinary share on 27 May 2011 to shareholders on the register of members on 18 March 2011. The total payment is estimated at £197m. Together with the interim dividend of 4.35p per share paid on 19 November 2010, this makes a total dividend of 13.0p per share for the year (2009: 12.24p). During 2009, with the approval of our shareholders, the Company introduced a Scrip dividend scheme. This allows shareholders the option to receive additional ordinary shares instead of cash dividend payments. 44,854,401 shares were issued under the Scrip dividend scheme in 2010.

Shareholders who want to receive their dividends in cash can choose from a range of payment services. These include local currency payments for shareholders who live in certain countries outside the UK, and a choice of some major currencies for transfers to banks outside the UK. You can find out more about these shareholder services on the Shareholder information section of our website at www.standardlife.com/shareholders

Share capital

You can find full details of the Company's share capital, including movements in the Company's issued ordinary share capital during the year, in Note 26 to the Group financial statements.

On 31 December 2010, there were 2,283 million issued ordinary shares held by 119,955 registered members. The Standard Life Share Account (the Company-sponsored nominee) held 1,048.7 million of those shares on behalf of 1,296,769 participants. There is an analysis of registered shareholdings by size as at 31 December 2010 at the end of the Annual Report and Accounts 2010.

Details of ordinary shares under option in respect of the Standard Life Long-Term Incentive Plan (LTIP) and the Standard Life Investments Long-Term Incentive Plan (SLI LTIP) are shown in Note 47 to the Group financial statements. Under the terms of the LTIP and the SLI LTIP Trust Deed, the Trustees have waived all entitlements to current or future dividend payments for shares they hold under option on behalf of participants between the vesting and exercise dates.

It is proposed that a Standard Life Sharesave Plan be established. You can find out more about this proposal in the AGM guide 2011.

During the year, and up to 4 March 2011, the Company received the following notifications in respect of major shareholdings and major proportions of voting rights in accordance with the Disclosure and Transparency Rules of the Financial Services Authority (FSA):

BlackRock, Inc.			
Date of Transaction	Type of Transaction	Total Voting Rights Following Transaction	Percentage of Voting Rights
25 January 2010	Disposal	111,473,643	4.98%
5 February 2010	Acquisition	113,476,584	5.07%
19 March 2010	Disposal	111,645,527	4.99%
26 May 2010	Acquisition	112,033,603	5.01%
31 August 2010	Disposal	107,145,469	4.74%
7 September 2010	Acquisition	117,562,257	5.20%
18 October 2010	Disposal	112,902,081	4.996%
14 December 2010	Acquisition	114,670,858	5.02%
20 December 2010	Disposal	113,004,297	4.95%
24 January 2011	Acquisition	114,383,983	5.01%

Subject to applicable statutes (in this section the 'Companies Acts'), any resolution passed by the Company under the Companies Acts and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may decide by ordinary resolution, or (if there is no such resolution or if it does not make specific provision) as the Board may decide. Subject to the articles of association, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the Board.

Every member and every duly appointed proxy present at a general meeting or class meeting has one vote on a show of hands. On a poll, every member present in person or by proxy has one vote in respect of every share they hold. For joint shareholders, the vote of the senior who tenders a vote, in person or by proxy, will be accepted and exclude the votes of the other joint holders. For this purpose, seniority is determined by the register order of the names for the joint holding.

A member will not be entitled to vote at any general meeting or class meeting in respect of any share they hold, if any call or other sum then payable by them for that share remains unpaid or if they have been served with a restriction notice (as defined in the articles of association) after failing to provide the Company with information about interests in those shares required to be provided under the Companies Acts.

From time to time, the Company may, by ordinary resolution, declare dividends up to the amount recommended by the Board. Subject to the Companies Acts, the Board may also pay an interim dividend, and any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or pari passu rights for losses which arise from paying interim or fixed dividends on other shares.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest (as defined in the articles of association) if that person has been served with a restriction notice (as defined in the articles of association) after failure to provide the Company with information about interests in those shares, which is required to be provided under the Companies Acts.

Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any shares held as treasury shares). These rights can also be varied with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

A shareholder's rights will not change if additional shares ranking pari passu with their shares are created or issued – unless this is expressly provided in the rights attaching to their shares.

Except as on page 52, there are no specific restrictions on the size of a holding or on the transfer of shares. Both are governed by the general provisions of the Company's articles of association and prevailing legislation and regulation. The Company's articles of association are on the Governance section of our website at www.standardlife.com/about/governance. You can also get a copy from Companies House, or by writing to the Group Company Secretary and General Counsel. The articles of association may be amended by special resolution of the shareholders.

The Board may decline to register the transfer of:

- A share that is not paid
- 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
- An uncertificated share, 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
- 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 failing to provide the Company with information about interests in those shares as set out in 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.

You can find details of the Company's employee share plan, The Standard Life (Employee) Share Plan, in Note 47 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.

Following shareholder approval of amendments to the Company's articles of association given at the 2010 Annual General Meeting (AGM), the Company no longer has a set amount of authorised share capital.

At the 2010 Annual General Meeting (AGM), shareholders granted the Directors limited power to:

- Allot the Company's ordinary shares up to a maximum aggregate amount of £74,546,828
- Disapply, up to a maximum total nominal amount of £11,182,024 or 5% of its issued ordinary share capital, shareholders' pre-emption rights in respect of new ordinary shares issued for cash
- Make market purchases of the Company's ordinary shares up to a maximum of 223,640,486 or 10% of its issued ordinary shares

The total number of shares issued under the Scrip dividend scheme in 2010 amounted to 1.96% of the Company's total issued shares on 31 December 2010. The Company did not make any market purchases of its ordinary shares during the year ended 31 December 2010, and has not done so since then and up to the date of this report.

Contractual arrangements

The Directors consider that contractual or other arrangements that 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
- Capita Registrars Limited – provision of share registry services
- IBM United Kingdom Limited – provision of hardware and software services

Significant agreements

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

- Under a £500m revolving credit facility with U.S. Dollar Swingline option between the Company and the banks and financial institutions named therein as lenders (Lenders) dated 29 May 2009 (as amended and restated on 30 November 2010 (the Facility)), in the event that (i) any persons or group of persons acting in concert gains control of the Company or (ii) Standard Life Assurance Limited ceases to be a member of the Group, then any Lender may elect within a prescribed time frame to cancel its outstanding commitment under the Facility and declare its participation in all outstanding loans, together with accrued interest and all amounts accrued immediately due and payable, whereupon the commitment of that Lender under the Facility will be cancelled and all such outstanding amounts will become 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 Standard Life), 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 Standard Life 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 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 Standard Life Investments 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 Standard Life Investments, 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 12 October 2009 (as amended) between Standard Life plc and Tianjin TEDA International Holding (Group) Co. Ltd. (TEDA), pursuant to which the Group holds its interest in Heng An Standard Life Insurance Company Limited (Heng An Standard Life), 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 Standard Life for a price determined in accordance with the agreement.

A number of other agreements contain provisions that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. These agreements are not considered to be 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.

Directors and their interests

The Directors who served during the year were:

- Gerry Grimstone (Chairman)
- David Nish (Chief Executive)
- Jackie Hunt (appointed on 14 May 2010)
- Keith Skeoch
- Kent Atkinson
- Lord Blackwell (Senior Independent Director)
- Colin Buchan
- Crawford Gillies
- David Grigson
- Baroness McDonagh
- Sheelagh Whittaker

The Directors' biographies are on pages 48 to 49.

When appointing and replacing Directors, the Company is governed by its articles of association, the Companies Acts and related legislation. The powers of Directors are described in the Company's articles of association. The Company also complies with the relevant provisions of the UK Corporate Governance Code.

All of the Directors, other than Jackie Hunt, will retire at the 2011 AGM and, being eligible, will offer themselves for re-election. Jackie Hunt will retire and, being eligible, will offer herself for election.

The Directors' interests 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 stock of the Company's subsidiaries. Also, no Director had any material interest in any contract with the Company or a subsidiary undertaking which was significant in relation to the Company's business, except:

- The benefit of a continuing third-party indemnity provided by the Company (in accordance with company law and the Company's articles of association)
- 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 2011 AGM.

The Company maintains directors' and officers' liability insurance on behalf of its Directors and officers. The Company also maintains a continuing third party indemnity policy for the boards of trustees of the UK, Irish and Canadian staff pension schemes. The trustees include individuals who are directors of subsidiaries within the Group.

Employees

Our ambitious strategic agenda coupled with a dynamic external environment demands a continued focus on driving significant changes in our values, our behaviours and our organisational structures. Our Group People Strategy continues to address both the immediate shorter term operational priorities and the mid to longer term organisational agenda. We will continue to build on the work that has been done to date to focus on our key people priorities including:

- Strengthening our leadership
- Developing our organisational capability
- Transforming the way we work
- Building the environment we work in

In 2010, 46% of our people completed the transformation tracker survey, which was used to measure employee attitudes and feelings towards Standard Life's transformation. The results were as expected following a period of significant organisational change, but demonstrated that our people are increasingly aware of our key transformational themes. We'll be using these results to further build on our successes of 2010, and inform how we do things in 2011.

In 2011 we will see the launch of our refreshed approach to monitoring, measuring and tracking employee engagement within Standard Life. Working in conjunction with the Hay Group a new survey will be rolled out to provide a holistic insight into the views and opinions of our people spanning the breadth of factors which influence their role in and relationship with Standard Life.

The Group is committed to creating a diverse and inclusive environment, and providing equal opportunities in recruitment, working environment, learning and development. Successfully managing and valuing our diversity supports our talent, performance and leadership goals. We have continued to strengthen our commitment to diversity and inclusion, with group-wide diversity and inclusion training carried out through online and face-to-face learning.

We recognise that positive employee relations are vital in engaging our people and achieving business goals. Constructive staff representation provides an essential means of informing the Group's strategy through the views and insights of our people. There are different staff representation arrangements across separate jurisdictions in the Group. In the UK, most employees are represented by the Group's staff associations, VIVO and Bridge. Until its disposal, Standard Life Healthcare employees in Bournemouth were represented by Unite. In Ireland, there is an established procedural agreement with Unite, and a Works Council was established in Germany during 2008. Group-wide staff representation principles were agreed in 2009, and will be used to keep developing the effectiveness of employee representation across the Group.

As part of the way we manage performance, each employee takes part in a regular discussion with their manager. They agree outcomes and talk about their aspirations, strengths and limitations – and how these can be applied, developed and addressed at work. As outlined in the Directors' remuneration report we introduced performance scorecards in 2010 which clearly set out the measures for senior executives and the Group as a whole.

The Group remains committed to providing a working environment that is free from bullying, harassment and discrimination. We treat people with disabilities fairly in relation to job applications, training, promotion and career development. Adjustments are made to support and train staff who become disabled during their employment to enable them to continue and develop in their role. 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 that it complies with the Group's People policy and Health and Safety policy.

On 31 December 2010, 75% of the Group's employees were Standard Life shareholders. The Standard Life (Employee) Share Plan allows employees 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 that an employee buys under the plan, the Company matches the purchase by allocating them one ordinary share, up to a maximum total value of £25 per month, or an equivalent sum in the relevant currency. On 31 December 2010, 65% of eligible employees in the UK were making a monthly average contribution of £43. A similar tax-approved plan is used in Ireland and has a 49% take-up. Even though the plan cannot be structured on a tax-favourable basis in Canada, Germany and Austria, more than 700 employees in these countries are buying shares each month. At the AGM we will put forward a resolution seeking shareholders' support to adopt the Standard Life Sharesave Plan. This would sit alongside the present Standard Life (Employee) Share Plan and give employees another opportunity to buy shares in Standard Life. Initially it will be for UK-based employees but over time we will look at rolling this out more widely, subject to local tax and regulatory constraints.

Environmental matters and social and community issues

You can find out about the Group's approach to environmental matters, including the impact of the Group's business on the environment, and information on social and community issues, in the Sustainability section of this report.

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. The Group's payment policies and practices are in line with the guidelines issued by the Chartered Institute of Purchasing and Supply. For Group activities, the average time taken to settle supplier invoices was 29 days (2009: 25 days). This is based on the average daily amount invoiced by suppliers during the year.

Charitable and political donations

Payments made by the Group for charitable purposes during the year totalled £258,631 (2009: £342,797). Of this, £197,815 (2009: £265,750) was given to the UK resident charities, the Institute of Cancer Research, Barnardos and Oxfam's Haiti Appeal. The Standard Life Charitable Trust we set up during 2009 has received approval from the Office of the Scottish Charity Regulator and HM Revenue & Customs. It was formally launched in 2010 and further details are included in the Sustainability section.

The Company considers that it did not make any donations to any political party, organisation or election candidate, or incur any political expenditure in 2010. The Company did purchase tickets to allow it to be represented at the party conferences of the Labour and Conservative parties. An element of the ticket price was then allocated by the parties towards their party funds. The total allocated in this way was £1,840.

Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the 2011 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.

Events after the Reporting Period

In December 2010, the Company announced its intention to acquire Focus Solutions Group plc as part of its strategy to offer end to end solutions to IFAs, bank distribution partners and end customers. The acquisition was completed in January 2011. You can find further detail of the transaction in Note 51 to the Group financial statements

Annual General Meeting

The Company's AGM will be held at 2pm on Tuesday, 17 May 2011. As well as considering separate resolutions relating to the Company's Annual Report and Accounts 2010, the Directors' remuneration report, a final dividend, the reappointment of the auditors (and the setting of their fees) and the individual election or re-election of all of the 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
- Adopt new articles of association
- Approve the terms of the new Standard Life Sharesave Plan

The AGM guide 2011 tells you where the meeting will be held and how to get there, and gives full details of the resolutions to be proposed, together with explanatory notes.

On behalf of the Board

Malcolm J Wood, Group Company Secretary and General Counsel
Standard Life plc (SC286832)
10 March 2011

Directors' responsibilities for preparing the financial statements

The following statements should be read with the statement of auditors' responsibilities included in the independent auditors' reports. They are made to help shareholders distinguish the respective responsibilities of the Directors and the auditors in relation to the financial statements for 2010.

The Directors are responsible for preparing the Annual Report and Accounts 2010 and the Summary Financial Report 2010. Under company law, the Directors are required to prepare and approve financial statements for each financial year, and the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year, and of the profit of the Group and the Company for that year. The financial statements of the Group and the Company must be prepared in accordance with:

- International Financial Reporting Standards (IFRSs) as adopted by the European Union
- The Companies Act 2006
- The Disclosure and Transparency Rules (DTR) Directive issued by the Financial Services Authority
- Article 4 of the IAS Regulation

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for ensuring that proper accounting records are maintained. These must disclose, with reasonable accuracy at any time, the financial position of the Group and the Company and enable the Directors to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and the DTR and that the Group financial statements comply with Article 4 of the IAS Regulation.

The Directors are also responsible for:

- Safeguarding the assets of the Company and the Group
- Taking reasonable steps to prevent and detect fraud and other irregularities
- The maintenance and integrity of the Group's website

UK legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

Each of the Directors, whose names and functions are listed in the Board of Directors section, confirms that to the best of his or her knowledge and belief:

1. The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
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 Group, together with a description of the principal risks and uncertainties it faces.

By order of the Board

Gerry Grimstone, Chairman
10 March 2011

Jackie Hunt, Chief Financial Officer
10 March 2011

Corporate governance

The Board remains committed to high standards of corporate governance in directing the Group's affairs and in its accountability to shareholders. The Directors believe these are key to managing our business effectively and delivering shareholder value over the longer term.

This section of the Annual Report and Accounts 2010 reflects the requirements of the UK Corporate Governance Code (formerly 'Combined Code (2008)') (the 'Code') issued by the Financial Reporting Council in June 2008 and available at www.frc.org.uk. Together with the Directors' remuneration report, following this section, it explains how the Group's corporate governance framework supports the way the Company applies all the Code's main principles of good governance covering:

- Organisational structure
- Financial reporting, internal control and assurance procedures
- Risk management, including risk strategy, appetite and tolerance
- Processes to appoint and remunerate directors
- Contact with shareholders

The Board considers that, throughout 2010, the Company complied with all relevant provisions of Section 1 of the Code.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review. The Business review includes a section on our cash flow and capital management – Section 1.5 Capital and cash generation – and a section describing our key risks – Section 1.6 Risk management. Further details of the Group's risk and capital management procedures and governance are outlined later in this section. In addition, the IFRS consolidated financial statements include notes on the Group's borrowings and subordinated liabilities (Notes 36 and 37); management of its risks including market, credit and liquidity risk (Note 42); its contingent liabilities and commitments (Notes 45 and 46); and its capital structure and position (Note 49).

The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs through the Group's available credit facilities. The Company's existing revolving credit facility of £500 million does not mature until December 2013. The Group has considerable financial resources together with a diversified business model, with a spread of business and geographical reach. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

After making appropriate enquiries, and taking account of the above, 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 financial statements.

Governance framework

The Group's governance framework is approved by the Board, kept under regular review and documented in the Board Charter which is available on the Governance section of our website at www.standardlife.com/about/governance

The Nomination and Governance Committee reviews the Board Charter regularly, taking into account developments in regulatory guidance and corporate governance best practice, and recommends any changes to the Board. The principles and provisions of the UK Corporate Governance Code will apply for the Company's accounting period which began on 1 January 2011. During 2010, the Nomination and Governance Committee and the Board spent time analysing and discussing the revisions to the Code, as well as the recommendations in the final Walker Report, and understanding what they would mean for our governance framework. The Board was keen to implement those recommendations that would strengthen our framework as an effective business support while allowing the Group to continue to comply fully with the Code. One key result was that the Board established a Risk and Capital Committee in April 2010 to support its risk management responsibilities. You can find out more about this new Committee in the Committee report and risk management sections of this report.

The Board Charter is complemented by the Group's Code of Business Conduct. This sets out our standards of behaviour in terms of operational excellence, compliance responsibilities, customer service, our 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 shareholders, in accordance with the Company's constitution and all relevant laws, regulations and corporate governance and stewardship standards. The Board's role and responsibilities, collectively and for individual Directors, are set out in the Board Charter. The Charter also identifies matters that are specifically reserved for decision by the Board. These include approving, overseeing and challenging:

- Development and implementation of strategy, objectives and business plans
- Capital and management structures
- Dividend policy
- Financial reporting
- Risk management, including risk strategy, appetite and tolerances and internal controls
- Key Group policies
- Significant corporate transactions
- Significant external communications

- Terms of reference of Board Committees
- Appointments to the Board and Board Committees

The Board regularly reviews items such as updates from the Chief Executive and the Chief Financial Officer on progress against approved strategies, plans and budgets, as well as stock market and risk management updates. There are also regular presentations from key business units and Group functions. The Chairman reports at each Board meeting on his activities since the previous meeting. His updates include reports on any meetings he has had with major institutional shareholders.

Roles of the Chairman and the Chief Executive

The roles of the Chairman and the Chief Executive are separate. Each has clearly defined responsibilities, which are set out in the Board Charter.

The Chairman:

- Leads the Board and ensures that its principles and processes are maintained
- Promotes high standards of corporate governance
- Ensures Board members receive accurate, timely and clear information on the Group and its activities
- Encourages open debate and constructive criticism
- Sets agendas for meetings of the Board with the Chief Executive and the Group Company Secretary and General Counsel
- Leads the Board and individual Director training needs and performance assessments
- Speaks on behalf of the Board and represents the Board to shareholders

The Chief Executive, within authorities delegated by the Board:

- Leads the other executive Directors and the Executive team in the day-to-day running of the Group
- Develops appropriate capital, corporate, management and succession structures to ensure the Group's objectives can be met
- Makes and implements operational decisions
- Develops strategic plans and structures for presentation to the Board
- Reports to the Board with appropriate, timely and high-quality information
- In conjunction with the Chairman, represents the Group to external stakeholders, including shareholders, customers, suppliers, regulatory and governmental authorities, and the community

The heads of each Business unit and the Group functions manage their teams within authorities set out in the Board Charter. These include reporting to the Chief Executive on how they are complying with Group policies and performing against approved plans and budgets.

Board balance and composition

The Company's policy is that, apart from the Chairman, at least half the Board should be made up of independent non-executive Directors. This ensures that no individual Director or small group of Directors dominates the decision-making process. As at 4 March 2011, the Board comprises the Chairman, seven independent non-executive Directors and three executive Directors. The Board comprises three women and eight men. The way the Board recruits Directors aims to ensure that an appropriate diversity of views is represented around the Board table.

Board appointments

The collective business, operational and international strength of the Board is wide and varied. The Board's policy is to appoint and retain non-executive Directors who can bring relevant expertise, plus the widest possible perspective to the Group and its decision-making framework. It considers the advice of the Nomination and Governance Committee when making appointments. The Board regularly reviews and refreshes the skills and experience required through rotational retirement and broad recruitment searches.

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. During 2010, the initial three-year appointments of Baroness McDonagh and Colin Buchan ended. Following a review of their performance, led by the Chairman and the Nomination and Governance Committee, the Board agreed that their appointments should continue for a second three-year term, subject to their re-election at the appropriate AGM.

The role of the non-executive Directors is to participate fully in the Board's work – advising, supporting and challenging management as appropriate. Their role and responsibilities are laid out in the Board Charter. You can see the formal letter of appointment that non-executive Directors receive in the Board of Directors section of our website at www.standardlife.com/about/board or by writing to the Group Company Secretary and General Counsel. Following the final Walker Report recommendations and the recommendations of the FRC in the UK Corporate Governance Code, the Nomination and Governance Committee reviewed the actual time commitment of the non-executive Directors against the expectation set out in their letters of appointment. As a result, the time commitment specified in the appointment letter was increased from 25-30 days to 30-35 days. When non-executive Directors accept the terms of their appointment, they confirm that they are able to allocate sufficient time to discharge their responsibilities effectively.

Board composition

Board changes

As disclosed in last year's Directors' report, David Nish, who was already a member of the Board, was appointed Chief Executive on 1 January 2010. In May 2010, Jackie Hunt was appointed Chief Financial Officer, having served as Interim Chief Financial Officer since November 2009. There were no other changes to the composition of the Board during the period.

Director election and re-election

Under the Company's articles of association, all Directors who were not elected or re-elected at the 2009 AGM or the 2010 AGM must retire and offer themselves for re-election by shareholders at the 2011 AGM. New Directors must be elected by shareholders at the AGM that follows their appointment by the Board. Non-executive Directors who have served on the Board for more than six years will be proposed for re-election after the Chairman has evaluated fully their individual performance at a one-to-one meeting. Those with nine years or more continuous service must offer themselves for re-election each year. No current Directors have served for nine years or more.

However, recognising the relevant principle of the UK Corporate Governance Code, at the 2011 AGM all of the current Directors except Jackie Hunt will retire and offer themselves for re-election; Jackie Hunt will retire and offer herself for election. There is more about the proposed election and re-election of the Directors in the AGM guide 2011.

Director independence

The Board carries out an annual review of the independence of non-executive Directors. This considers all relevant issues including their external appointments, any other positions they hold within the Group and any potential conflicts of interest. Their individual circumstances are also assessed against independence criteria, including those 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 likely to affect this.

Gerry Grimstone was Chairman of the Board throughout the year. He also continued in his role as chairman of Candover Investments plc although, in accordance with Candover's market notification in December 2010, he will stand down as its chairman on the completion of a restructuring of the company. Following the formal review of his performance, the Board is satisfied that he remains independent and has sufficient time to carry out his duties. Lord Blackwell served as Senior Independent Director throughout the year. In this capacity, he provides a sounding board for the Chairman and is available to talk with shareholders about any concerns they have not been able to resolve through the normal channels of Chairman, Chief Executive or Chief Financial Officer, or if a shareholder considers these channels are inappropriate. As Senior Independent Director, he is also responsible for leading the Board's discussion on the Chairman's performance.

David Nish continued in his role as a non-executive director of Northern Foods plc. This position is in line with the Board's policy on outside appointments.

Conflicts of interest

The Directors continued to review and authorise Board members' actual and potential conflicts of interest on a regular and ad hoc basis in line with the authority granted to them in the Company's articles. As part of the process to approve the appointment of new directors, the Board considers and, where appropriate, authorises their potential and actual conflicts. The Board also considers whether any new outside appointment of any current Director creates a potential or actual conflict before, where appropriate, authorising it. During the year, the Board reviewed all previously authorised potential and actual conflicts of interest of the Directors and their connected persons. It concluded that it was appropriate for the non-conflicted Directors to approve these until December 2011. Under the terms of the approval, conflicted Directors can be excluded from receiving information, taking part in discussions and making decisions that relate to the potential or actual conflict.

Advice

Directors may sometimes need appropriate external professional advice to carry out their responsibilities. The Board's policy is to allow them to seek this, at the Company's expense. All Directors also 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.

Board effectiveness

Updating the review process

Board effectiveness is key to the Group's success, so the Board has, through the Nomination and Governance Committee, developed a formal annual review process. This assesses how well the Board, its Committees, the Chairman and Directors are performing collectively and individually. It also looks at how their performance could be improved. In 2010, the process continued to develop. After analysing available tools, the Board once again engaged an external supplier to support a confidential online questionnaire. The survey combined questions used in previous years with additional 'best practice' points. Each Director completed questionnaires about the Board, each Committee the Director was a member of, the Chairman's performance and their own individual performance. Directors were encouraged to expand on their scorings and assessments with proactive narrative comments on where the Board or Committee had performed well, and where they could improve.

The questions covered:

- The size and composition of the Board
- The Board's knowledge and understanding of its markets, peers and stakeholders
- The Board's input to setting strategy
- The Board's role in risk management and oversight
- The quality of information presented to the Board
- The Board's interaction with its subsidiary businesses
- The Board's interaction with senior managers and developing leaders across the Group
- The processes that support the Board's activities and its meeting processes and agenda coverage
- The role, responsibilities and effectiveness of Board Committees

Reporting

The results were consolidated into a themed report by Group Secretariat. They were then considered by the Nomination and Governance Committee before being formally reported to the Board. The final report included comparative results for 2009 as well as a progress update on the previous year's action plan evidencing the progress made, and a new action plan based on the latest recommendations. Progress continues to be monitored and reported back to the Nomination and Governance Committee.

At the end of the exercise, the Board concluded that it had performed effectively. It also agreed actions in areas identified for improvement. These included:

- Maintaining the Board's skills and expertise in the areas where the Group's business is growing and developing
- Maintaining a well-researched and prioritised Group strategy
- Allowing the Board to work with and support the Group's emerging leaders
- Continuing to strengthen and focus the executive recommendations brought to the Board and its Committees

Each Committee followed a similar reporting and feedback process.

Chairman

The review of the Chairman's performance was led by the Senior Independent Director. It was based on formal feedback given in the confidential online questionnaires from each of the other Directors. The feedback was summarised into a themed report, which was distributed to all members, except the Chairman. The Directors, led by Lord Blackwell and without the Chairman being present, met to consider the report on the Chairman's performance. They concluded that he continued to show great commitment to the Group and had performed very effectively. Lord Blackwell was responsible for passing feedback from the review to the Chairman and identifying any areas where the Chairman's development could be supported.

Directors

The Chairman led the performance review of individual Directors. He 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. Before these meetings, the Directors assessed their own performance by completing a confidential online questionnaire, the results of which were shared with the Chairman. The meetings were designed to review whether each Director was contributing effectively to the Board and the Board Committees, and continued to have sufficient time to commit to the role. The meetings also considered individual training and development opportunities for each Director.

The Chairman and the non-executive Directors also met formally and informally without the executive Directors present to discuss various issues, including executive succession planning.

Continuous improvement

The Nomination and Governance Committee continues to consider the best way to support and improve future effectiveness reviews. For 2011, the Board intends to follow a similar online survey and analysis process. This will allow comparison with the 2009 and 2010 results. The Board also discussed the principle in the UK Corporate Governance Code that the evaluation should be carried out by an external facilitator every third year. In 2011, the process will build on the strong points of the 2010 approach, and a facilitator will provide external scrutiny.

Director development

The Chairman, supported by the Group Company Secretary and General Counsel, is responsible for arranging a comprehensive and structured induction for all new Directors. This induction is tailored to their individual requirements. Depending on these, the formal programme includes:

- Meetings with each executive Director, key members of senior management, the heads of the operating businesses and Group control functions
- Visits to business units
- Meetings with the external auditors and the FSA supervisory team
- An introduction to the Group's corporate governance framework and their individual responsibilities
- Key Board materials and information, shareholder and financial reports

This programme aims to provide the background knowledge new Directors need to perform to their full capacity as soon as possible after joining the Board. It gives them knowledge of:

- The Group's organisational structure, strategy and business activities
- The key performance indicators, financial and operational measures and industry terminology
- The role of the Board and its Committees and their responsibilities
- The Group's corporate governance and risk management framework policies and procedures

When a non-executive Director is appointed to one of the Board's Committees, they receive relevant induction training. New Directors are asked for their feedback on the programme to make sure that it keeps improving. During 2010, David Grigson and Sheelagh Whittaker provided positive and constructive feedback on their induction programmes.

When Directors are appointed to the Board, they commit to broadening their understanding of the Group's business. They are invited to identify areas of the Group's activities, or relevant developments in the external business environment where they would benefit from additional training. During 2010, specific Board training sessions took place on IFRS Operating Profit, Solvency 2 and the Bribery Act 2010. In addition, in September 2010, the Board met in the Group's office in Dublin. This gave the Directors the opportunity to interact with key personnel in the Group's Irish operations and to explore specific local considerations in detail. If a Director's annual appraisal with the Chairman identifies any individual training needs, the Company makes every effort to meet these either using internal resources or external expertise.

Board meetings and meeting attendance

The Board and its Committees meet regularly, operating to an agreed timetable. Meetings are generally held in Edinburgh or London. During the year, the Board held specific sessions to consider the Group's strategy and business planning. The Board also has a formal procedure for holding unscheduled meetings. This is used when, exceptionally, decisions on matters specifically reserved for the Board need to be taken urgently.

Directors are required to attend all meetings of the Board and the Committees they serve on, and to devote enough time to the Company to perform their duties. The Board sometimes needs to call or rearrange meetings at short notice and it may be difficult for all Directors to attend these meetings. Board and Committee papers are generally distributed before meetings. If Directors are not able to attend a meeting because of conflicts in their schedules, they receive all the relevant papers and have the opportunity to submit their comments in advance to the Chairman or the Group Company Secretary and General Counsel. If necessary, they can follow up with the Chairman of the meeting. Directors' attendance at the 2010 Board and Committee meetings is shown in this table:

	Board	Audit and Compliance	Risk and Capital ²	Remuneration	Nomination and Governance	Investment	Corporate Responsibility / SLCT
Number of meetings	11	6	10	10	7	4	3
Chairman							
Gerry Grimstone	11				7(c)		3(c)
Executive Directors							
David Nish	11				7		3
Keith Skeoch	11						
Jackie Hunt ¹	7 ¹						
Non-executive Directors							
Kent Atkinson	11	6(c)	9			4	
Lord Blackwell	11	6	10(c)	8	7		
Colin Buchan	11			9	7	4(c)	
Crawford Gillies	11	6		10(c)		4	
David Grigson	11	5	10				
Baroness McDonagh	11	6			7		3(c) - SLCT
Sheelagh Whittaker	11		10	10			

¹ Appointed to the Board on 14 May 2010.

² Established April 2010.

(c) Committee/Standard Life Charitable Trust (SLCT) Chairman

Board Committees

The Board has established Committees that 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 recent Committee meetings, and minutes of Committee meetings are circulated to the appropriate Board members. The Committees operate within specific terms of reference approved by the Board and kept under review by the Nomination and Governance Committee. These terms are published on the Board of Directors section of the Group's website at www.standardlife.com/about/board and are also available from the Group Company Secretary and General Counsel on request. All Board Committees are authorised to engage the services of external advisers at the Company's expense, whenever they consider this necessary.

Committee membership is reviewed at regular intervals by the Chairman of each Committee and the Nomination and Governance Committee. The Nomination and Governance Committee considers all new appointments before they are recommended to the Board.

In 2010, the Board made an important change by establishing the Risk and Capital Committee. There is a report from this new Committee below. As a result of this, in April 2010, the Audit, Risk and Compliance Committee was renamed the Audit and Compliance Committee as many of its risk-oversight duties were taken over by the Risk and Capital Committee.

Audit and Compliance Committee

The Committee members are Kent Atkinson (Committee Chairman), Lord Blackwell, Crawford Gillies, Baroness McDonagh and David Grigson. The Board considers them all to be independent non-executive Directors. The Board is satisfied that Kent Atkinson and David Grigson have recent and relevant financial experience.

The Committee's remit is to consider and to make appropriate recommendations to the Board on:

- Any matter relating to the financial affairs of the Group
- The Group's internal and external audit arrangements
- The Group's internal control, operational risk management and regulatory compliance arrangements

The Committee meets at least four times a year 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 Chief Executive and the Chief Financial Officer. Other members of senior management are also invited, including the Group Internal Audit Director and the Group Chief Risk Officer, as well as the external auditors.

Financial reporting

During 2010, the Committee reviewed the Group's draft:

- Preliminary Results 2009
- Annual Report and Accounts 2009
- Summary Financial Report 2009
- Half Year Results 2010
- Interim Management Statements issued in April and October 2010

The Committee recommended to the Board that these should be approved.

The Committee's detailed review includes considering:

- The Group's significant accounting policies and any changes made during the year
- Significant estimates, judgements and actuarial assumptions applied and any changes made during the year
- Significant IFRS accounting and reporting issues and EEV methodology and assumption issues identified by management
- The clarity of disclosures in the IFRS and EEV financial statements
- The results of management's assessments of the Group's Going concern and Group solvency position
- Relevant external financial reporting developments
- The views of the external auditors on all of the above

External audit

The Committee monitors the work of the external auditor. This includes reviewing how independent and objective the team is, in the context of regulatory requirements and professional standards. It also assesses the effectiveness of the external audit process. As part of its ongoing review of the effectiveness of the external auditor, the Committee:

- Assesses the team's qualifications, expertise and resources
- Considers the scope and planning of the external audit of the Group
- Reviews the audit findings with the external audit team

The Committee is satisfied that the external auditor continues to fulfil the terms of the engagement.

The Committee is also responsible for making a recommendation to the Board each year on the appointment, reappointment or removal of the external auditor. It also approves the terms of engagement and remuneration for audit services. The external audit was put out to tender in 2003, following which the present auditor was reappointed. The audit engagement partner rotates every

five years in accordance with ethical guidelines. The Committee believes that the present auditor's performance and reappointment should be considered fully every year. Because of this, there is a standing agenda item to review the performance of the auditor in detail against the relevant duties in the Committee's terms of reference. The members of the audit team are not present for this. As part of this review, the Committee considers the performance of the engagement partner and the quality and succession planning of the engagement partner and the senior audit team. It also seeks the views of the senior members of the Group Finance team who work most closely with the audit team. The Committee also considers the quality of the regular reports received from the audit team on the output of audit activities and the updates about independence and audit quality and technical knowledge. Following the 2010 effectiveness review, the Committee concluded that it was appropriate to recommend to the Board that the present auditor should be reappointed. The Committee's recommendation is not restricted by any contractual obligations.

Non-audit services

The Board has approved a policy on the use of external audit for non-audit services and the Committee monitors the implementation of the policy on behalf of the Board. The aim of the policy is to support and safeguard the objectivity and independence of the external auditors. It does this by ensuring that the audit services provided are not impaired by the provision of certain non-audit services. The policy prohibits the auditor from carrying out certain types of non-audit services. It also ensures that where fees for approved non-audit services are significant, they are subject to the Committee's approval. The services prohibited by the policy include:

- Book-keeping or other services related to the accounting records or financial statements
- Financial information system design
- Appraisal or valuation services where the results would be material to the financial statements
- Internal audit outsourcing
- Actuarial calculations
- Management functions
- Forensic audit services
- Temporary or permanent services as a director, officer or employee or performance of any decision-making, supervisory or monitoring function
- Recruitment of senior management

The policy permits non-audit services to be purchased, following approval, when they are closely aligned to the external audit function. These include:

- Advisory services in connection with acquisitions and disposals
- Due diligence related to mergers and acquisitions
- Tax advisory services
- Employee benefit plan audits
- Attesting to services not required by statute or regulation
- Consultations concerning financial accounting and reporting standards not relating to the audit of the Group's financial statements

At each meeting, the Committee reviews the schedule of non-audit services authorised and the level of fees paid. The non-audit services policy requires the approval of the Chairman of the Committee before certain services are commissioned. You can find details of the fees paid to the external auditor for audit and non-audit work carried out during the year in Note 7 to the Group financial statements. Non-audit services carried out during 2010 included tax advisory work and assurance services relating to key corporate projects such as the disposal of Standard Life Healthcare, and the Group's programmes to prepare for Solvency 2, including Quantitative Impact Study 5 (QIS 5).

Internal audit

The Committee considers the effectiveness of the Group's internal audit function, monitoring its independence and objectivity in the context of professional standards. It also approves the scope and content of the annual internal audit plan and considers whether the internal audit function is adequately resourced. The Committee receives regular reports on the implementation of the approved internal audit plan, key findings of completed reviews, and updates on the implementation of recommended improvement actions. The Group has an internal audit co-sourcing agreement with Ernst & Young LLP, which runs until December 2011.

Risk framework

The Board approves the Group's Enterprise Risk Management (ERM) framework. Until April 2010, the Committee oversaw the effectiveness of its implementation. This included looking at the processes and initiatives in place to manage risks, receiving regular update reports from the Group Chief Risk Officer on the development and implementation of the ERM framework and the status of the key risks facing the Group. From April 2010, the Risk and Capital Committee took on this implementation oversight role, although the Audit and Compliance Committee has retained its oversight role in regard to operational risk as part of its duty to oversee the effectiveness of the system of internal controls. You can find out more about the ERM framework at the end of this section.

Financial crime and whistleblowing

The Committee 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.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. Members complete an online self-assessment questionnaire and review the Committee's terms of reference. After analysing the questionnaire responses in late 2010, the Committee concluded that it had:

- Performed effectively during the year
- Fulfilled its duties under its terms of reference, and kept its terms of reference up to date
- Received sufficient, reliable and timely information from management and the external auditor to enable it to fulfil its responsibilities
- Identified certain areas where members felt they could be more proactive

Advice and development

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the Group. It is also authorised to seek, at the expense of the Group, appropriate professional advice inside and outside the Group, whenever it considers this necessary. Group Finance gave technical training to the Committee on topics including IFRS Operating Profit and MCEV developments to make sure Committee members' knowledge remains up to date.

The Committee's terms of reference recognise applicable external guidance. They are available from the Group's website at www.standardlife.com/about/board_committees

Risk and Capital Committee

The Board responded to the risk management recommendations in the final Walker Report by establishing the Risk and Capital Committee in April 2010. The terms of reference of the Committee were drafted with reference to the relevant draft FSA regulations and the risk issues raised in the Walker Report before being discussed by the Nomination and Governance Committee and approved by the Board. The Committee is a Board Committee and its members are Lord Blackwell (Committee Chairman), Kent Atkinson, David Grigson and Sheelagh Whittaker, who are all considered by the Board to be independent non-executive Directors. During 2010, the Committee met ten times as it established its working procedures and reporting requirements. The Group Chief Risk Officer attends the Committee meetings and has the right of access to the Committee Chairman. Others invited to attend Committee meetings on a regular basis include the Chairman, the Chief Executive and the Chief Financial Officer. Other members of senior management are also invited, including the Group Internal Audit Director as well as the external auditors. The Committee has the authority to meet without management being present if the members consider this necessary.

The role of the Committee is to provide oversight and challenge of, and advice to the Board on:

- The Group's current risk appetite, tolerance and strategy, material risk exposures and future risk strategy and their impact on capital
- The structure of the Group's Enterprise Risk Management Framework and its suitability to react to forward-looking issues and the changing nature of risks
- The risk aspects of major investments, major product developments and other corporate transactions
- Material actuarial matters affecting the Group
- Material risk and capital matters affecting the Heritage With Profits Fund

During 2010, it carried out this role through activities including:

- Undertaking comprehensive training and awareness sessions on matters including capital measures, risk and control models and specific products
- Considering emerging risks and current risks concerns, including the Group's preparedness for the introduction of Solvency 2, including QIS 5 and how these developments may impact the Group's strategy
- Reviewing the Group's current stress and scenario programme and its results
- Reviewing the processes to calculate and use the Individual Capital Assessment (UK) and the Dynamic Capital Adequacy Report (Canada)
- Reviewing Group risk appetites and tolerances in advance of Board approval
- Considering risk assessments related to major corporate transactions and product innovations
- *Overseeing the Group ERM framework to provide assurance to the Board that it supports risk management across the Group. You can find out more about the ERM framework later in this section*
- Providing advice to the Remuneration Committee on an arm's length basis on various matters including whether specific risk adjustments need to be applied to performance-related payments in incentive packages

Acknowledging the short length of time it had been established, the Committee also undertook a review of its own effectiveness as part of the overall Board review programme. The members concluded that the Committee's role and responsibilities were comprehensive and that proper supporting processes were in place to allow the Committee to carry out its role.

You can find out more about the principal potential risks facing the Group and how they are managed in section 1.6 of the Business review. You can also find out more about risk exposures in Note 42 to the IFRS financial statements. The Committee's terms of reference are available from the Group's website at www.standardlife.com/about/board_committees

Remuneration Committee

The Committee members are Crawford Gillies (Committee Chairman), Lord Blackwell, Colin Buchan and Sheelagh Whittaker – all of whom are considered by the Board to be independent non-executive Directors. The Committee's role is to consider and make recommendations to the Board in respect of the overarching Group-wide remuneration policy, including:

- Rewards for the executive Directors, senior executives and the Chairman
- The design and targets related to any employee share plan
- The design and targets for annual cash bonus plans below the executive level
- Changes to employee benefits structures (including pensions) throughout the Group

The Chairman and the Chief Executive are invited to attend Committee meetings on a regular basis. The Group People and Transformation Director and the Head of Group Reward are invited to attend to provide advice. During 2010, the Committee spent time considering the way remuneration is structured to support the revised strategic direction of the Group.

You can find details of the Group's current remuneration policies for the Directors and senior executives as well as more information on the Committee's activities in the Directors' remuneration report. The Committee's terms of reference are available from the Group's website at www.standardlife.com/about/board_committees

Nomination and Governance Committee

The Committee members are Gerry Grimstone (Committee Chairman), Lord Blackwell, Colin Buchan, Baroness McDonagh and David Nish – a majority of whom are considered by the Board to be independent non-executive Directors. The Committee's key roles are to review the leadership needs of the Board and the Group's senior executives, with a view to ensuring that the Group continues to be able to compete effectively in the marketplace, and to oversee the development and implementation of the Group's corporate governance framework. It meets when required, making recommendations to the Board on new Director appointments and carrying out other activities related to Board composition and reviewing Board effectiveness. Members of the Committee do not take part in discussions when their own performance or continued appointment is being considered.

Appointments to the Board

The Committee evaluates the Board's balance of skills, knowledge and experience, when considering new appointments. It then 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. During the year, following a structured search, the Committee recommended to the Board the appointment of Jackie Hunt. The Committee also recommended to the Board that Colin Buchan should continue his appointment to the Board for a second three-year term. In addition, the Committee reviews all recommendations to appoint independent non-executive directors to the boards of subsidiary companies or as members of subsidiary board committees. The Committee considers the input required from non-executive Directors. The annual performance evaluation checks that they have sufficient time to meet their commitment to the Group. As a result of this review and considering the recommendations of the Walker Report, the Committee recommended increasing the time commitment in the non-executive Director appointment letters from 25-30 days to 30-35 days.

Succession planning and talent development

The Board recognises that effective succession planning and talent development are key to long-term success. The Committee reviews the succession planning and talent development processes, which take into account the skills and expertise required by the Board and senior management to allow the Group to operate effectively. During the year, the Committee oversaw the revision of existing, and the introduction of new, Group-wide talent development programmes at graduate and emerging leader levels as well as an accelerated programme for senior leaders. Additionally, the Committee oversaw the introduction of individual development plans for the Chief Executive, the rest of the Executive team and most other senior executives. The Committee also monitors regularly the status of the succession plans for both the Executive team and senior executives. The results of the Committee's reviews are presented from time to time to the Board for discussion and the Committee and the rest of the Board have taken the opportunity to meet with key talent across the Group.

Corporate governance

The Board expects the Group to be a leader in corporate governance activities both through its own positioning and through its stewardship and other activities. The Committee reviews the Group's corporate governance arrangements against 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. Where appropriate, the Committee submitted responses to corporate governance consultation documents. The Committee also considered the impact of the UK Corporate Governance Code on the Group's governance framework and recommended to the Board that the revised provisions and principles should be adopted where they will strengthen the current framework. The Committee also considers the potential outside appointments of Directors, and refers any potential or actual conflicts of interest identified to the Board for discussion.

The Committee's terms of reference are available from the Group's website at www.standardlife.com/about/board_committees

Investment Committee

The Committee members are Colin Buchan (Committee Chairman), Kent Atkinson and Crawford Gillies. They are all considered by the Board to be independent non-executive Directors. The Committee meets regularly to review and report to the Board on matters relevant to the investment activities and stewardship role of the Group as an investor and fund manager, including specific corporate governance and stewardship matters regarding investments managed by the Group. The Chief Executive and other executives (where appropriate) of Standard Life Investments attend Committee meetings.

The Committee's terms of reference are available from the Group's website at www.standardlife.com/about/board_committees

Corporate Responsibility Committee

The Committee members are Gerry Grimstone (Committee Chairman), Baroness McDonagh and David Nish. Mike Conway resigned on 30 June 2010. The Committee oversees and provides guidance and direction on the Group's Sustainability (formerly Corporate Responsibility) programme. It also supports the Board's role in providing leadership on environmental and social issues. The Committee's duties include keeping under review the Group's policies on Sustainability and making recommendations to the Board on Sustainability issues. In 2010, the Committee completed a formal review of the Group's approach to Corporate responsibility and developed a new Sustainability strategy that ties our responsibilities to our stakeholders more closely to our long-term business objectives.

The Standard Life Charitable Trust (SLCT) was established during 2009 and is a registered Scottish Charity with the Office of the Scottish Charity Regulator. SLCT is a company limited by guarantee and is constitutionally separate from the Company. It is chaired by Baroness McDonagh. The initial focus for SLCT will be to fund initiatives that develop the financial capability and employability of individuals most in need of support, helping them reach their potential.

You can find more details about the Group's Sustainability activities in the Sustainability section. The Committee's terms of reference and a copy of the Group's Code of Business Conduct are available from the Group's website at www.standardlife.com/about/board_committees

Communicating with investors

The Company continues working to develop an effective dialogue with all its shareholders, based on a mutual understanding of objectives. As part of this, the Investor Relations department supports communication with institutional investors. During 2010, the Group continued its programme of domestic and international presentations and meetings between the executive Directors and institutional investors, fund managers and analysts. The wide range of relevant issues discussed at these presentations and meetings covers business strategy, financial performance, operational activities and corporate governance – but excludes price-sensitive information. The Chairman has his own contact programme and brings relevant issues to the attention of the Board.

The Board is equally committed to the interests of retail shareholders. These make up 99% of the Company's total number of shareholders and hold approximately 61% of the Company's issued shares. During the year, the Company continued to gather shareholders' views on the services and means of communication available to them. Their input has informed how the Company communicates – particularly online – and how the Annual Report and Accounts 2010, Summary Financial Report 2010 and the AGM guide 2011 are distributed. As a result of these procedures, the non-executive Directors believe that they are aware of shareholders' and analysts' views.

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

The Chairman's, Chief Executive's and Chief Financial Officer's statements and Business review in this Annual Report and Accounts 2010 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 2011 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 have an opportunity to talk with the Directors after the formal part of the meeting. The voting results will be published on the Group's website at www.standardlife.com after the meeting. These will include the number of votes withheld.

Institutional investor

Standard Life Investments, the Group's principal asset management company, recognises the importance of good governance. As a major investor, it monitors the governance of the companies it invests in. It also holds regular meetings with their senior management representatives. The board of Standard Life Investments maintains detailed policy guidelines on corporate governance, stewardship and voting. These guidelines support its approach to engaging and voting at shareholder meetings. Standard Life Investments also 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 all relevant information has been carefully considered. When assessing the Company's compliance with the principles and provisions of the Code, the Nomination and Governance Committee also reviewed the Company's compliance with these policy guidelines. The Committee concluded that the Company complied with the guidelines during the year.

Standard Life Investments is a strong supporter of the principles of good stewardship that are set out in the Stewardship Code published by the Financial Reporting Council in July 2010, believing that it is mutually beneficial for companies and long-term investors such as Standard Life Investments to have a relationship based on accountability, engagement and trust. Standard Life Investments has made public its processes to comply with the seven best practice principles. You can read more about this at www.standardlifeinvestments.com

Other information

You can find details of the following in the Directors' report and the Directors' remuneration report:

Share Capital

- Significant direct or indirect holdings of the Company's securities
- Confirmation that there are no securities carrying special rights with regard to control of the Company
- Confirmation that there are no restrictions on voting rights in normal circumstances
- How the Company's articles of association can be amended
- The powers of the Directors, including when they can issue or buy back shares

Directors

- How the Company appoints and replaces Directors
- Directors' interests in shares

Annual review of internal control

The Directors have overall responsibility for the Group's Enterprise Risk Management (ERM) framework and system of internal control and for the ongoing review of their effectiveness. The framework is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss. The framework covers all of the Group's risks as set out in detail below. In particular, with regard to regular financial reporting and preparing consolidated accounts, Group Finance participates in the control self-assessment and policy compliance elements of the ERM framework. Group Finance also contains a consolidation team and supports the Technical Review Committee, which is made up of senior finance managers and reviews external technical developments and detailed reporting and accounting policy issues. In addition, Group Finance maintains an up-to-date Group Accounting Manual and sets formal requirements with business unit finance functions specifying the reports and approvals needed. Group Internal Audit and Group Compliance regularly review the effectiveness of internal control and the ERM framework, and both areas report their findings to the Audit and Compliance Committee. In line with the Code, and the further guidance in the Turnbull Report, the Board has reviewed the effectiveness of the system of internal control. The system was in place throughout the year and up to the date of approval of the Annual Report and Accounts 2010. The review included evaluating the Group's ERM framework and assessing 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, the actions needed to address them have been taken, or are being taken and monitored.

Risk management

Risk management is integral to 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 drive shareholder value through being a leading, customer-centric business focused on long-term savings and investment propositions in our chosen markets.

The Group's risk strategy

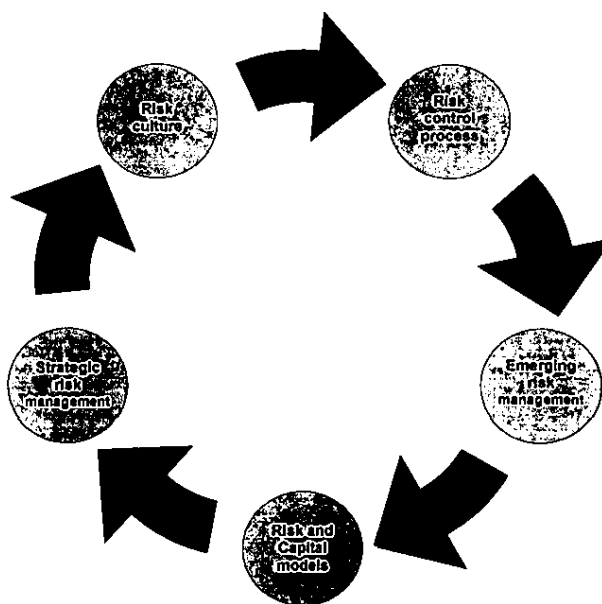
We recognise the need to manage long-term value creation, cash flow and risk in a holistic manner in order to make informed decisions to create and protect value in the Group's activities.

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 framework

The Group has an ERM framework that enables risks to the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically. During the year, we have continued to strengthen the key elements of this framework to ensure that it is aligned with external best practice.

ERM framework: key components



Risk culture

Risk governance structure

As noted above, the Risk and Capital Committee was established in 2010 and its membership is made up of non-executive directors. The Group Chief Risk Officer also attends meetings of the Risk and Capital Committee. The main role of this Committee is to provide oversight and challenge of, and advice to the Board on:

- The Group's current risk appetite, tolerance and strategy, material risk exposures and future risk strategy and their impact on capital
- The structure of the Group's ERM framework and its suitability to react to forward-looking issues and the changing nature of risks
- The risk aspects of major investments, major product developments and other corporate transactions
- Material actuarial matters affecting the Group
- Material risk and capital matters affecting the Heritage With Profits Fund

The Committee also provides advice to the Remuneration Committee on an arm's length basis on various matters including whether specific risk adjustments need to be applied to performance-related payments in incentive packages.

The Group Enterprise Risk Management Committee (Group ERM) which was established in 2007 is now well embedded and has proven to be a highly effective and responsive executive forum for managing risk. The Group ERM consists of the members of the Executive team as well as the Group Chief Risk Officer. The committee meets at least monthly, and usually in conjunction with the Executive team. The main role of this committee is to:

- Oversee compliance with the Group's ERM framework
- Support the Chief Executive in the management of risk across the Group

The Group ERM is supported by the Group Credit Risk Committee which was established in 2009. This Committee deals with all types of credit risks arising from the current and proposed activities of the Group and its establishment consolidated much of the oversight of the Group's credit risk activity.

Group Risk supports the operation of these risk Committees and provides assurance, assistance and advice to these Committees as required. The Financial Risk and Capital Management Forum and Operational Risk Forum, which previously supported the Group ERM, were disbanded during the year with individuals in Group Risk assigned responsibility for fulfilling the functions previously performed by these forums.

Group Risk is supported by the risk functions within the business units. These functions are responsible for providing assurance that the financial and non-financial risks inherent in business activities are identified and managed in accordance with the appetite and limits approved by the Board and relevant subsidiary boards. They are also responsible for producing risk management information for use within the business unit and for aggregation across the Group.

Three lines of defence

The Group operates a Three Lines of Defence model of risk management, with clearly defined roles and responsibilities for committees and individuals:

- First line: Day-to-day risk management is delegated from the Board to the 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 and established risk management committees, including the Group ERM. 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 Audit and Compliance Committee, which is supported by the Group Internal Audit function, and the Risk and Capital Committee.

Qualitative risk appetites

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

- 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 the risk/reward profile; prices charged for our products should fully reflect all risks

Quantitative risk appetites

Quantitative risk appetites are used to support the qualitative risk appetite statements and allow regular objective reporting of exposures against risk appetites. The quantitative risk appetites use two key risk metrics that are a key focus of our risk management activity. These are:

- Excess working capital
- Shareholder value

These metrics enable us to measure risk and capital consistently 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 used throughout the Group, and where appropriate, make allowance for local regulatory capital considerations. The Group's risk profile is assessed and reviewed regularly.

	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 – that is the present value of cash earnings on a particular enterprise or activity.
Management objective	Management of the primary source of funding for the business, the strategic activities of the Group and distributions to shareholders.	Management of the financial strength of the Group and delivery of long-term shareholder value.
Exposure measurement	The reduction in excess shareholder cash that a business might expect to see as a consequence of a defined risk event.	Loss in value that a business might expect to see as a consequence of a defined risk event.

You can find out more about our approach to assessing risk exposures and establishing appetites for risk in the Risk and capital models section.

ERM reporting

During 2010, Group Risk reviewed, developed and enhanced the content of management information delivered to the risk committees. Group Risk expects to continue to monitor the ongoing appropriateness of this management information to ensure it continues to meet the needs of the risk committees.

Risk control processes

Risk control processes are the practices by which we manage risk within the Group. Risk control processes are used to identify, assess, control and monitor risk. They are defined in, and implemented through, the Group's policy framework.

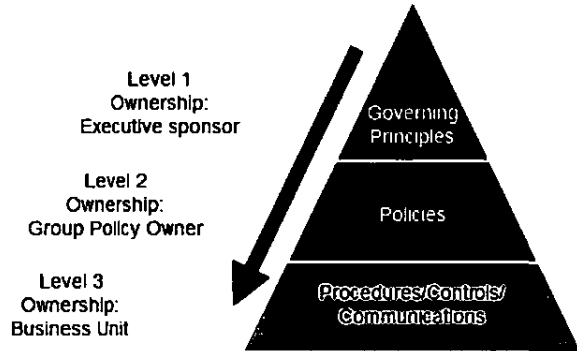
Identify	Identify major sources of risk which may affect equity holder returns and/or the interests of the Group's policyholders, customers and other stakeholders.	Internal/external events and losses Risk register and policies Risk profile and ownership Key processes and ownership Risk metrics/indicators 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/second 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. It helps ensure that all businesses operate effectively, efficiently and comply 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
- **Procedures, controls and communications:** designed and implemented by business units to meet the policy standards in a manner appropriate to that individual business unit



Operational Risk and Control

The Group has a holistic approach to risk management and has recently completed an extensive programme of work to redesign completely the processes and develop a Group-wide system. The full embedding of the processes and system (ORAC) is continuing across the organisation.

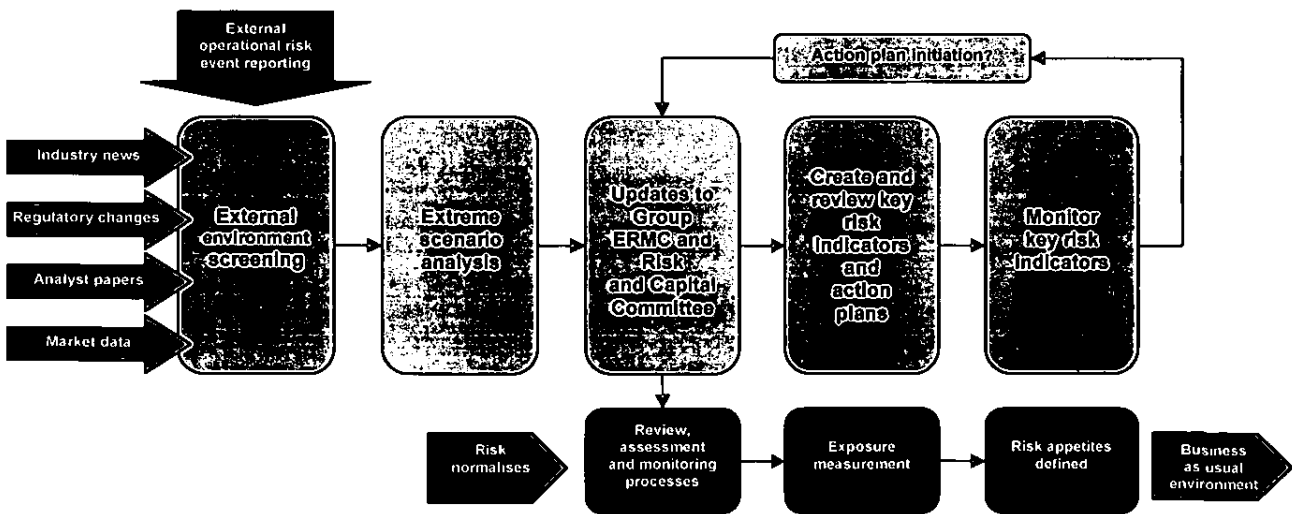
Emerging risk management

The Group has defined a clear and simple process for identifying and managing 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 risk committee
- The passage of any risks identified into 'business as usual' processes where appropriate

Extreme scenario testing and analysis is a key component of the emerging risk process and our method for carrying it out has been further embedded during the year. Extreme scenario testing serves to enhance our risk processes by subjecting our business plans to a combination of stress events.

The Group's emerging risk management process:



Risk and capital models

The Group continually strives to enhance our internal risk and capital models. Our main objective is to improve the consistency of quantitative measurement of risk and use of capital across all businesses.

Within our model, the capital of the Group is quantified according to a number of metrics as described above. Businesses plan their capital consumption using internally agreed targets, which are 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 enhances the Group's capability to assess strategic allocation of capital and the ability to identify, monitor and manage emerging risks.

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. The tables at the end of this section have been audited by PricewaterhouseCoopers LLP and are marked as 'audited' for clarity.

Introduction

The Remuneration Committee's major challenge this year has been to ensure that the way we structure our remuneration supports the revised strategic direction of the Group, and the delivery of our strategy.

This has resulted in changes in executive remuneration. These changes strengthen the link between performance, reward and strategy; ensure sound, effective risk management controls; and are consistent with the changing corporate governance landscape.

Strategy and review

At the beginning of 2010, the Board approved four strategic goals to support Standard Life being a leading customer-centric long-term savings and investments business:

- Build on our strength in our pension savings and corporate benefits markets
- Focus on the savings and investment needs of customers in our chosen segments
- Expand the global reach of our investment management business
- Maximise the capital value of our joint venture relationships

You can find out more about our strategic objectives in Section 1.1 of the Business review.

As part of this change in direction, the Remuneration Committee has sought to ensure that executive remuneration is aligned to the new strategy, and that it gives senior management the clarity and incentive which support the right outcomes.

For the 2010 performance year, we introduced a new annual bonus plan. This used performance scorecards to set both Group and personal outcomes for the year. The level of award to executive Directors was primarily based on the delivery of the Group scorecard. Personal scorecards contained a comprehensive list of financial, strategic, customer, and talent goals, and were tailored to the individual. To reflect the change from a life and pensions company to a leading customer-centric long-term savings and investments business, a significant weighting (36%) was given to the delivery of our new strategy. The change to IFRS profits as the core measure of profitability was reflected in the financial element of the scorecard.

With the bonus linked to annual performance measured through the scorecard, the Remuneration Committee sought to align the Group's Long-Term Incentive Plan (LTIP) with a longer-term measure of success based on the growth of IFRS operating profits. This ensures continuing alignment with our strategy, which is built on delivering sustainable IFRS operating profits.

Before changing the LTIP measure, we held valuable and constructive discussions with key investors. The Remuneration Committee then approved the use of IFRS operating profits as the measure for the whole of the 2010 awards and for the last two years (2010 and 2011) of the 2009 award's three-year performance period. Return on embedded value (RoEV) performance continues to be used for the first year of the 2009 award's performance period (2009). This change should support long-term share price performance and support our progressive dividend policy, with the overriding objective of enhancing shareholder value.

The Remuneration Committee reviewed the measures under the 2008 award and decided that no change should be made to the measures. This award will vest at nil in March 2011 based on the RoEV performance being below the threshold level for the three years to 31 December 2010.

Using IFRS operating profit as the LTIP performance measure reflects the change in reporting style announced in July. It's a simpler measure than we have used in the past and will make it easier to compare our performance against competitors. Switching to IFRS operating profit also means that short-term market fluctuations no longer have a direct impact on our results.

You can find out more about the change to IFRS in the Chief Financial Officer's statement.

The Remuneration Committee also consulted with investors on the changes to Standard Life Investments' LTIP arrangements that received support at the 2010 AGM. The introduction of a challenging new third party three-year EBIT target, combined with an investment performance hurdle applied to the 2010 awards, ensures the measures were aligned with Standard Life Investments' strategy.

Remuneration principles

As part of our 2010 review, the Remuneration Committee agreed that remuneration should:

- Encourage behaviours and bring about results that reflect corporate goals that are in the best interests of shareholders and other stakeholders, and balance risk and reward
- Reflect Standard Life's role in promoting best practice in the wider market
- Be transparent and easy to understand
- Be competitive and reflect an individual's performance and their value in the market
- Provide an appropriate proportion of annual and longer-term performance-related variable pay

Our people

Although this part of the Annual Report covers executive Directors, the Remuneration Committee has the responsibility to oversee the remuneration policy of the Group as a whole. One of the key aims of our remuneration policy is to enable us to attract, reward and retain high-quality people to support delivery of our corporate goals.

In 2010, we approved the use of the Chief Executive's scorecard as a measure of Group performance for bonus arrangements outside the executive population. At the same time, changes to LTIP arrangements for other senior employees will link the level of their 2011 award with their personal performance in 2010.

We believe that share ownership by our employees helps them to better understand the interests of our shareholders and at the 2011 AGM, we will put forward a resolution to adopt a Standard Life Sharesave Plan. If this is approved, it will run alongside the present Standard Life (Employee) Share Plan and will give employees another opportunity to buy shares in Standard Life. Initially it will be for employees who are UK resident tax payers but over time we will look at rolling this out more widely, subject to local tax and regulatory rules.

Risk management and regulation

I do not recall a year when pay in the financial services sector has attracted so much commentary. There were numerous consultations and Standard Life contributed to those sponsored by the FSA as part of our commitment to the highest standards of corporate governance. These consultations have resulted in a number of corporate governance guidelines, including the FSA's revised Code on Remuneration. The final version of this Code (published on 17 December 2010) applies to some parts of our business, including Standard Life Investments and we will ensure compliance with the requirements by the required deadlines.

The awards made under our bonus and LTIP arrangements are underpinned by sound risk management. Our Remuneration Committee sought the views of the Risk and Capital Committee before confirming the 2011 remuneration structures and the level of performance for 2010.

Conclusion

The Remuneration Committee played an active role in the challenges faced in 2010. It is confident that the revisions to remuneration, which encourage the Executive team to deliver our new strategy, will help drive sustainable performance by focusing on a balance of measures in the short term and on profit and shareholder value growth in the longer term.

As ever, Standard Life endeavours to meet the highest and best standards of disclosure and we have aimed to make this year's Directors' remuneration report informative, comprehensive and concise. A resolution to approve the Directors' remuneration report will be put forward at the AGM, which I hope you will support. I will be attending the AGM to answer any questions you may have on the content of this report.



Crawford Gillies, Chairman, Remuneration Committee

Remuneration Committee members and our role

Members: The Remuneration Committee is made up of four independent non-executive Directors: Crawford Gillies (Committee Chairman), Lord Blackwell, Colin Buchan and Sheelagh Whittaker.

Our role: To consider and make recommendations to the Board in respect of total remuneration policy across the Group, including:

- Rewards for the executive Directors, senior executives and the Chairman
- The design and targets related to any employee share plan
- The design and targets for annual cash bonus plans below the executive level
- Changes to employee benefits structures (including pensions) throughout the Group

If you would like a copy of the Remuneration Committee's terms of reference go to www.standardlife.com/about/board_committees or request a copy from our Group Company Secretary and General Counsel.

External advisers

During the year, the Remuneration Committee continued to take advice from its appointed adviser, Hewitt New Bridge Street (HNBS, now part of Aon Hewitt) and received information on comparative pay data from Towers Watson. As well as advising the Remuneration Committee, HNBS also provides advice to the Company on implementing decisions made by the Remuneration Committee. HNBS does not provide any other services to Standard Life.

One of Aon Hewitt's group companies is a customer of Standard Life. Recognising this, we sought assurances as to the framework and operation of the internal control process, segregation of duties and remuneration structures within Aon Hewitt and HNBS. As a result of this the Committee continues to view HNBS as independent.

Where appropriate, the Committee receives input from the Chairman, Chief Executive, Chief Financial Officer, Group People and Transformation Director, Head of Group Reward and the Head of Corporate Governance at Standard Life Investments. This input never relates to their own remuneration.

What we did in 2010

The Remuneration Committee met 10 times during 2010. The issues discussed and/or approved included:

January to March:

- Chairman's 2010 fee for recommendation to the Board
- 2009 Directors' remuneration report and 2010 AGM resolutions
- Level of 2009 annual bonus payout across the Group
- Effectiveness of the Remuneration Committee and its advisers in 2009, together with the Remuneration Committee's Terms of Reference
- Executive Director changes including Sir Sandy Crombie's retirement and the make-up of Keith Skeoch's remuneration package
- Review of 2010 annual bonus scheme and LTIP changes, which included starting investor consultation
- Executive Director and Executive team salaries
- Changes within the wider executive population including appointments to the Executive team
- Level of vesting of 2007 awards under the Group and Standard Life Investments LTIPs after liaising with the Audit, Risk and Compliance Committee

April to June:

- Conclusion of investor consultation on the changes to the 2010 Group and SLI LTIP arrangements, including a change of measure for the 2009 Group LTIP award
- Changes within the wider executive population, including the appointment of Jackie Hunt to the Board, a new appointment to the Executive team and exit terms for senior employees leaving the Group

July to September:

- Review of executive remuneration, including Group and Standard Life Investments reward strategies
- Changes within the wider executive population, including exit terms for senior employees leaving the Group
- Market governance update including considering the impact of the draft FSA Remuneration Code

October to December:

- 2010 annual bonus and 2008 LTIP performance updates
- Effectiveness of the Remuneration Committee and its advisers in 2010, together with the Remuneration Committee's Terms of Reference and remuneration principles
- Changes within the wider executive population, including appointment of a UK Finance Director and exit terms for senior employees leaving the Group
- 2011 LTIP and annual bonus design, including the measures in the Chief Executive's 2011 scorecard
- Introduction of a new Standard Life Sharesave Plan and the need for a 2011 AGM resolution
- Impact on UK staff pensions in light of changes in tax rules
- Review of Standard Life's remuneration policy against the final FSA Code on Remuneration¹
- Chairman's 2011 fee for recommendation to the Board
- Chief Executive and Chief Executive Standard Life Investments' annual pay reviews
- Standard Life Investments' performance relative to the market and overview of UK sales incentive plans

¹ A number of our Group companies, including Standard Life Investments, fall within the scope of the revised FSA Code on Remuneration published in December 2010. As these companies are BIPRU (The Prudential sourcebook for banks, building societies and investment firms) limited licence firms, they fall within the tier four definition. Accordingly, the Remuneration Committee has taken on board the FSA guidance and has applied the concept of proportionality to ensure Standard Life remains compliant with the provisions of the Code.

Elements of remuneration at Standard Life

Our policy is to attract, retain and develop key talent to support the delivery of our long-term strategy. Our remuneration principles are a key element in achieving this. The following shows the elements of an executive Director's 2011 remuneration package:

Fixed	Base Salary	Reflects the relative market value of an individual's role, their position and sustained performance
	Benefits	Provides monetary and non-monetary items that assist employees in carrying out their duties efficiently, including car allowance and private medical cover
	Pension	Gives a specific element of remuneration to save for their retirement
Variable	Annual bonus	Rewards good financial and non-financial performance that supports the corporate strategy at a Group and personal level
	Long-Term Incentive Plan	Rewards long-term financial performance in line with corporate strategy and personal contribution, and aligns the interest of executives and shareholders
Shareholding guidelines		Aligns the interests of executives and shareholders

Our policy in relation to each element is as follows:

Base Salary	<ul style="list-style-type: none"> • Pay a market rate comparable to similar roles within the financial services industry • Set salary of executive Directors to reflect their contribution and level of experience • Review annually using independent benchmarking data • Set salaries which support the recruitment and retention of talent
Benefits	<ul style="list-style-type: none"> • Provide a range of benefits on a cost-effective basis, while allowing a degree of individual choice
Pension	<ul style="list-style-type: none"> • Provide competitive retirement benefits in a way that does not create an unacceptable level of financial risk for our business
Annual bonus	<ul style="list-style-type: none"> • Measure performance against targets set out in performance scorecards • Cover key financial and non-financial objectives (and related measures) needed to deliver the Group's strategic ambitions and goals • Focus on Group, business unit and personal performance • Ensure performance is underpinned by sound risk management
Long-Term Incentive Plan	<ul style="list-style-type: none"> • Grant a share-based award to selected senior executives • Align vesting conditions to the delivery of long-term strategy and link them to our core financial measures at the time of the award • Align vesting with continued employment and satisfying corporate performance targets over the performance period • Ensure existing awards continue to drive performance that is in line with the Group's strategy
Shareholding guidelines	<ul style="list-style-type: none"> • Encourage executive Directors to build up a holding equivalent to 100% of salary (150% for the Chief Executive) over a five-year period from appointment by retaining share-based incentives and making personal investments

Aligning remuneration policy with risk management

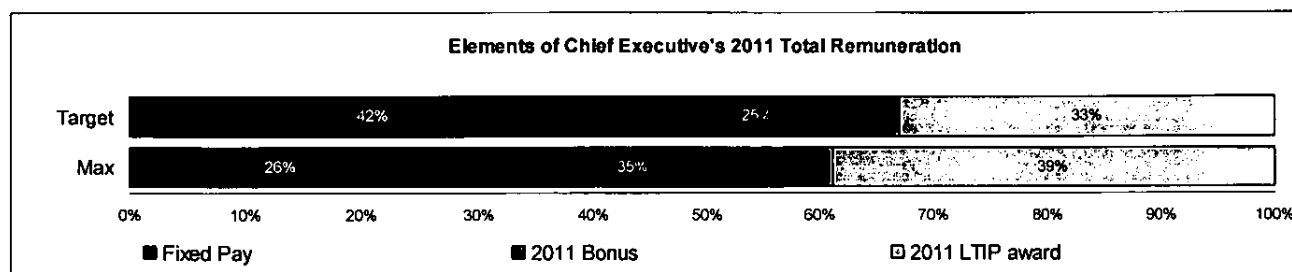
The Group and the Remuneration Committee apply sound risk management to risks relating to the remuneration policy and practices, as illustrated by the four examples below:

- The 2010 annual bonus was based on Group and personal performance. Performance was measured using scorecards which included financial, strategic, customer and talent measures, with sound risk management underpinning each one. The wider range of measures ensures a focus on overall performance, as well as making sure that outcomes are not delivered at the expense of increasing risk. When calibrating targets, the Committee strikes a balance between making the targets stretching, but not so high as to promote risk taking.
- The Committee has changed the Group LTIP targets. From measuring performance predominantly based on a return on embedded value basis, they are now based on IFRS operating profit. Without this change, there would have been a risk that the incentive schemes would be driving behaviours in a different direction to the Group's strategy. The Committee also recognised the importance of sound risk management by applying risk-based underpins to LTIP awards.
- The bonus plan and LTIP now include a claw-back provision. This allows the Remuneration Committee to seek awards to be repaid if misconduct is subsequently discovered, or if the Company's financial statements are restated for up to two years from the date of the bonus award or the date the LTIP vests.
- The link between reward and risk is also demonstrated by the Chairman of the Risk and Capital Committee (Lord Blackwell) being a member of the Remuneration Committee. The Remuneration Committee also sought the view of the Risk and Capital Committee that the 2010 performance was not due to excessive risk taking within the business and that the 2011 remuneration arrangements did not impact on the risk profile of the Group.

You can find out more about our approach to risk management in Section 1.6 of the Business review and in the Corporate governance report.

Total remuneration mix for the Chief Executive

The chart below shows the composition of the Chief Executive's remuneration both at 'target' and 'maximum' levels of performance for 2011.



Notes:

- 'Fixed Pay' includes base salary, car allowance, private medical insurance and pension allowance payable during 2011
- '2011 Bonus' includes the cash and deferred elements of the 2011 Group annual bonus.
- '2011 LTIP award' includes the 2011 awards under the Group Long-Term Incentive Plan (LTIP) where the 'target' amount reflects 50% of the maximum award.

What we did in 2010 and our approach for 2011

Base salary

2010: The Committee approved annual increases for each of the executive Directors. These increases were effective from 16 March 2010 for David Nish, 14 May 2010 for Jackie Hunt and 1 October 2010 for Keith Skeoch.

2011: The Committee approved annual increases for David Nish and Jackie Hunt with effect from 16 March 2011. Keith Skeoch's salary will remain unchanged in 2011.

	Annual base salary at 01/01/2010	Annual base salary at 16/03/2010	Annual base salary at 31/12/10	Annual base salary from 16/03/11
David Nish ¹	£700,000	£725,000	£725,000	£775,000
Keith Skeoch ²	£350,000	£350,000	£425,000	£425,000
Jackie Hunt ³	£430,000	£430,000	£475,000	£500,000

¹ David Nish's base salary will be increased in March 2011 to reflect his strong performance in 2010 following his promotion to Chief Executive.

² Keith Skeoch's base salary was increased from £350,000 p.a. to £425,000 p.a. on 1 October 2010. The Committee believed this increase was necessary to reflect his performance in 2010 and his wider Board responsibilities. His last increase was in 2006.

³ Jackie Hunt's base salary was set at £475,000 on her appointment as Chief Financial Officer on 14 May 2010, and as part of her annual review her salary will be increased in March 2011 to reflect her strong performance during 2010.

Benefits

2010 and 2011: Standard Life operates a flexible benefits scheme for UK-based employees, which includes private medical cover. Executive Directors take part on the same terms, with no special arrangements being made. Executive Directors also receive a non-benefit bearing car cash allowance.

Pension

The Company closed its final salary pension scheme to new entrants on 16 November 2004 and to future accruals on a final salary basis on 31 December 2007. From 1 January 2008, existing members of the defined benefit plan could opt for either:

- Benefits calculated on a Revalued Career Average Salary (RCAS) basis with an accrual rate of 1/60th for future service, or
- Keeping the link between final salary and service to 31 December 2007 plus a defined contribution into either an individual money purchase arrangement or Group Personal Pension Plan (GPPP) for future service

Employees starting after 16 November 2004 were able to join a money purchase GPPP. Executive Directors may also choose between the GPPP and a cash allowance of 25% of salary. The cash allowance does not count for bonus and share plan purposes.

2010 and 2011: David Nish and Keith Skeoch elected to receive a cash allowance of 25% of salary. The Committee approved an increase to 30% for David Nish with effect from 16 March 2011. Jackie Hunt also elected to receive a cash allowance of 25% on her appointment as Chief Financial Officer.

Annual bonus

2010: The Remuneration Committee approved a change to the bonus design. This resulted in awards to executive Directors being based on 90% Group performance and 10% personal performance. Both elements are measured using scorecards. Personal performance reflects delivering other outcomes, demonstrating behaviours in line with our leadership model and progress against personal development plans.

The weightings, performance achieved and payout are shown below:

Elements (weighting)	Group performance (underpinned by sound risk management)				Personal performance (10%)
	Financial (36%)	Strategic (36%)	Customer (9%)	Talent (9%)	
Measures	<ul style="list-style-type: none"> IFRS profit and EVOP Long-term growth Balance sheet management 	<ul style="list-style-type: none"> Delivery of 2010 plan Focus on the needs of our Retail customers Growth of SLI Reducing unrewarded risk 	<ul style="list-style-type: none"> Customer driven culture Reposition and strengthen the SL brand Enhance profile with key stakeholders 	<ul style="list-style-type: none"> Embed strategic vision across SL Group Put in place powerful leadership team Attract and retain key talent 	<ul style="list-style-type: none"> Personal scorecards Behaviours against our leadership model and personal development
Performance	Profits and balance sheet management were significantly ahead of stretch targets. Long-term growth based on net flows was behind plan although up 11% on 2009's performance.	Strong progress against the 2010 strategic deliverables particularly in continued development of investment business and in implementation of new operating model across the Group.	High levels of performance achieved against targets that enabled refreshed brand and initiatives to be launched in early 2011.	Excellent progress in embedding leadership principles within the Group, including increasing the focus on making performance matter and in developing the top talent within the business.	Robust and solid individual leadership performance measured against a set of measurable and specific targets.

Based on performance against each of the four elements, the Remuneration Committee approved a rating of 4.4 out of 5 for performance against the Group scorecard during 2010.

Notes:

- The rating of 4.4 is based on a scale of 1 to 5 with 5 reflecting maximum performance, 3 on target and 1 unsatisfactory
- Your can find out more about our financial KPIs in Section 1.1 of the Business review
- Before approving the level of performance in 2010, the Remuneration Committee sought the views of the Risk and Capital Committee on the level of underlying risk within the business.

The table below shows the awards approved by the Remuneration Committee for 2010. This includes:

- The total bonuses earned for performance in 2010, part of which is awarded as shares in Standard Life plc (deferred bonus) and which is subject to forfeiture if the executive resigns, or is dismissed, during the two year vesting period.
- Recommendations made by the Standard Life Investments relating to Keith Skeoch's payments under Standard Life Investments bonus plans were approved by the Remuneration Committee. His Standard Life Investments awards reflect Standard Life Investments' very strong performance in 2010, which continued to build the momentum of previous years' investment performance and sales with IFRS operating profit before tax increasing by 41% to £103m.

	Group cash bonus	Group deferred bonus ¹	Standard Life Investments' cash bonuses	Total Bonuses ²
David Nish	£618,063	£436,812	-	£1,054,875
Keith Skeoch	£160,225	£53,975	£1,184,688	£1,398,888
Jackie Hunt ³	£224,236	£143,226	-	£367,462

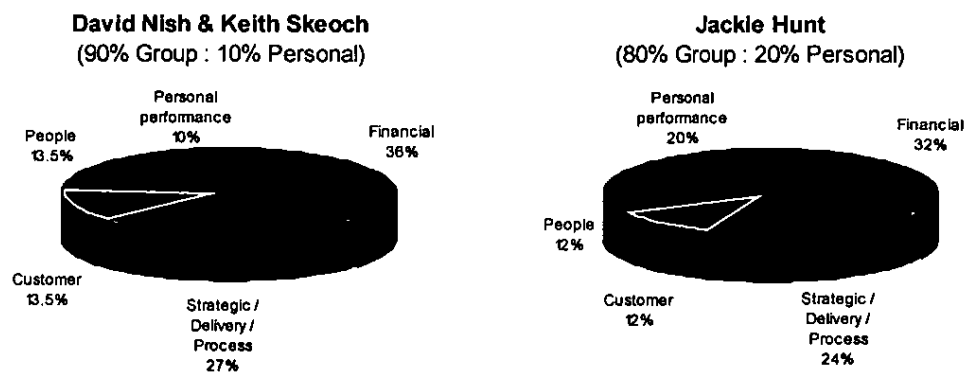
¹ Half of awards over 25% of salary at 31 December 2010 are deferred into Standard Life plc shares which vest in March 2013, subject to the amount being deferred being at least 10% of salary.

² Annual bonus payments do not qualify for pension or incentive scheme purposes.

³ For period from 14 May 2010 to 31 December 2010.

2011: As in 2010, the annual bonus will use performance scorecards to measure Group and personal performance. The Remuneration Committee approved measures that are consistent with the Group's short-term aims and which support our long-term strategy. Group performance will be defined by the Chief Executive's scorecard across the four headings below. Personal performance will be defined by the individual's scorecard and behaviours against the Group's leadership framework.

Overall the weighting of the targets under the Group annual bonus for executive Directors are shown in the chart opposite:



Our continued focus on the activities which support the delivery of our strategy is reflected in the weighting of each key element of performance.

In determining the level of awards under the plan, the Remuneration Committee may reduce any bonus payable by an appropriate factor where it considers that risk has not been managed appropriately. The Risk and Capital Committee will be asked for advice when considering any reductions.

The table below shows the target and maximum annual bonuses (expressed as a percentage of salary) that can be earned in respect of 2011's Group performance:

	Target	Maximum
David Nish	75%	175%
Keith Skeoch	30%	60%
Jackie Hunt	65%	150%

Bonus deferral, claw-back and risk: The Remuneration Committee supports the principle that the payment of some of the annual bonus should be deferred and paid in Standard Life plc shares. For executive Directors and members of the Executive team in 2011, half of any Group bonus above 25% of salary will be deferred for two years from the date of award. This is subject to the deferred amount being at least 10% of salary.

In addition, both the cash and deferred elements are subject to claw-back for a period of two years from the date of award where information is later proven to be inaccurate or misleading as a result of the executive's actions, or if the Company's financial statement is restated.

Standard Life Investments' bonuses: As well as participating in the Group annual bonus, Keith Skeoch will continue to take part in two Standard Life Investments' discretionary annual cash bonus plans:

- Personal bonus plan – rewards personal performance and is capped at 105% of salary
- Standard Life Investments' company bonus plan – rewards participants based on Standard Life Investments' corporate and investment performance. Consistent with fund management practice the amount of company bonus pool is determined by reference to Standard Life Investments' profit performance and having regard to the total remuneration spend. As such Keith Skeoch could expect to receive a company bonus equal to 200% of salary if Standard Life Investments met its stretch targets. In the event that these stretch targets are exceeded, a higher company bonus could be awarded by the Committee provided that it is in line with its principles on total remuneration.

The determination of annual bonuses at Standard Life Investments is subject to two levels of control. Firstly, Standard Life Investments' board reviews Standard Life Investments' financial results, and after taking into account the level of overall performance and risk, proposes the level of bonus payments. This is then referred to the Remuneration Committee which reviews these recommendations and determines the bonuses to be paid to the most senior executives within Standard Life Investments.

Group Long-Term Incentive Plan (LTIP)

LTIP awards granted in 2007 to 2009 were subject to RoEV performance over a three-year performance period. In 2010, after consulting with key investors and shareholder representative bodies, the Remuneration Committee approved the use of IFRS operating profit (excluding joint ventures) before tax as the measure under the 2010 and future LTIP awards. This is to align executives' long-term rewards with the Group's strategy to deliver sustainable IFRS profits growth and also to ensure that the awards are not pulling in different directions from the revised strategy.

Joint ventures were excluded because Standard Life does not hold a majority stake in these and so has no active executive presence in their day-to-day management. Their results can also be more volatile. As a result, the Remuneration Committee feels it is more appropriate for joint venture performance to be recognised in the Chief Executive and Chief Executive International's scorecards which determine the level of their annual bonus.

The Remuneration Committee also approved:

- The use of an IFRS performance measure for the remaining two years of the 2009 award (2010 and 2011) in order to align the measure with the revised strategy, with RoEV performance only being used for the first year (2009). The relative Total Shareholder Return (TSR) multiplier still applies to the whole 2009 award.
- The introduction of two underpins when assessing IFRS performance. The first requires the Risk and Capital Committee to be satisfied that performance obtained has been achieved within defined risk parameters. The second requires the Remuneration Committee to be satisfied that IFRS performance reflects overall Company performance.

2008 award: The 2008 award was subject to RoEV performance over the three years to 31 December 2010. Actual performance (10.02%) was below the threshold level (10.67%), so none of the award will vest and all shares will lapse.

2009 award: As noted above, the 2009 award was originally subject to RoEV performance over the three years to 31 December 2011. The Remuneration Committee agreed that a consistent measure of performance (IFRS operating profits) should be used from 2010 onwards. As such the 2009 award is now based on IFRS operating performance in 2011 for the last two years of the performance period (2010 and 2011), with RoEV performance continuing to be used for the first year of the performance period (2009).

The relative TSR multiplier continues to apply to the whole award, with the vesting determined as follows:

One third on RoEV performance for the 12 months to 31 December 2009 against the following range:		plus	Two thirds on IFRS operating profits before tax (excluding joint ventures) in 2011:	
2009 RoEV performance level	Level of vesting before applying TSR multiplier ^{1,2}		2011 IFRS performance level	Level of vesting before applying TSR multiplier ^{1,2}
Threshold	16%		Threshold	0%
Target	40%		Target	40%
Maximum	80%		Maximum	80%
¹ Vesting being on a straight-line basis between these points.			¹ Vesting between threshold and maximum levels will be on an incremental basis using predetermined milestones which will be disclosed on a retrospective basis in the 2011 Directors' Remuneration Report.	
² Expressed as a percentage of the award.			² Expressed as a percentage of the award.	

multiplied by

Relative TSR performance against the following range, with the multiplier being set on a straight-line basis between these points:		
Relative TSR performance	Relative TSR v FTSE 100	Multiplier ¹
Threshold	3% or more below FTSE 100	0.85
Target	equal to FTSE 100	1.00
Maximum	6% or more above FTSE 100	1.25
¹ Standard Life's TSR performance to 31 December 2010 (TSR of -0.5%) was more than 3% below the FTSE 100's performance (TSR of 48.66%) and would result in a multiplier of 0.85 if this remained the case at the end of 2011.		

2010 award: The level to which the awards will vest will be subject to the level of IFRS operating profits (excluding joint ventures) before tax in 2012:

Performance	2012 IFRS operating profit before tax (excluding JVs)	Proportion vesting (% of total award) ¹
Threshold	£400m	0%
Maximum	£600m	100%

¹ Vesting between threshold and maximum levels will be on an incremental basis using predetermined milestones. These will be disclosed on a retrospective basis in the 2012 Directors' remuneration report.

The maximum annual award possible under the plan is equivalent to 200% of salary. This level of award was made to David Nish and Keith Skeoch on 25 June 2010. Jackie Hunt received an award equivalent to 125% of salary on 25 June 2010.

	Number of shares subject to the award	Face value as a % of salary at date of award
David Nish	778,983	200%
Keith Skeoch	376,061	200%
Jackie Hunt	318,980	125%

2011 award: The Remuneration Committee approved the use of 2013 IFRS operating profit (excluding joint ventures) before tax against the following range as the core measure.

Performance	2013 IFRS operating profit before tax (excluding JVs)	Proportion vesting (% of total award) ¹
Threshold	£650m	0%
Maximum	£800m	100%

¹ Vesting between threshold and maximum levels will be on an incremental basis using predetermined milestones. These will be disclosed on a retrospective basis in the 2013 Directors' remuneration report.

The maximum annual award possible remains equivalent to 200% of salary. This level of award will be made to David Nish and Keith Skeoch. Jackie Hunt will receive an award equivalent to 125% of salary. The Committee also approved an additional underpin for the 2011 and future awards, which means that if an executive performs at an unsatisfactory level in any year during the three-year performance period, their original award would be reduced by one-third, unless the Chief Executive, or the Remuneration Committee, in the case of the Chief Executive recommends otherwise.

The Remuneration Committee also approved the introduction of a claw-back clause. This allows the Committee to ask for awards to be repaid for up to two years from the date they vest, where misconduct by the executive during the performance period is subsequently discovered, or if the Company's financial statement for 2013 is restated.

Standard Life Investments' Long-Term Investment Plan (SLI LTIP) awards

In 2010 the Remuneration Committee and shareholders approved a change of measures for the Standard Life Investments LTIP. This allowed awards to be made using newly issued Standard Life plc shares and for the Chief Executive Standard Life Investments (Keith Skeoch) to participate. Under the plan:

- Awards will only begin to vest if Standard Life Investments' investment performance is above the lower quartile of the money-weighted average of all assets under management (both captive and third party assets) compared to other asset managers. Investment performance is based on the three-year money-weighted average investment performance of Standard Life Investments against relevant benchmarks. It is measured over a blended and fixed set of time frames that go back as far as 10 years.
- The level of vesting, subject to the above hurdle being satisfied, will be based on consolidated cumulative three-year third party EBIT performance as shown in the table below.

Performance	Consolidated cumulative third party EBIT	% of target award of shares that vest ¹
Threshold	60% of target	0%
Maximum	140% of target	200%

¹ Vesting takes place on a straight-line basis between 60% of target third party EBIT and 140% of target third party EBIT.

The Remuneration Committee recognises that the 60% to 140% range is wide. It was designed this way following lengthy consultation with key shareholders and shareholder representative bodies. The range width helps to ensure the scheme is sustainable through the three-year performance period, is able to handle wide variations in revenue driven by varying market levels and is consistent with the risk management controls. The Remuneration Committee believes that a wide performance window is appropriate for this type of business.

Before any part of an award can vest, the Group's Risk and Capital Committee will need to verify to the Group's Remuneration Committee that the level of vesting was not as a result of behaviour that has exposed the Group to undue risk. If the Group's Risk and Capital Committee determines that the Group has been exposed to undue risk, the Remuneration Committee will take this into account when determining the level of vesting.

The Committee believes that a mixture of investment performance and third party EBIT, combined with a risk underpin are the most appropriate measures for Standard Life Investments.

2008 SLI LTIP award: Before 2009, Standard Life Investments operated a cash-based LTIP. Keith Skeoch participated in this in his capacity as Chief Executive Standard Life Investments. This award will vest at nil in April 2011. No further awards were made under the cash-based LTIP and in 2009 Keith Skeoch only received a Group LTIP award.

2010 SLI LTIP award: The EBIT performance and the Investment performance hurdle will be measured over the three years to 31 December 2012. Keith Skeoch received an award under this plan on 16 June 2010 over 383,057 Standard Life plc shares. To provide more clarity on the basis of the award this was defined as equivalent to 200% of salary (at maximum vesting), rather than an allocation from a pool which is more typical in the investment sector. No other executive Directors received an award under the Standard Life Investments LTIP.

2011 SLI LTIP award: The Remuneration Committee approved the same performance measures used for the 2010 award with EBIT performance and the investment performance hurdle being measured over the three years to 31 December 2013. Keith Skeoch will receive an award equivalent to 200% of salary (at maximum vesting) over Standard Life plc shares. No other executive Directors will receive an award under the Standard Life Investments LTIP.

Voluntary share ownership guidelines

Standard Life has adopted a set of share ownership guidelines because we believe that our executives, and the Chairman, should be encouraged to hold a substantial element of their personal wealth in Standard Life shares. This aligns their interests with those of shareholders. The targets should be achieved within five years of their appointment as an executive director (10 July 2006 for those in role at the time of flotation) or within four years in the case of the Chairman.

Executive Directors are expected to build up a holding of shares by keeping any shares they or their family members acquire, plus at least half the shares acquired under the LTIP and from deferred bonuses on an after-tax basis, until the target has been met. The Remuneration Committee considered the recommendations on directors' shareholdings within the Walker Report and FSA Code on Remuneration at its December 2010 meeting and agreed to maintain the current guidelines.

On 31 December 2010, the executive Directors' and Chairman's share ownership against the guidelines were:

	Share ownership guidelines as a % of salary/fee	Target date for meeting the guideline	Actual share ownership as a % of salary/fee at 31/12/2010 ¹	Guideline already met?	Unvested LTIP awards as a % of salary/fee at 31 December 2010 ²	Unvested deferred bonus awards as a % of salary/fee at 31 December 2010 ³
Gerry Grimstone	100%	29 May 2011	146%	Yes	-	-
David Nish ⁴	150%	31 December 2014	126%	No	428%	24%
Keith Skeoch	100%	10 July 2011	324%	Yes	665%	3%
Jackie Hunt	100%	27 April 2015	6%	No	223%	19%

¹ Reflects closing price on 31 December 2010 of 216.0p.

² Based on the maximum value of unvested LTIP as at 31 December 2010 and including the shares equivalent dividends announced between November 2008 and November 2010. The future value will depend on the level at which the awards vest and the share price at the time.

³ Based on the maximum value of deferred bonus awards from the 2009 bonus as at 31 December 2010. These will vest in March 2012 subject to continued employment and claw-back provisions. The actual future value will depend on the level at which the awards vest and the share price at the time.

⁴ David Nish is also required to achieve share ownership equivalent to 100% of salary by 1 November 2011 based on his date of appointment to the Board as Finance Director and at 31 December 2010 had achieved this target.

Directors' interests in shares: The following table shows the actual number of shares held by all the Directors:

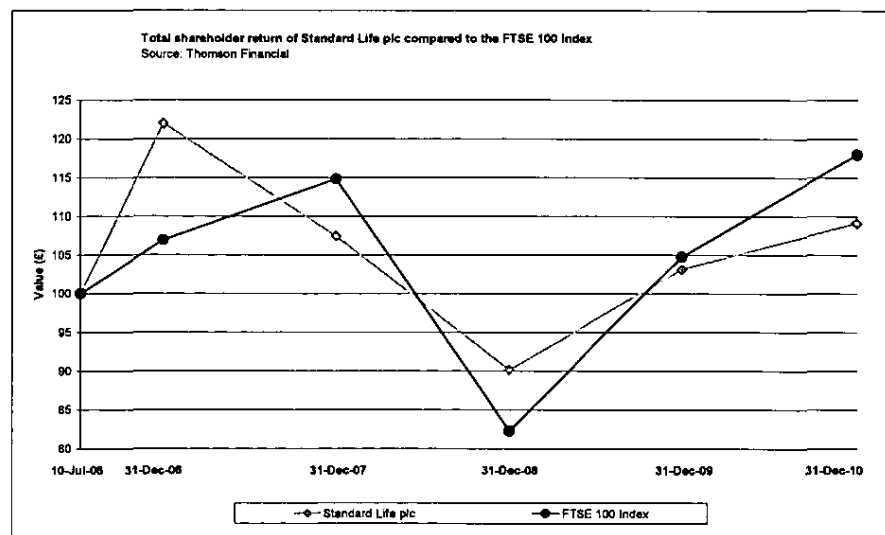
	Total number of shares owned at 01/01/2010	Shares acquired/(sold) by the Director during the period	Total number of shares owned at 31/12/2010	Shares acquired/(sold) by the Director during the period 31/12/2010 to 05/03/2011 ¹
Executive Directors				
David Nish	186,829	237,060	423,889	130
Keith Skeoch	483,624	154,235	637,859	129
Jackie Hunt	13,284 ²	-	13,284	-
Non-executive Directors				
Kent Atkinson	3,891	238	4,129	-
Lord Blackwell	6,047	370	6,417	-
Colin Buchan	4,005	25,245	29,250	-
Crawford Gillies	34,689	12,332	47,021	-
Gerry Grimstone	150,545	85,619	236,164	-
Baroness McDonagh	2,133	130	2,263	-
David Grigson	1,665	13,335	15,000	-
Sheelagh Whittaker	10,000	611	10,611	-

¹ Acquired under the Standard Life (Employee) Share Plan in January and February 2011.

² Based on her holding at the time of her appointment as Chief Financial Officer on 14 May 2010.

Other pay and share matters

Performance graph: This graph shows the difference between investing £100 in Standard Life plc and the FTSE 100 on 10 July 2006 (the first day of trading for Standard Life plc shares) and 31 December 2010. The FTSE 100 has been chosen as the comparator index because Standard Life is a member of this FTSE grouping.



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 2010, 75% of our employees were Standard Life shareholders. We promote employee share ownership with a range of initiatives:

- The Standard Life (Employee) Share Plan which allows employees to buy shares directly from their earnings. On 31 December 2010, 65% of eligible employees in the UK were making a monthly average contribution of £43. A similar tax-approved plan is used in Ireland and has a 49% take-up. Even though the plan cannot be structured on a tax-favourable basis in Canada, Germany and Austria, more than 700 employees in these countries are buying shares each month.
- A Group-wide free share plan which means that employees can receive extra shares if Group performance targets are outperformed. The last award under this plan was in 2008.

Shareholders will be asked at this year's AGM to adopt a new Sharesave Plan. There is more information about this in the 2011 AGM guide. Initially the Sharesave Plan will be for employees who are UK resident tax payers but over time we will look at rolling it out more widely, subject to local tax and regulatory rules.

Share dilution limits: The LTIPs and the Standard Life (Employee) Share Plan contain dilution limits that comply with the guidelines produced by the Association of British Insurers (ABI). On 31 December 2010, the Company's standing against these dilution limits was:

- 1.72% against 5% in any 10 years under all executive share plans (Group LTIP and 2010 Standard Life Investments LTIP)
- 1.92% against 10% in any 10 years under all share plans (Group LTIP, Standard Life (Employee) Share Plan and 2010 Standard Life Investments LTIP awards)

As is normal practice, there are employee trusts that operate in conjunction with the LTIPs and Standard Life (Employee) Share Plan. On 31 December 2010, the number of unallocated shares held within these trusts was 61,168 in respect of the Standard Life (Employee) Share Plan. In addition, the trust held 12,209,946 shares acquired to satisfy the 2010 deferred bonus awards and the 2009 Standard Life Investments LTIP awards. This is comfortably less than the 5% best practice limit endorsed by the ABI.

Policy on executive contracts

Executive Directors: Executive Directors' terms and conditions of employment are detailed in individuals' contracts. In these contracts, the Remuneration Committee aims to strike the right balance between the Company's interests and those of the executive Directors, while ensuring that they comply with best practice, legislation and the remuneration principles. Contracts are not for a fixed term, but set out notice periods in line with the executive's role. The main terms are:

Provision	Policy
Notice periods	Six months by the Director 12 months by the Company or a payment in lieu of notice can be made
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 over six 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. Individuals are notified of these discretionary schemes at the beginning of each year
Non-compete clause	Applies during the contract and for up to six months after leaving at the Company's choice
Contract dates	David Nish 31 October 2006 ¹ Keith Skeoch 3 April 2006 Jackie Hunt 27 April 2010 ²

¹ David Nish signed a new contract in October 2009, reflecting his appointment to Chief Executive from 1 January 2010.

² Jackie Hunt signed a contract in April 2010, reflecting her appointment to Chief Financial Officer on 14 May 2010.

Executive Directors 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 and can retain any fees paid for these services. Executive appointments held during the year are shown below:

Executive Director	Role and organisation	2010 fees
David Nish	Non-executive Director and Chairman of the Audit Committee of Northern Foods plc	£46,500
	Board member of Association of British Insurers	n/a
Keith Skeoch	Board member and Chairman of the Investment Committee of the Association of British Insurers to September 2010	n/a
	Director of Investment Management Association	n/a
	Member of the Advisory Board of Reform Scotland	n/a

Note: Jackie Hunt holds no external appointments.

Fees and appointment of non-executive Directors: The non-executive Directors, including the Chairman, have letters of appointment that 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 requires re-election by shareholders in line with the Company's articles of association and the UK Corporate Governance Code
Time commitment	Two to three days per week for the Chairman For other non-executive Directors – 30 to 35 days a year
Notice periods (apply to both the Company and the non-executive Director)	Gerry Grimstone – six months Kent Atkinson, Lord Blackwell, Colin Buchan, Crawford Gillies, David Grigson, Baroness McDonagh and Sheelagh Whittaker – 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, and private medical cover No pension, annual bonus or other incentive payment permitted
Dates of letters of appointment	Gerry Grimstone 6 June 2003 ¹ as Director and 28 February 2007 as Chairman (continuation 27 May 2010) Kent Atkinson 1 February 2005 ¹ (continuation 30 March 2009) Lord Blackwell 6 June 2003 ^{1,2} (continuation 30 March 2009) Colin Buchan 27 November 2007 (continuation 25 January 2011) Crawford Gillies 7 December 2006 (continuation 11 January 2010) David Grigson 26 October 2009 Baroness McDonagh 27 February 2007 (continuation 15 February 2010) Sheelagh Whittaker 23 June 2009

¹ Initially appointed as a Director of The Standard Life Assurance Company and appointment as a Director of Standard Life plc effective from 30 March 2006.

² Appointed as Senior Independent Director effective from 19 May 2008.

Our policy on non-executive Directors' fees: It is Standard Life's policy to set the fees for our Chairman and the other non-executive Directors so that they reflect the time commitment in preparing for and attending meetings, the responsibility and duties of the position and the contribution that is expected from them. Our policy is to pay a market rate and we refer to the level of fees paid to other non-executive Directors of FTSE 100 financial services companies.

The Board sets the fees for the Chairman and the other non-executive Directors annually. For the Chairman this is based on a recommendation from the Remuneration Committee and Chief Executive. For the other non-executive Directors it is based on a recommendation from the Chief Executive. The annual fee levels for non-executive Directors were reviewed by the Board in January 2011 and have not changed.

	2011 ¹	2010
Chairman's fee ²	£350,000	£350,000
Non-executive Director core fee ³	£70,000	£70,000
Additional fees are:		
Senior Independent Director	£15,000	£15,000
Chairman of Audit and Compliance Committee	£25,000	£25,000
Chairman of Risk and Capital Committee	£25,000	£25,000
Chairman of Remuneration Committee	£25,000	£25,000
Chairman of Investment Committee and Standard Life Investments	£25,000	£25,000

¹ The core fee of £70,000 paid to each non-executive Director (including the Chairman) will total £560,000 for 2011. This is within the maximum £1m permitted under Article 87 of Standard Life plc's articles of association. Total fees including additional duties are expected to amount to £955,000 for 2011.

² The Chairman's fee is inclusive of the non-executive Directors core fee of £70,000 and no additional fees are paid to the Chairman where he chairs, or is a member of, other committees/boards.

³ For non-executive Directors, individual fees are constructed by taking a base fee and adding extra fees for chairing committees and subsidiaries where a greater responsibility and time commitment is required.

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 2010, the Directors contributed £1,297,034 (2009: £10,801,167) to products sold by the Group.

Directors' remuneration for 2010 (audited)

The following three tables disclose details of Directors' remuneration. These have been audited by PricewaterhouseCoopers LLP.

1. Directors' remuneration, excluding LTIP and pension information

The following table shows a breakdown of the various elements of remuneration paid or payable to the Directors for the year ended 31 December 2010.

	Base salary/ fees ¹	Pension allowance	Taxable benefits ²	Annual bonus ³	Total 2010	Total 2009
	£000	£000	£000	£000	£000	£000
Executive Directors						
David Nish	720	179	17	1,055	1,971	1,190
Keith Skeoch	369	92	12	1,399	1,872	2,102
Jackie Hunt ⁴	302	75	22	367	766	-
Non-executive Directors⁵						
Kent Atkinson	95	-	-	-	95	85
Lord Blackwell	110	-	-	-	110	91
Colin Buchan	95	-	-	-	95	76
Crawford Gillies	95	-	-	-	95	75
Gerry Grimstone	350	-	12	-	362	342
Baroness McDonagh	70	-	-	-	70	60
David Grigson ⁶	70	-	-	-	70	10
Sheelagh Whittaker ⁶	70	-	-	-	70	20
Former Directors						
Sir Sandy Crombie ⁷	-	-	-	-	-	1,764
Jocelyn Proteau ⁸	-	-	-	-	-	28
Total	2,346	346	63	2,821	5,576	5,843

¹ Figures reflect salaries earned during 2010.

² Figures include car allowance and private health cover. David Nish and Keith Skeoch also received reimbursements for professional fees.

³ Bonuses reflect the cash and deferred element for 2010 performance.

⁴ Jackie Hunt's figures reflect her earnings from 14 May 2010 when she was appointed as Chief Financial Officer. Note that as part of her appointment as Deputy Group Finance Director in January 2009, she received relocation/subsistence support to 31 July 2010 and the above benefits figure includes £12,337 reflecting the amount paid between 14 May 2010 and 31 July 2010 when this support ended.

⁵ Non executive Directors' fees include the £70,000 core fee and additional fees for chairing committees/subsidiaries:

- Kent Atkinson's includes £25,000 as Chairman of the Audit and Compliance Committee
- Lord Blackwell's includes £25,000 as Chairman of Standard Life Assurance Limited to 31/03/10 and Chairman of the Risk and Capital Committee from 01/04/10; and £15,000 as Senior Independent Director
- Colin Buchan's includes £25,000 as Chairman of Standard Life Investments and Chairman of the Investment Committee
- Crawford Gillies's includes £25,000 as Chairman of the Remuneration Committee
- Gerry Grimstone received an allowance of £12,000 towards his business related accommodation costs in Edinburgh in addition to his Chairman's fee

⁶ David Grigson and Sheelagh Whittaker were appointed during 2009.

⁷ Sir Sandy Crombie stepped down as a Director of the Company on 31 December 2009, but remained an employee until 30 April 2010 in order to hand over responsibilities to David Nish. As outlined in last year's report, he received base salary, pension allowance, benefits and bonus award for this period but did not receive a 2010 LTIP award.

⁸ Jocelyn Proteau retired as a non-executive Director in May 2009 and did not receive any further payments in 2010.

2. Directors' pension information

The following table sets out accrued benefits held in the final salary scheme by Keith Skeoch. David Nish and Jackie Hunt are not members of this scheme.

	Accrued entitlement at 31/12/2009 £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	Transfers out of accrued entitlement £000	Accrued entitlement at 31/12/2010 £000
Keith Skeoch ¹	41	2	-	5	-	43

¹ The £2k increase in accrued pension reflects the increase in base pay over the 12 months to 31 December 2010.

	Age at 31/12/2010	Years of pensionable service at 31/12/2010	Transfer value of pension at 31/12/2009 £000	Increase in transfer value £000	Transfers out £000	Transfer value of pension at 31/12/2010 ² £000
Keith Skeoch ¹	54	7	660	78	-	738

¹ 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 this table, but appears in the Directors' remuneration table above.

² The figures at 31 December 2010 reflect a change to the method, and assumptions used by the Trustees to calculate transfer values. This resulted from a change to the reference index used to calculate members' future pension entitlement (before and after retirement) with effect from 1 January 2011. This will now be based on the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

3. Directors' interests in share-based Long-Term Incentive Plans

The following table sets out awards made under the Group and Standard Life Investments LTIPs. Awards are subject to vesting conditions that are based on continuous employment and on satisfying corporate performance targets over the performance period.

Award Dates		Number of shares						Value of shares			
Original award	Expected first date of exercise	Original award	Awarded during year	Shares in lieu of rolled-up dividends to Dec 2010 ¹		Lapsed during year ³	At end of year	Share price at award date ⁴	Share price on exercise date	Actual date of exercise	Total value on exercise date
				Exercised during year ²							
David Nish											
01/05/07	17/03/10	150,831	-	-	74,917	75,914	-	£3.2155	£2.0665	18/03/10	£154,816
21/04/08 ⁵	21/04/11	255,411	-	38,605	-	-	294,016	£2.4715	-	-	-
20/04/09	20/04/12	319,636	-	26,766	-	-	346,402	£1.8478	-	-	-
25/06/10	25/06/13	-	778,983	16,259	-	-	795,242	£1.8614	-	-	-
		725,878	778,983	81,630	74,917	75,914	1,435,660				
Keith Skeoch											
01/05/07	17/03/10	87,078	-	-	43,251	43,827	-	£3.2155	£2.0595	22/03/10	£89,075
21/04/08 ⁵	21/04/11	141,614	-	21,405	-	-	163,019	£2.4715	-	-	-
20/04/09	20/04/12	340,945	-	28,551	-	-	369,496	£1.8478	-	-	-
16/06/10 ⁶	16/06/13	-	383,057	7,995	-	-	391,052	£1.8274	-	-	-
25/06/10	25/06/13	-	376,061	7,849	-	-	383,910	£1.8614	-	-	-
		569,637	759,118	65,800	43,251	43,827	1,307,477				
Jackie Hunt⁷											
20/04/09	20/04/12	152,695	-	12,786	-	-	165,481	£1.8478	-	-	-
25/06/10	25/06/13	-	318,980	6,658	-	-	325,638	£1.8614	-	-	-
		152,695	318,980	19,444	-	-	491,119				

¹ The Remuneration Committee has invoked the power within the LTIP rules in relation to 2008, 2009 and 2010 awards for the awards to carry a right to receive rolled-up dividends, but only to the extent that the awards vest. As such, these awards include shares equivalent to the level of dividends announced between November 2008 and November 2010.

² Sir Sandy Cromble exercised his 2007 LTIP award on 17 March 2010 at a price of £2.0840. This resulted in a value at exercise of £411,246 for his 197,335 shares (49.67% of his award).

³ The lapsed awards reflect the unvested element of the 2007 award (50.33%) which vested in March 2010.

⁴ Based on the average share price for the five dealing days immediately before the awards were granted.

⁵ The 2008 LTIP awards will vest at nil and all awards will lapse in April 2011.

⁶ Keith Skeoch also received an award on 25 June 2010 under the SLI LTIP over Standard Life plc shares based on the average share price for the five dealing days immediately before the award was granted.

⁷ As part of Jackie Hunt's recruitment she was granted two conditional share awards to replace the loss of LTIP awards and deferred shares at her previous employer. The first entitled her to receive 22,556 shares in March 2010 and the second 53,616 shares in March 2011. Both awards were subject to her still being in employment with the Company and not under notice of termination at the date of vesting. The first award vested on 15 March 2010, with a value of £48,337 at the date of exercise (214.3p), the second award will vest in full on 15 March 2011.

The closing market price of the shares at 31 December 2010 was 216p and the range for the year was 173p to 236.1p.

Crawford Gillies, Chairman, Remuneration Committee, Approved on behalf of the Board of Directors, 10 March 2011

Page intentionally left blank

Independent auditors' report to the members of Standard Life plc

We have audited the consolidated financial statements of Standard Life plc (the Group) for the year ended 31 December 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 56, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the consolidated financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended
- Have been properly prepared in accordance with IFRSs as adopted by the European Union
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements
- The information given in the Corporate governance statement set out on page 67 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 57, in relation to going concern
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review
- Certain elements of the report to shareholders by the Board on Directors' remuneration

Other matter

We have reported separately on the Company financial statements of Standard Life plc for the year ended 31 December 2010 and on the information in the Directors' remuneration report that is described as having been audited.

Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
10 March 2011

- (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 2010

	Notes	2010* £m	Restated 2009* £m
Revenue			
Gross earned premium		3,244	3,296
Premium ceded to reinsurers		(94)	(95)
Net earned premium		3,150	3,201
Net investment return	2	14,570	13,171
Fee and commission income	3	752	666
Other income		97	129
Total net revenue		18,569	17,167
Expenses			
Claims and benefits paid		5,513	5,821
Claim recoveries from reinsurers		(619)	(623)
Net insurance benefits and claims		4,894	5,198
Change in reinsurance assets	33	97	(942)
Change in insurance and participating liabilities	33	2,181	918
Change in investment contract liabilities	33	7,740	9,088
Change in unallocated divisible surplus	34	(22)	(21)
Expenses under arrangements with reinsurers	4	569	563
Administrative expenses			
Restructuring and corporate transaction expenses	8	72	59
Other administrative expenses	5	1,535	1,427
Total administrative expenses		1,607	1,486
Change in liability for third party interest in consolidated funds	31	443	323
Finance costs		113	115
Total expenses		17,622	16,728
Share of profit/(loss) from associates and joint ventures	16	24	(29)
Profit before tax		971	410
Tax expense attributable to policyholders' returns	9	400	299
Profit before tax attributable to equity holders' profits		571	111
Total tax expense		498	279
Less: Tax attributable to policyholders' returns		(400)	(299)
Tax expense/(credit) attributable to equity holders' profits	9	98	(20)
Profit for the year from continuing operations		473	131
Profit for the year from discontinued operations	10	20	49
Profit for the year		493	180
Attributable to:			
Equity holders of Standard Life plc		432	213
Non-controlling interests	31	61	(33)
		493	180
Earnings per share from continuing operations			
Basic (pence per share)	11	18.4	7.5
Diluted (pence per share)	11	18.3	7.5

* The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation. The presentation of the 2009 comparatives in certain primary statements and in the corresponding notes has been reclassified accordingly, as indicated. The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 and was classified as a discontinued operation for the year ended 31 December 2009.

The Notes on pages 95 to 204 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income For the year ended 31 December 2010

	Notes	2010 £m	Restated 2009 £m
Profit for the year		493	180
Less: Profit from discontinued operations	10	(20)	(49)
Profit from continuing operations		473	131
Fair value (losses)/gains on cash flow hedges		(2)	1
Actuarial gains/(losses) on defined benefit pension schemes	38	184	(77)
Revaluation of land and buildings	18	(14)	(16)
Net investment hedge	30	(39)	(12)
Exchange differences on translating foreign operations	30	122	(65)
Equity movements transferred to unallocated divisible surplus	34	(2)	104
Aggregate equity holder tax effect of items recognised in comprehensive income	9	(60)	28
Other comprehensive income/(expense) for the year from continuing operations		189	(37)
Total comprehensive income for the year from continuing operations		662	94
Profit from discontinued operations	10	20	49
Other comprehensive income from discontinued operations	10	24	8
Total comprehensive income for the year from discontinued operations		44	57
Total comprehensive income for the year		706	151
Attributable to:			
Equity holders of Standard Life plc			
From continuing operations		601	127
From discontinued operations		44	57
Non-controlling interests			
From continuing operations		61	(33)
		706	151

The Notes on pages 95 to 204 are an integral part of these consolidated financial statements.

Pro forma reconciliation of consolidated operating profit to profit for the year
For the year ended 31 December 2010

	Notes	2010* £m	2009* £m
Operating profit before tax from continuing operations			
UK		234	222
Canada		110	113
International		15	23
Global investment management		103	73
Other		(37)	(32)
Operating profit before tax from continuing operations		425	399
Adjusted for the following items:			
Short-term fluctuations in investment return and economic assumption changes	12	127	(214)
Restructuring and corporate transaction expenses	8	(71)	(52)
Impairment of intangible assets		-	(2)
Impairment of investments in associates		(1)	-
Other operating profit adjustments	12	30	13
Non-operating profit/(loss) before tax from continuing operations		85	(255)
Profit/(loss) attributable to non-controlling interests		61	(33)
Profit before tax attributable to equity holders' profits		571	111
Tax (expense)/credit attributable to:			
Operating profit		(89)	(34)
Adjusted items		(9)	54
Total tax (expense)/credit attributable to equity holders' profits		(98)	20
Profit for the year from continuing operations		473	131
Profit for the year from discontinued operations		10	49
Profit for the year		493	180

* The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and the Group's banking business, Standard Life Bank plc, was sold on 1 January 2010. Both businesses have been classified as discontinued operations. The analysis of operating profit presented for the years ended 31 December 2010 and 31 December 2009 include continuing operations only.

Operating profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes. It is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities, are excluded from operating profit and are presented within profit before tax. The impact of certain changes in economic assumptions is also excluded from operating profit and is presented within profit before tax.

Adjustment is made for restructuring costs and significant corporate transaction expenses. Operating profit is also adjusted for impairment of intangible assets and profit or loss arising on the disposal of a subsidiary, joint venture or associate. Other operating profit adjustments include volatility arising from changes in insurance and investment contract liabilities driven by corresponding changes in tax provisions, and items which are one-off in nature and outside the control of management and which, due to their size or nature, are not indicative of the long-term operating performance of the Group.

The Directors believe that, by eliminating this volatility from equity holder profit, they are presenting a more meaningful indication of the long-term operating performance of the Group.

Consolidated statement of financial position As at 31 December 2010

	Notes	2010 £m	2009 £m
Assets			
Intangible assets	14	135	106
Deferred acquisition costs	15	881	872
Investments in associates and joint ventures	16	3,087	2,169
Investment property	17	8,410	7,111
Property, plant and equipment	18	164	161
Pension and other post-retirement benefits assets	38	281	-
Deferred tax assets	19	201	330
Reinsurance assets	33	6,962	7,032
Loans	21	3,136	2,769
Derivative financial assets	22	1,343	1,229
Equity securities and interests in pooled investment funds	20	60,307	50,858
Debt securities	20	59,735	55,323
Receivables and other financial assets	23	1,743	1,515
Other assets	24	297	307
Cash and cash equivalents	25	7,434	7,436
Assets of operations classified as held for sale		-	9,395
Total assets		154,116	146,613
Equity			
Share capital	26	228	224
Shares held by trusts	27	(21)	-
Share premium reserve	28	976	888
Retained earnings	29	1,094	685
Other reserves	30	1,626	1,660
Equity attributable to equity holders of Standard Life plc		3,903	3,457
Non-controlling interests	31	335	296
Total equity		4,238	3,753
Liabilities			
Non-participating contract liabilities	33	99,164	85,892
Participating contract liabilities	33	33,474	32,352
Deposits received from reinsurers	32	6,021	6,104
Third party interest in consolidated funds	31	5,454	3,004
Borrowings	36	245	227
Subordinated liabilities	37	1,799	1,832
Pension and other post-retirement benefit provisions	38	71	94
Deferred income	39	382	371
Deferred tax liabilities	19	220	105
Income tax liabilities	19	181	109
Derivative financial liabilities	22	924	797
Other financial liabilities	40	1,826	2,737
Other liabilities	41	117	93
Liabilities of operations classified as held for sale		-	9,143
Total liabilities		149,878	142,860
Total equity and liabilities		154,116	146,613

Approved on behalf of the Board of Directors on 10 March 2011 by the following Directors:



Gerry Grimstone, Chairman



Jackie Hunt, Chief Financial Officer

The Notes on pages 95 to 204 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2010

	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of Standard Life plc £m	Non-controlling interests £m	Total equity £m
2010								
1 January	224	-	888	685	1,660	3,457	296	3,753
Profit for the year	-	-	-	432	-	432	61	493
Other comprehensive income for the year	-	-	-	124	89	213	-	213
Total comprehensive income for the year	-	-	-	556	89	645	61	706
Distributions to equity holders	-	-	-	(273)	(5)	(278)	-	(278)
Issue of share capital other than in cash	4	-	88	-	-	92	-	92
Reserves credit for employee share-based payment schemes	-	-	-	-	18	18	-	18
Transfer to retained earnings for vested employee share-based payment schemes	-	-	-	5	(5)	-	-	-
Shares acquired by employee trusts	-	(35)	-	-	-	(35)	-	(35)
Shares distributed by employee trusts	-	10	-	-	(10)	-	-	-
Transfer between reserves on disposal of subsidiaries	-	-	-	121	(121)	-	-	-
Shares gifted to charity	-	4	-	-	-	4	-	4
Other movements in non-controlling interests in the year	-	-	-	-	-	-	(22)	(22)
31 December	228	(21)	976	1,094	1,626	3,903	335	4,238

	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of Standard Life plc £m	Non-controlling interests £m	Total equity £m
2009								
1 January	218	-	792	774	1,623	3,407	334	3,741
Profit/(loss) for the year	-	-	-	213	-	213	(33)	180
Other comprehensive (expense)/income for the year	-	-	-	(50)	21	(29)	-	(29)
Total comprehensive income/(expense) for the year	-	-	-	163	21	184	(33)	151
Distributions to equity holders	-	-	-	(260)	-	(260)	-	(260)
Issue of share capital other than in cash	6	-	96	-	-	102	-	102
Reserves credit for employee share-based payment schemes	-	-	-	-	24	24	-	24
Transfer to retained earnings for vested employee share-based payment schemes	-	-	-	8	(8)	-	-	-
Other movements in non-controlling interests in the year	-	-	-	-	-	-	(5)	(5)
31 December	224	-	888	685	1,660	3,457	296	3,753

The Notes on pages 95 to 204 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2010

	Notes	2010 £m	Restated 2009 £m
Cash flows from operating activities			
Profit before tax from continuing operations		971	410
Profit before tax from discontinued operations	10	17	93
		988	503
Change in operating assets	44	(15,726)	(11,074)
Change in operating liabilities	44	12,457	8,859
Non-cash and other items	44	240	235
Taxation paid		(262)	(239)
Net cash flows from operating activities		(2,303)	(1,716)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(18)	(13)
Proceeds from sale of property, plant and equipment		2	54
Disposal of subsidiaries net of cash disposed		(1,272)	-
Acquisition of subsidiaries net of cash acquired		(19)	-
Acquisition of investments in associates and joint ventures		(16)	(8)
Dividends received from associates and joint ventures		-	2
Proceeds from sale of intangible assets		1	-
Purchase of intangible assets		(46)	(16)
Net cash flows from investing activities		(1,368)	19
Cash flows from financing activities			
Proceeds from other borrowings		33	11
Repayment of other borrowings		(33)	(19)
Capital flows from non-controlling interests and third party interest in consolidated funds		2,553	960
Distributions paid to non-controlling interests		(56)	(35)
Shares acquired by trusts		(35)	-
Interest paid		(117)	(131)
Ordinary dividends paid	13	(186)	(158)
Net cash flows from financing activities		2,159	628
Net decrease in cash and cash equivalents		(1,512)	(1,069)
Cash and cash equivalents at the beginning of the year	25	8,840	9,951
Effects of exchange rate changes on cash and cash equivalents		2	(42)
Cash and cash equivalents at the end of the year	25	7,330	8,840
Supplemental disclosures on cash flows from operating activities			
Interest paid		-	275
Interest received		2,663	3,003
Dividends received		1,329	1,266
Rental income received on investment properties		605	599

The Notes on pages 95 to 204 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) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the International Financial Reporting Standards Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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

The Group has adopted the following amendments to IFRSs, International Accounting Standards (IASs) and interpretations which are effective from 1 January 2010 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Group's financial statements:

- IFRS 3 *Business Combinations* (revised)
- IAS 27 *Consolidated and Separate Financial Statements* (revised)
- *Improvements to IFRSs 2009*
- Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Transactions*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- IFRIC 17 *Distributions of Non-Cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*

(a)(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 annual accounting periods beginning on or after 1 January 2011 or later periods. The Group has not early adopted the standards, amendments and interpretations described below:

IFRS 9 *Financial Instruments on classification and measurement* (effective for annual periods beginning on or after 1 January 2013)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in other comprehensive income. Financial liabilities that are neither held for trading nor elected to be held at FVTPL are measured at amortised cost. Financial liabilities that are held for trading are measured at FVTPL. The standard has not yet been endorsed by the EU.

Amendment to IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 February 2010)

The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities and the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

Amendment to IAS 24 *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011)

The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

Improvements to IFRSs published in May 2010

The publication amends six standards and one IFRIC.

Disclosures: Transfers of Financial Assets – Amendments to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 July 2011)

The aim of the amendment is to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks. The amendment has not yet been endorsed by the EU.

(a) Basis of preparation *continued*

(a)(ii) Standards, Interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group *continued*

Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 *Income Taxes* (effective for annual periods beginning on or after 1 January 2012)

Currently IAS 12 requires that the measurement of the deferred tax relating to an asset is dependent upon whether it is expected that the carrying amount of the asset will be recovered through use or sale. The amendments introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 *Income taxes – recovery of revalued non-depreciable assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendments have not yet been endorsed by the EU.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective from the beginning of the earliest comparative period presented, for annual periods beginning on or after 1 July 2010)

The interpretation clarifies the accounting treatment in the situation where an entity renegotiates the terms of its debt resulting in the liability being extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the income statement based on the fair value of the equity instruments compared to the carrying amount of the debt.

Amendment to IFRIC 14 *Prepayment of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011)

The amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

(a)(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 year. 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 43
- Fair value determination of investment property and land and buildings – refer to (l), (m) and Notes 17 and 18
- Classification of insurance and investment contracts – refer to (f)
- Insurance contract liabilities – refer to (u), (v), (w), (x) and Note 32
- Pension and other post-retirement provisions – refer to (aa) and Note 38
- Impairment testing – refer to (i), (j), (o), (p) and Note 42

(a)(iv) Change in Group's chosen supplementary measure of IFRS performance

During 2010, the Group adopted operating profit as its main IFRS performance measure in place of IFRS underlying profit (refer to accounting policy (jj)). This performance measure was reported for the first time in the Half Year Results 2010. The Directors consider that this change provides equity holders and other stakeholders with a better understanding of the Group's long-term operating performance by removing the impact of short-term economic volatility. In addition, the change is considered to better reflect the Group's internal management approach while also allowing for greater comparability with others in the industry. The key differences between the previous and the new measure are as follows:

Removal of short-term fluctuations in investment return and economic assumption changes:

- Under the previous method of reporting, short-term fluctuations in investment return were only partly excluded from IFRS underlying profit through an adjustment for the volatility arising on different asset and liability valuation bases.
- Operating profit is calculated based on expected returns on investments backing equity holder funds, with a consistent treatment of the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments and the corresponding impact on liabilities are excluded from operating profit, and are reported within the statutory IFRS profit before tax. The impact of certain changes in economic assumptions is also excluded from operating profit, and is reported within profit before tax.

Other adjustments:

- Volatility arising from changes in insurance and investment contract liabilities caused by changes in tax provisions in the Canadian subsidiary was previously included in IFRS underlying profit. As this item has no overall impact on equity holder profit after tax, it is excluded from operating profit.
- Adjustment is also made for one-off items which are outside the control of management and which, due to their size or nature, are not indicative of the long-term operating performance of the Group. Previously such items would have been included in IFRS underlying profit. In 2010 and 2009, no such one-off items were adjusted in determining operating profit.

The table below presents the effect of the above changes to the Group's chosen measure of IFRS performance for the year ended 31 December 2009:

	Underlying profit 2009 £m	Effect of change of measure £m	Operating profit 2009 £m
Underlying/operating profit before tax from continuing operations			
UK	184	38	222
Canada	(7)	120	113
International	18	5	23
Global investment management	66	7	73
Other	(45)	13	(32)
Underlying/operating profit before tax from continuing operations	216	183	399
Adjusted for the following items:			
Short-term fluctuations in investment return and economic assumption changes	-	(214)	(214)
Volatility arising on different asset and liability valuation bases	(18)	18	-
Restructuring and corporate transaction expenses	(52)	-	(52)
Impairment of intangible assets	(2)	-	(2)
Other operating profit adjustments	-	13	13
Loss attributable to non-controlling interests	(33)	-	(33)
Profit before tax attributable to equity holders' profits	111	-	111
Tax credit/(expense) attributable to underlying/operating profit	3	(37)	(34)
Tax credit attributable to adjusted items	17	37	54
Total tax (expense)/credit attributable to equity holders' profits	20	-	20
Profit for the year from continuing operations	131	-	131
Profit for the year from discontinued operations	49	-	49
Profit for the year	180	-	180

(b) Basis of consolidation

The Group financial statements consolidate the income statements and statements of financial position 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.

(b)(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 acquisition method of accounting for the acquisition of subsidiaries. The consideration transferred in a business combination is measured at fair value at the acquisition date and is calculated as the sum of the acquisition date fair values of the assets transferred, the liabilities incurred and the equity interests issued. Acquisition-related costs are expensed when incurred.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset 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 recognised in the third party interest in consolidated funds line in the consolidated statement of financial position 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 non-controlling interests in equity.

(b) Basis of consolidation *continued*

(b)(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 an associate and joint venture backs policyholder liabilities, including the unallocated divisible surplus, the scope exemption under IAS 28 *Investments in Associates* is applied and that investment is designated as at fair value through profit or loss (FVTPL) in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

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 the 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 the 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* (revised). 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 statements of financial position 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 equity securities 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

The Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed and the way in which key financial information used by the Executive team to review performance is presented.

(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. When a policyholder exercises an option within an investment contract to utilise withdrawal proceeds from the investment contract to secure future benefits which contain significant insurance risk, the related investment contract liability is derecognised and an insurance contract liability is recognised. The withdrawal proceeds which are used to secure the insurance contract are recognised as premium income in accordance with accounting policy (g)(ii). 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

(g)(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).

The fee income associated with non-participating investment contracts is dealt with under policy (g)(iv).

(g)(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.

(g)(iii) Net investment return

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 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 measured at amortised cost, interest income recognised in the income statement is calculated using the effective interest rate method.

Dividend income is recognised in the income statement 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.

(g)(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.

Commissions received or receivable are recognised as revenue on the commencement or renewal date of the related policies. However, when it is probable that 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 on non-participating investment contracts 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

(h)(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.

(h)(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.

(h)(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 is recognised in the income statement.

(h)(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.

(h)(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.

(h)(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 reporting 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

(j)(i) Goodwill

In a business combination, goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held interest, over the fair value of the Group's share of the identifiable assets acquired and the liabilities assumed 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.

(j)(ii) Intangible assets

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

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 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

(k)(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 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.

(k)(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.

(k)(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 and property being constructed or developed for future use as investment property are 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. 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 consist of property occupied by the Group. Land and buildings are recognised initially at cost and subsequently at fair value at the date of revaluation less any subsequent accumulated depreciation. 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. 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.

(m) Property, plant and equipment *continued*

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.

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 reporting date and adjusted if appropriate.

(n) Income tax

The income 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 statement of financial position liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable 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 comprehensive income, in which case it is credited or charged directly to equity through the statement of comprehensive income.

The income tax expense is determined using rates enacted or substantively enacted at the reporting 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 Receivables and other financial assets and are accounted for on a basis consistent with loans (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.

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

Loans 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 include loans secured by mortgages and loans secured on policies.

Loans 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 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 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) Equity securities, debt securities and derivatives

Management determines the classification of equity securities, debt securities and derivatives at initial recognition. The Group has designated its equity securities and debt securities as at fair value through the profit or loss. 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.

(q)(i) Designation as at fair value through profit or loss (FVTPL)

Financial assets and liabilities are designated as 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)(ii).

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 any 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.

(q)(ii) 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
- 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

(q) Equity securities, debt securities and derivatives *continued*

(q)(ii) Hedge accounting *continued*

The Group discontinues hedge accounting in the following circumstances:

- It is evident from effectiveness tests that the hedge is not, or ceased to be, highly effective
- The hedging instrument expires, or is sold, terminated or exercised, or
- The 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 statement of financial position.

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 either frozen until the sale of the hedged item, or in the case of a hedged item for which the effective interest method is used, the adjustment 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 remain in equity until the disposal of the net investment, at which point the amounts are included in the income statement.

(q)(iii) 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, determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(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. Cash and cash equivalents are categorised for measurement purposes as loans and receivables and are therefore measured at amortised cost. For the purposes of the consolidated statement of cash flows cash and cash equivalents also include bank overdrafts, which are included in borrowings in the statement of financial position.

(t) Equity

(t)(i) Share capital and shares held by trusts

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 excluded from the consideration transferred.

If the Company or its subsidiaries purchase any equity instruments of the Company, the instruments are recognised at cost in the consolidated statement of financial position and the consideration paid is treated as a deduction from total equity. Any corresponding obligation to deliver a fixed number of the Company's equity instruments is offset within the shares held by trusts balance in 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.

(t)(ii) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under section 612 of the UK Companies Act 2006 are met, a sum equal to the difference between the issue value and 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, for measurement purposes, 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).

(v) Participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities
- Participating investment contract liabilities
- Unallocated divisible surplus
- 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.

(v)(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))

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 SLAL's board 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.

(v) Participating contract liabilities *continued*

(v)(I) Participating insurance and investment contract liabilities *continued*

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. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business in SLAL.

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.

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 equity securities, debt securities and investment property as 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.

(v)(ii) Unallocated divisible surplus (UDS)

The UDS comprises the difference between the assets and all other recognised liabilities in the Group's with profits funds. This amount is recognised as a liability as it is not considered to be allocated to shareholders due to uncertainty regarding transfers from these funds to equity holders.

In relation to the HWPF, amounts are considered to be allocated to equity holders when they emerge as recourse cash flows within the HWPF. The Scheme permits the HWPF to enter into loans, the repayment of which is contingent on the emergence of recourse cash flows (contingent loan agreement). The Scheme requires that an amount equal to the loan proceeds received on a contingent loan agreement (securitisation receipt) is transferred to the Shareholder Fund or PBF of SLAL. When the HWPF enters into a contingent loan agreement and the securitisation receipt transferred to the Shareholder Fund or PBF is in the form of an instrument whose cash flows are contingent on the emergence of recourse cash flows within the HWPF, the obligation to transfer, and the subsequent transfer of, the securitisation receipt is not treated as an allocation to equity holders from the HWPF. In this case the obligation of the HWPF to repay the contingent loan agreement, in excess of repayments reflecting emerged recourse cash flows, is not considered to be a recognised liability of the HWPF in the determination of the UDS.

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), the value of future additional expenses to be charged on German branch business 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.
- The recourse cash flows are recognised as they emerge as an addition to equity holders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the German branch business they are recognised as an addition to equity holders' profits.

(v)(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

(w)(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 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 equity securities, debt securities and investment property as 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.

(w)(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 reporting date and claims incurred as a result of events up to the reporting date not reported as at that date.

A provision is made at the reporting 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)(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 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 statement of financial position 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 comprehensive income 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) Non-current assets held for sale

Assets and liabilities which have been classified as held for sale are presented separately in the consolidated statement of financial position. The relevant assets are recorded at the lower of their carrying amount and their fair value, less the estimated incremental costs that are directly attributable to the disposal (excluding finance costs and income tax expense).

(ee) 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.

(ff) 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.

(gg) 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 47. 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. Market vesting conditions are included in the calculation of the fair value of the instruments at the date of grant, while non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest.

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.

(hh) 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
- 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, cancelled or expires.

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

(ii) Securities lending 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 statement of financial position 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 statement of financial position.

(jj) Operating profit

The Group's chosen supplementary measure of IFRS performance is operating profit. Operating profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes. It is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holders' liabilities, are excluded from operating profit and are presented within profit before tax. The impact of certain changes in economic assumptions is also excluded from operating profit and is presented within profit before tax.

Operating profit also excludes the impact of the following items:

- Restructuring costs and significant corporate transaction expenses
- Impairment of intangible assets
- Profit or loss arising on the disposal of a subsidiary, joint venture or associate
- Volatility arising from changes in insurance and investment contract liabilities driven by corresponding changes in tax provisions
- Items which are one-off in nature and outside the control of management and which, due to their size or nature, are not indicative of the long-term operating performance of the Group

(kk) 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 operating profit before tax. Refer to policy (jj) for details of the adjusted items.

Notes to the Group financial statements

1. Segmental analysis

(a) Basis of segmentation

The Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed. The Group's reportable segments are as follows:

UK

UK operations comprise life and pensions business and healthcare business. The life and pensions business provides a broad range of pensions, protection, savings and investment products to individual and corporate customers. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010. It has therefore been classified as a discontinued operation, refer to Note 10. UK operations previously included the Group's banking business, Standard Life Bank plc, which was sold on 1 January 2010.

Canada

Canadian operations offer a broad range of pensions and savings products to individual and corporate customers in addition to commercial mortgage products.

International

The businesses included in this reportable segment offer a range of life and pension products. The Group has operations in Ireland, Germany and Austria, which for 31 December 2009 reporting were included in the Europe reportable segment. The Group also holds investments in joint ventures in India and China and has a wholly owned subsidiary in Hong Kong, each of which were included in the Asia reportable segment for 31 December 2009 reporting. This change in composition of reportable segments corresponds to changes made during the reporting period to the way in which the Group is managed and the relevant 31 December 2009 segment information has been restated accordingly.

Global investment management

Investment management services are provided by global investment management operations to the Group's other reportable segments. Global investment management also provides a range of investment products for individuals and institutional customers through a number of different investment vehicles.

Other

This reportable segment primarily includes the group corporate centre and the shared service centre.

(b) Reportable segments - income statement, operating profit and asset information

Income statement and asset information is presented by reportable segment in the tables that follow. As described in Note 12, operating profit is considered to present an indication of the operating business performance of the Group. Operating profit is one of the key measures utilised by the Group's management in their evaluation of segmental performance and is therefore also presented by reportable segment.

2010	UK ¹ £m	Canada £m	International ⁴ £m	Global Investment management £m	Other £m	Elimination £m	Total £m
Revenue							
Net earned premium	1,319	919	909	3	-	-	3,150
Net investment return	11,553	2,077	937	-	9	(6)	14,570
Other segment income	464	136	46	209	23	(29)	849
Inter-segment revenue	11	3	-	111	544	(669)	-
Total net revenue	13,347	3,135	1,892	323	576	(704)	18,569
Expenses							
Segment expenses	12,541	2,948	1,841	228	640	(689)	17,509
Finance costs	114	14	-	-	-	(15)	113
Total expenses	12,655	2,962	1,841	228	640	(704)	17,622
Share of profit/(loss) from associates and joint ventures	21	15	(23)	11	-	-	24
Profit/(loss) before tax	713	188	28	106	(64)	-	971
Tax attributable to policyholders' returns	385	-	16	-	(1)	-	400
Tax attributable to equity holders' profits	27	43	8	27	(7)	-	98
Profit/(loss) for the year from continuing operations	301	145	4	79	(56)	-	473
Profit for the year from discontinued operations ¹	20	-	-	-	-	-	20
Profit/(loss) for the year	321	145	4	79	(56)	-	493
Profit attributable to non-controlling interests from continuing operations	(61)	-	-	-	-	-	(61)
Profit/(loss) attributable to equity holders of Standard Life plc	260	145	4	79	(56)	-	432
Reconciliation to consolidated operating profit¹							
Tax expense/(credit) attributable to equity holders' profits from continuing operations	27	43	8	27	(7)	-	98
Non-operating (profit)/loss before tax from continuing operations	(33)	(78)	3	(3)	26	-	(85)
Less: Profit for the year from discontinued operations	(20)	-	-	-	-	-	(20)
Operating profit/(loss) before tax from continuing operations	234	110	15	103	(37)	-	425
Other Income Included In the Income statement is as follows:							
Interest income ²	73	164	21	1	1	-	260
Other expenses Included In the Income statement include:							
Impairment losses (reversed)/recognised ²	(9)	-	-	-	4	-	(5)
Amortisation of intangible assets:							
From continuing operations	14	1	2	-	3	-	20
From discontinued operations	2	-	-	-	-	-	2
Amortisation of deferred acquisition costs:							
From continuing operations	82	25	52	-	-	-	159
From discontinued operations	37	-	-	-	-	-	37
Depreciation of property, plant and equipment ²	-	2	1	1	8	-	12
Interest expense ^{2,3}	123	21	1	-	113	(128)	130
Assets							
Segment assets	114,931	24,246	11,290	419	913	(770)	151,029
Investments in associates and joint ventures	2,697	123	211	42	14	-	3,087
Total assets	117,628	24,369	11,501	461	927	(770)	154,116
Additions during the year							
Intangible assets	39	2	4	-	32	-	77
Deferred acquisition costs	110	17	90	1	-	-	218
Property, plant and equipment	-	1	1	-	16	-	18
Investment properties	758	73	-	-	-	-	831
	907	93	95	1	48	-	1,144

¹ The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation. The reconciliation to consolidated operating profit for the year ended 31 December 2010 includes continuing operations only.

² All from continuing operations.

³ Refer to Note 5 – Other administrative expenses.

⁴ Included in the international reporting segment, total net revenue, excluding inter-segment revenue, for Germany, Ireland and Asia is £1,253m (2009: £1,188m), £548m (2009: £597m) and £91m (2009: £44m) respectively.

1. Segmental analysis *continued***(b) Reportable segments - income statement, operating profit and asset information *continued***

2009	UK ¹ £m	Canada £m	International ² £m	Global investment management £m	Other £m	Elimination £m	Total £m
Revenue							
Net earned premium	1,574	709	914	4	-	-	3,201
Net investment return	10,272	2,044	885	-	4	(34)	13,171
Other segment income	499	112	30	155	7	(8)	795
Inter-segment revenue	8	2	(5)	91	539	(635)	-
Total net revenue	12,353	2,867	1,824	250	550	(677)	17,167
Expenses							
Segment expenses	11,850	2,833	1,781	200	603	(654)	16,613
Finance costs	120	13	-	5	-	(23)	115
Total expenses	11,970	2,846	1,781	205	603	(677)	16,728
Share of profit/(loss) from associates and joint ventures	7	(29)	(27)	19	1	-	(29)
Profit/(loss) before tax	390	(8)	16	64	(52)	-	410
Tax attributable to policyholders' returns	294	-	5	-	-	-	299
Tax attributable to equity holders' profits	(53)	33	(3)	13	(10)	-	(20)
Profit/(loss) for the year from continuing operations	149	(41)	14	51	(42)	-	131
Profit for the year from discontinued operations ¹	49	-	-	-	-	-	49
Profit/(loss) for the year	198	(41)	14	51	(42)	-	180
Loss attributable to non-controlling interests from continuing operations	33	-	-	-	-	-	33
Profit/(loss) attributable to equity holders of Standard Life plc	231	(41)	14	51	(42)	-	213
Reconciliation to consolidated operating profit ¹							
Tax (credit)/expense attributable to equity holders' profits from continuing operations	(53)	33	(3)	13	(10)	-	(20)
Non-operating loss before tax from continuing operations	93	121	12	9	20	-	255
Less: Profit for the year from discontinued operations	(49)	-	-	-	-	-	(49)
Operating profit/(loss) before tax from continuing operations	222	113	23	73	(32)	-	399
Other income included in the income statement is as follows:							
Interest income:							
From continuing operations	154	145	60	1	5	-	365
From discontinued operations	350	-	-	-	-	-	350
Other expenses included in the income statement include:							
Impairment losses recognised/(reversed):							
From continuing operations	30	4	-	-	7	-	41
From discontinued operations	19	-	-	-	-	-	19
Amortisation of intangible assets:							
From continuing operations	9	1	2	-	3	-	15
From discontinued operations	2	-	-	-	-	-	2
Amortisation of deferred acquisition costs:							
From continuing operations	82	12	45	-	-	-	139
From discontinued operations	34	-	-	-	-	-	34
Depreciation of property, plant and equipment ³	-	2	1	1	6	-	10
Interest expense ⁴ :							
From continuing operations	132	19	2	5	116	(139)	135
From discontinued operations	238	-	-	-	-	-	238
Assets							
Segment assets	114,042	20,423	9,516	506	796	(839)	144,444
Investments in associates and joint ventures	1,915	104	80	32	38	-	2,169
Total assets	115,957	20,527	9,596	538	834	(839)	146,613
Additions during the year							
Intangible assets	6	1	5	-	4	-	16
Deferred acquisition costs	105	14	82	-	-	-	201
Property, plant and equipment	1	2	-	1	9	-	13
Investment properties	348	4	13	-	-	-	365
	460	21	100	1	13	-	595

¹ The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation. The Group's banking business, Standard Life Bank plc, was also sold on 1 January 2010. The reconciliation to consolidated operating profit for the year ended 31 December 2009 includes continuing operations only.

² The business areas included in the Europe and Asia reportable segments presented as at 31 December 2009 are included within the international reportable segment.

³ All from continuing operations.

⁴ Refer to Note 5 – Other administrative expenses.

Inter-segment transactions are entered into under normal commercial terms and conditions that would be available to unrelated third parties. The allocation of total net revenue presented above is based on customer location and this basis is not materially different to geographical origin. The Group has a widely diversified policyholder base and is therefore not reliant on any individual customers. The Group utilises additional measures to assess the performance of each of the reportable segments, which are presented in the European Embedded Value information.

(c) Non-current non-financial assets by geographical location

	2010 £m	2009 £m
UK	7,437	6,292
Continental Europe	48	51
Canada	1,223	1,035
Total	8,708	7,378

Non-current non-financial assets for this purpose consist of investment property, property, plant and equipment and intangible assets (excluding intangible assets arising from insurance or participating investment contracts).

2. Net investment return

	Notes	2010 £m	Restated 2009 £m
Interest and similar income			
Cash and cash equivalents		86	225
Loans		173	489
Other		1	1
		260	715
Dividend income		1,330	1,255
Gains/(losses) on financial instruments			
Equity securities		6,680	9,046
Debt securities		4,738	2,951
Derivative financial instruments		391	(582)
		11,809	11,415
Impairment losses on financial assets			
Loans		-	(8)
Interest income		-	1
		-	(7)
Foreign exchange (losses)/gains on instruments other than as at fair value through profit or loss		(23)	61
Net income from investment properties			
Rental income	17	611	592
Net fair value gains/(losses) on investment properties	17	556	(468)
		1,167	124
Total net investment return		14,543	13,563
Less: Net investment return from discontinued operations	10	27	(392)
Net investment return		14,570	13,171

3. Fee and commission income

	Notes	2010 £m	2009 £m
Fee income on investment contracts at fair value		584	518
Fee income from third party funds under management		162	134
Reinsurance commission income		2	2
Other fee and commission income		4	16
Total fee and commission income		752	670
Less: Fee and commission income from discontinued operations	10	-	(4)
Fee and commission income		752	666

4. Expenses under arrangements with reinsurers

	2010 £m	2009 £m
Interest payable on deposit from reinsurers	40	52
Premium Adjustments	529	511
Expenses under arrangements with reinsurers	569	563

Standard Life Assurance Limited (SLAL), a wholly owned subsidiary of the Company, has 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. The treaty 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. Accrued interest and accrued Premium Adjustments are presented in deposits received from reinsurers in the statement of financial position.

5. Other administrative expenses

	Notes	2010 £m	Restated 2009 £m
Interest expense on customer accounts related to banking activities and deposits by banks		-	157
Interest expense on debt securities issued and mortgage backed floating notes		-	73
Other interest expense		17	20
		17	250
Commission expenses		370	331
Staff costs and other employee-related costs	6	586	599
Operating lease rentals		15	13
Auditors' remuneration	7	7	7
Other administrative expenses		571	551
Depreciation of property, plant and equipment	18	12	10
Impairment losses on property, plant and equipment	18	-	1
Reversal of impairment on property, plant and equipment	18	(9)	(5)
Amortisation of intangible assets	14	22	17
Impairment losses on intangible assets	14	-	7
Impairment on investments in associates	16	4	7
		1,595	1,788
Acquisition costs deferred during the year	15	(218)	(201)
Amortisation of deferred acquisition costs	15	196	173
Impairment losses on deferred acquisition costs	15	-	33
Total other administrative expenses		1,573	1,793
Less: Other administrative expenses from discontinued operations	10	(38)	(366)
Other administrative expenses		1,535	1,427

In addition to interest expense of £17m (2009: £250m), interest expense of £113m (2009: £123m), was incurred in respect of subordinated liabilities. For the year ended 31 December 2010, total interest expense is £130m (2009: £373m).

6. Staff costs and other employee-related costs

	Notes	2010 £m	2009 £m
The aggregate remuneration payable in respect of employees:			
Wages and salaries		518	475
Social security costs		50	46
Other pension costs	38		
Defined benefit scheme		(13)	40
Defined contribution scheme		12	10
Employee share-based payments	47	19	28
Total staff costs and other employee-related costs		586	599

Included within total staff costs is £9m (2009: £30m) arising from discontinued operations.

6. Staff costs and other employee-related costs *continued*

	2010	Restated ¹ 2009
The average number of staff employed by the Group during the year:		
UK	4,788	5,420
Canada	2,023	1,966
International	772	787
Global investment management	822	759
Group corporate centre	778	747
Other	71	73
Total average number of staff employed	9,254	9,752

¹ The change during the year in the composition of reportable segments described in Note 1(a) has resulted in a corresponding change to the presentation of the above analysis. The employees of Europe and Asia are now included in the International line and the comparatives have been restated accordingly.

Included within total average staff employed, 280 (2009: 886) are staff employed as part of discontinued operations.

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 72 to 85.

7. Auditors' remuneration

	2010 £m	2009 £m
Fees payable to the Company's auditor for the audit of the Company's individual and consolidated financial statements	0.4	0.4
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries pursuant to legislation	4.8	4.8
Other services pursuant to legislation	0.6	0.5
Tax advisory services	0.4	0.9
Other services	0.8	0.4
Total auditors' remuneration	7.0	7.0

Included within total auditors' remuneration is £nil (2009: £0.4m) arising from discontinued operations.

Fees in respect of other services performed mainly related to assurance and regulatory services.

During the year, the Group incurred audit fees in respect of the UK staff pension scheme of £32,000 (2009: £38,000).

8. Restructuring and corporate transaction expenses

Total restructuring costs from continuing operations incurred during the year were £72m (2009: £59m). These include £64m of expenses in relation to the Group's Transformation and Solvency 2 Programmes, (2009: £50m) and £8m (2009: £9m) of transaction costs incurred from the sale of Standard Life Bank plc and Standard Life Healthcare Limited. Of the restructuring costs from continuing operations, £71m (2009: £52m) is adjusted when determining operating profit for the year, with the remaining £1m (2009: £1m) incurred by the Heritage With Profits Fund.

9. Tax expense/(credit)

The tax expense/(credit) is attributed as follows:

	Notes	2010 £m	Restated 2009 £m
Tax expense attributable to policyholders' returns		400	299
Tax expense/(credit) attributable to equity holders' profits		98	(20)
		498	279
Tax (credit)/expense from discontinued operations	10	(3)	44
		495	323

From 1 April 2011, the UK corporation tax rate will be reduced from 28% to 27%. This rate change has been included in the calculation of UK deferred tax. The 2010 Budget statement also announced the government's intention to make further reductions in corporation tax. These reductions have not been included in the calculation of deferred tax as they are subject to legislation being enacted in future years.

The share of tax of associates and joint ventures is £4m (2009: £9m) and is included above the line Profit before tax in the consolidated income statement in Share of profits/(losses) from associates and joint ventures.

(a) Current year tax expense/(credit)

	Notes	2010 £m	Restated 2009 £m
Income tax:			
UK		253	162
Double tax relief		(1)	(1)
Canada and international		42	28
Adjustment to tax expense in respect of prior years		4	(3)
Total income tax		298	186
Deferred tax:			
Deferred tax expense arising from the current year	19	197	137
Total deferred tax		197	137
Total tax expense		495	323
Less income tax credit/(expense) attributable to discontinued operations		3	(44)
Total income tax expense attributable to continuing operations		498	279
Attributable to equity holders' profits		98	(20)

No unrecognised tax losses of previous years were used to reduce income and deferred tax expenses (2009: £5m and £nil income and deferred tax respectively).

Deferred tax of £10m (2009: £5m) has not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries.

9. Tax expense/(credit) *continued***(b) Tax relating to components of other comprehensive income**

Tax relating to components of other comprehensive income is as follows:

	2010 £m	Restated 2009 £m
Tax on actuarial gains/(losses) on defined benefit pension schemes	59	(27)
Revaluation of land and buildings	1	(1)
Tax on fair value gains on cash flow hedges attributable to discontinued operations	6	3
Tax relating to each component of other comprehensive income	66	(25)

All of the amounts presented above are in respect of equity holders of Standard Life plc.

(c) Reconciliation of tax expense

	Notes	2010 £m	Restated 2009 £m
Profit before tax from continuing operations		971	410
Profit before tax from discontinued operations	10	17	93
		988	503
Tax at 28% (2009: 28%)		277	141
Policyholder tax (net of tax at UK standard rate)		288	215
Permanent differences		28	67
Non-taxable transfer to equity holders		(55)	(72)
Different tax rates		(56)	(48)
Adjustment to current tax expense in respect of prior years		4	(3)
Recognition of previously unrecognised tax credit		(5)	(10)
Deferred tax not recognised		10	24
Non-taxable profit on sale of subsidiaries and associates		(1)	-
Adjustment to deferred tax expense in respect of prior years		5	(7)
Reversal of write down of deferred tax assets		-	16
Total tax expense for the year		495	323
Less: Income tax credit/(expense) attributable to discontinued operations	10	3	(44)
Total income tax expense from continuing operations		498	279

10. Discontinued operations

The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 for a cash consideration of £138m and has therefore been classified as a discontinued operation. The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 for a cash consideration of £246m and was classified as a discontinued operation for the year ended 31 December 2009. The assets and liabilities attributable to Standard Life Bank plc as at 31 December 2009 have been classified as held for sale.

The profit included in the consolidated income statement in respect of discontinued operations is as follows:

	Notes	2010 £m	Restated 2009 £m
Revenue			
Net earned premium		152	266
Net investment return	2	(27)	392
Fee and commission income	3	-	4
Other income		1	(1)
Net revenue		126	661
Expenses			
Net insurance benefits and claims		105	190
Change in insurance and participating liabilities		2	(7)
Administrative expenses:			
Restructuring and corporate transaction expenses		1	1
Other administrative expenses	5	38	366
Total administrative expenses		39	367
Finance costs		-	8
Expenses		146	558
Gain/(loss) recognised on the measurement of the assets of disposal group		37	(10)
Profit before tax		17	93
Tax (credit)/expense		(3)	44
Total tax (credit)/expense		(3)	44
Profit for the year		20	49

The comprehensive income included in the consolidated statement of comprehensive income in respect of discontinued operations is as follows:

	2010 £m	2009 £m
Profit for the year from discontinued operations	20	49
Fair value gains on cash flow hedges	30	11
Aggregate equity holder tax effect of items not recognised in the income statement	(6)	(3)
Other comprehensive income for the year from discontinued operations	24	8
Total comprehensive income for the year from discontinued operations	44	57

10. Discontinued operations *continued*

The aggregate assets and liabilities of Standard Life Bank plc and Standard Life Healthcare Limited that were sold during the year are as follows:

	£m
Intangible assets	26
Deferred acquisition costs	18
Investments in associates	131
Reinsurance assets	4
Deferred tax assets	1
Loans	7,464
Derivative financial assets	139
Debt securities	195
Other assets	143
Cash and cash equivalents	1,506
Total assets sold	9,627
Non-participating contract liabilities	154
Borrowings	2,783
Subordinated liabilities	279
Income tax liabilities	2
Customer accounts related to banking activities and deposits by banks	5,927
Derivative financial liabilities	102
Other liabilities	32
Total liabilities sold	9,279

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 period. The weighted average number of ordinary shares outstanding during the period 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.

	2010	Restated 2009
Profit from continuing operations (£m)	412	164
Profit from discontinued operations (£m)	20	49
Profit attributable to equity holders of Standard Life plc (£m)	432	213
Weighted average number of ordinary shares in issue (millions)	2,242	2,201
Basic earnings per share from continuing operations (pence per share)	18.4	7.5
Basic earnings per share from discontinued operations (pence per share)	0.9	2.2
Basic earnings per share (pence per share)	19.3	9.7

(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, or purchased, assuming the exercise of the share options.

	2010	Restated 2009
Profit from continuing operations (£m)	412	164
Profit from discontinued operations (£m)	20	49
Profit attributable to equity holders of Standard Life plc (£m)	432	213
Weighted average number of ordinary shares for diluted earnings per share (millions)	2,248	2,203
Diluted earnings per share from continuing operations (pence per share)	18.3	7.5
Diluted earnings per share from discontinued operations (pence per share)	0.9	2.2
Diluted earnings per share (pence per share)	19.2	9.7

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was six million (2009: two million).

(c) Alternative earnings per share

Earnings per share is also calculated based on operating profit as well as on the profit attributable to equity holders. The Directors believe that earnings per share based on operating profit provides a better indication of the operating business performance of the Group.

	2010 £m	2010 p per share	Restated 2009 £m	Restated 2009 p per share
Operating profit before tax from continuing operations	425	19.0	399	18.1
Short-term fluctuations in investment return and economic assumption changes	127	5.7	(214)	(9.7)
Restructuring and corporate transaction expenses	(71)	(3.2)	(52)	(2.4)
Impairment of intangible assets	-	-	(2)	(0.1)
Impairment of investments in associates	(1)	-	-	-
Other operating profit adjustments	30	1.3	13	0.6
Profit/(loss) attributable to non-controlling interests	61	2.7	(33)	(1.5)
Profit before tax from continuing operations	571	25.5	111	5.0
Tax (expense)/credit attributable to:				
Operating profit	(89)	(4.0)	(34)	(1.5)
Adjusted items	(9)	(0.4)	54	2.5
(Profit)/loss attributable to non-controlling interests	(61)	(2.7)	33	1.5
Profit from discontinued operations	20	0.9	49	2.2
Profit attributable to equity holders of Standard Life plc	432	19.3	213	9.7

The table above represents basic alternative earnings per share. On a diluted basis short-term fluctuations in investment return and economic assumption changes was 5.6p (2009: (9.7p)) per share.

12. Operating profit

(a) Short-term fluctuations in investment return and economic assumption changes

Operating profit is based on expected returns on investments backing equity holder funds and the difference between the expected return and actual return on investments is excluded from operating profit and presented within profit before tax. Adjustments are also made consistently to allow for expected movements in equity holder liabilities. As a result, the components of IFRS profit attributable to market movements and interest rate changes which give rise to variances between actual and expected investment returns, as well as the impact of changes in economic assumptions on equity holder liabilities, are excluded from operating profit and disclosed separately within the heading of short-term fluctuations in investment return and economic assumption changes.

The expected rates of return for debt securities, equity securities and property are determined separately for each of the Group's operations and are consistent with the expected rates of return as determined under the Group's published European Embedded Value (EEV) methodology. The expected rates of return for equities and property, with the exception of the Canada operations, are determined based on the gilt spot rates of an appropriate duration plus an equity risk premium or property risk premium, respectively. The expected rates of return on equity securities and property for Canada operations are determined by the Appointed Actuary in Canada.

12. Operating profit *continued*

(a) Short-term fluctuations in investment return and economic assumption changes *continued*

The principal assumptions, as set at the start of the year, in respect of gross investment returns underlying the calculation of the expected investment return for equity securities and property are as follows:

	2010		2009	
	UK %	Canada %	UK %	Canada %
Equity securities	7.11	8.60	6.42	8.60
Property	6.11	8.60	5.42	8.60

In respect of debt securities, the expected rate of return is determined based on the average prospective yields for the debt securities actually held or, in respect of the Canada operations, is determined by the Appointed Actuary in Canada.

Gains and losses on foreign exchange are deemed to represent short-term fluctuations in investment return and economic assumption changes and thus are excluded from operating profit.

Short-term fluctuations in investment return and economic assumption changes for the year ended 31 December 2010 were £127m (2009: (£214m)). Short-term fluctuations in investment return relate principally to the investment volatility in Canada non-segregated funds, UK annuities and in respect of the Group's subordinated liabilities and assets backing those liabilities.

(b) Other operating profit adjustments

Volatility arising from changes in insurance and investment contract liabilities caused by changes in tax provisions in the Canadian subsidiary was £30m (2009: £13m). This volatility has no impact on equity holder profit after tax and as such is excluded from operating profit before tax.

13. Dividends

The Company paid a final dividend of 8.09 pence per share (final 2008: 7.7 pence) totalling £180m in respect of the year ended 31 December 2009 on 28 May 2010 (final 2008: £168m) and an interim dividend of 4.35 pence per share (interim 2009: 4.15 pence) totalling £98m (interim 2009: £92m) in respect of the year ended 31 December 2010 on 19 November 2010.

Subsequent to 31 December 2010, the Directors have proposed a final dividend for the year ended 31 December 2010 of 8.65 pence per ordinary share, £197m in total. The dividend will be paid on 27 May 2011 to shareholders on the Company's register as at 18 March 2011, subject to approval at the Annual General Meeting on 17 May 2011. This dividend will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2011.

Investors taking part in the Scrip scheme receive their dividend entitlement in the form of shares rather than cash and the distribution under Scrip is recorded as an appropriation of retained earnings. Dividends paid during the year ended 31 December 2010 comprise £92m (2009: £102m) settled by the issue of shares under the Scrip scheme and £186m paid in cash (2009: £158m).

14. Intangible assets

	Notes	Internally developed software £m	Other acquired intangible assets £m	Goodwill £m	Total £m
Gross amount					
At 1 January 2009		103	8	35	146
Additions		12	4	-	16
Foreign exchange adjustment		(1)	-	-	(1)
Impairment charge	5	(2)	-	-	(2)
Other		-	2	-	2
At 31 December 2009		112	14	35	161
Additions		45	6	26	77
Disposals		(20)	-	(16)	(36)
Other		-	(1)	-	(1)
At 31 December 2010		137	19	45	201
Accumulated amortisation					
At 1 January 2009		(33)	(1)	-	(34)
Amortisation charge for the year	5	(13)	(4)	-	(17)
Impairment charge	5	(5)	-	-	(5)
Other		1	-	-	1
At 31 December 2009		(50)	(5)	-	(55)
Amortisation charge for the year	5	(17)	(5)	-	(22)
Disposals		10	-	-	10
Other		-	1	-	1
At 31 December 2010		(57)	(9)	-	(66)
Carrying amount					
At 31 December 2009		62	9	35	106
At 31 December 2010		80	10	45	135

Disposals during the year are in respect of intangible assets attributable to discontinued healthcare operations.

The goodwill arising on acquisitions of £45m (2009: £35m) has been subject to impairment testing under the fair value less cost to sell methodology. The cash generating unit to which goodwill is attributed is the UK.

15. Deferred acquisition costs

	Notes	2010 £m	2009 £m
At 1 January		872	892
Additions during the year	5	218	201
Impairment charge	5	-	(33)
Amortisation charge	5	(196)	(173)
Foreign exchange adjustment		1	(15)
Attributable to discontinued healthcare operations		(14)	-
At 31 December		881	872

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £749m (2009: £731m). Included in deferred acquisition costs above are costs deferred on investment contracts (deferred origination costs) amounting to £706m (2009: £653m).

16. Investments in associates and joint ventures

	2010 £m	2009 £m
Investments in associates and joint ventures:		
Designated as at fair value through profit or loss	2,775	1,843
Accounted for using the equity method	238	226
Loans to associates and joint ventures	74	100
Total investments in associates and joint ventures	3,087	2,169

	Notes	2010 £m	2009 £m
At 1 January		2,169	3,098
Share of profits/(losses) from associates and joint ventures		24	(29)
Net increase/(decrease) in net investment holdings and movements between classifications of investments		916	(894)
Additions on assuming significant influence/joint control		21	33
Cessation of significant influence/joint control or disposal of interest held		(38)	(4)
Foreign exchange adjustment		13	(7)
Dividends received		(14)	(21)
Impairment losses recognised	5	(4)	(7)
At 31 December		3,087	2,169

Share of profits/(losses) from associates and joint ventures totalling £24m (2009: (£29m)), includes £21m (2009: £8m) arising from those accounted for at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and £3m (2009: (£37m)) arising from those accounted for using the equity method.

Net decrease in investment vehicle holdings relates 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 £m
At 31 December 2010								
Standard Life Investments (Global Liquidity Funds) plc – Sterling Liquidity Fund	Ireland	44.7	31 Dec	OEIC	2,313	2	14	12
Standard Life Investments (Global Liquidity Funds) plc – Euro Liquidity Fund	Ireland	22.6	31 Dec	OEIC	451	-	2	1
HDFC Asset Management Company Limited	India	40.0	31 Mar	Investment Management	60	28	31	11
At 31 December 2009								
Standard Life Investments (Global Liquidity Funds) plc – Sterling Liquidity Fund	Ireland	43.6	31 Dec	OEIC	1,856	2	23	21
HDFC Asset Management Company Limited	India	40.0	31 Mar	Investment Management	42	18	29	19

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. These investments comprise holdings in mutual funds, unit trusts and unit linked insurance funds and are measured at fair value. Their operations are not significant in relation to the financial statements of the Group (refer to accounting policy (b)(ii) – Associates and joint ventures).

(b) Investments in joint ventures

The following are particulars of the Group's significant joint ventures, all of which are unlisted:

Name of joint venture	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 2010								
Castan Waterfront Development Inc.	Canada	50.0	-	20	4	-	-	-
First Real Properties Limited	Canada	49.0	5	75	10	10	16	8
Alberta	Canada	50.0	2	22	-	-	8	-
HDFC Standard Life Insurance Company Limited	India	26.0	24	971	51	928	446	451
Heng An Standard Life Insurance Company Limited	China	50.0	54	211	10	234	82	100
At 31 December 2009								
Castan Waterfront Development Inc.	Canada	50.0	-	18	3	-	(4)	-
First Real Properties Limited	Canada	49.0	1	65	6	6	(9)	7
Alberta	Canada	50.0	1	15	-	-	(11)	-
HDFC Standard Life Insurance Company Limited	India	26.0	23	639	41	601	411	424
Heng An Standard Life Insurance Company Limited	China	50.0	15	201	5	181	82	98

17. Investment property

	Notes	2010 £m	2009 £m
At 1 January		7,111	7,738
Additions – acquisitions		642	170
Additions – subsequent expenditure		189	195
Transfers from property, plant and equipment	18	-	515
Net fair value gain/(loss)		556	(468)
Disposals		(186)	(1,034)
Foreign exchange adjustment		79	(14)
Other		19	9
At 31 December		8,410	7,111
The fair value of investment property can be analysed as:			
Freehold		6,068	5,468
Long leasehold		2,195	1,568
Short leasehold		147	75
		8,410	7,111

The rental income arising from investment properties during the year amounted to £611m (2009: £592m), which is included in net investment return (set out in Note 2 – Net investment return). Direct operating expenses (included within other administrative expenses) arising in respect of such rented properties during the year amounted to £184m (2009: £196m).

The methods and assumptions used to determine fair value for investment properties and property under development are set out below.

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 observable market inputs. 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.

In Canada, properties with a value higher than CA\$50m are externally appraised every quarter, properties with a value between CA\$50m and CA\$10m are externally appraised twice a year while properties with value lower than CA\$10m are externally appraised once a year, with valuations evenly distributed throughout the year. Those properties not subject to an external appraisal at a quarter end are reviewed in light of the market information provided by the other external appraisals and an internal adjustment is estimated.

18. Property, plant and equipment

	Notes	Land and buildings £m	Equipment £m	Total £m
Cost or valuation				
At 1 January 2009		700	198	898
Additions		1	12	13
Disposals		(54)	(7)	(61)
Transfers to investment property	17	(515)	-	(515)
Revaluations	30	(16)	-	(16)
Impairment losses reversed ¹	5	4	-	4
Foreign exchange adjustment		1	(1)	-
Other		-	(4)	(4)
At 31 December 2009		121	198	319
Additions		-	18	18
Disposals		(1)	(12)	(13)
Revaluations	30	(14)	-	(14)
Impairment losses reversed ¹	5	9	-	9
Foreign exchange adjustment		3	-	3
At 31 December 2010		118	204	322
Accumulated depreciation				
At 1 January 2009		-	(158)	(158)
Depreciation charge for the year	5	-	(10)	(10)
Disposals		-	7	7
Other		-	3	3
At 31 December 2009		-	(158)	(158)
Depreciation charge for the year	5	-	(12)	(12)
Disposals		-	12	12
At 31 December 2010		-	(158)	(158)
Carrying amount				
At 31 December 2009		121	40	161
At 31 December 2010		118	46	164

¹ Impairment losses reversed recognised in the consolidated income statement were £9m (2009: £4m) (refer to Note 5 – Other administrative expenses). In 2010, the impairment reversal arose due to increases in the market value of a number of properties.

If land and buildings were measured using the cost model, the historical cost before impairment would be £180m (2009: £178m). 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.

The methods and assumptions used to value owner occupied properties are the same as those for investment properties set out in Note 17 – Investment property.

Disposals during the year include £1m in respect of discontinued healthcare operations.

19. Tax assets and liabilities

	Notes	2010 £m	2009 £m
Income tax recoverable	24	162	124
		162	124
Deferred tax assets		201	333
Less: Deferred tax asset of discontinued operations		-	(3)
		201	330
Total tax assets		363	454
Income tax liabilities		181	111
Less: Income tax liability of discontinued operations		-	(2)
		181	109
Deferred tax liabilities		220	105
		220	105
Total tax liabilities		401	214

All current income tax assets and liabilities as at 31 December 2009 and 2010 are expected to be recoverable or payable in less than one year.

(a) Recognised deferred tax

	2010 £m	2009 £m
Deferred tax assets comprises:		
Actuarial liabilities	184	165
Losses carried forward	39	56
Realised losses on investments	33	3
Depreciable assets	32	37
Deferred income	55	48
Employee benefits	30	32
Provisions and other temporary timing differences	19	14
Insurance related items	96	171
Subordinated liabilities valuation differences	1	2
Unrealised losses on investments	16	116
Temporary valuation differences	-	5
Gross deferred tax assets	505	649
Less: Offset against deferred tax liabilities	(304)	(316)
Net deferred tax assets	201	333
Deferred tax liabilities comprises:		
Unrealised gains on investments	180	162
Deferred acquisition costs	197	202
Deferred gains on realisation	29	41
Subordinated liabilities valuation differences	3	3
Temporary timing differences	-	3
Employee benefits	109	6
Deferred tax on acquired assets	2	1
Other	4	3
Gross deferred tax liabilities	524	421
Less: Offset against deferred tax assets	(304)	(316)
Net deferred tax liabilities	220	105
Movements in deferred tax assets/(liabilities) comprise:		
At 1 January	228	335
Acquisition of subsidiaries	4	-
Disposal of subsidiaries	(5)	-
Amounts charged to net profit	(197)	(137)
Amounts (charged)/credited directly to equity	(60)	25
Foreign exchange adjustment	11	5
At 31 December	(19)	228

A deferred tax asset of £55m (2009: £172m) for the Group has been recognised in respect of losses of various subsidiaries and unrealised losses on investments. 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 based on business plans. The losses of the subsidiaries in Canada will expire between 2013 and 2029. The remaining losses do not have an expiry date.

19. Tax assets and liabilities *continued***(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 £231m (2009: £202m)
- Tax reserves of the German branch of Standard Life Assurance Limited of £98m (2009: £120m)
- Unrealised investment losses of £5m (2009: £167m)

20. Financial investments

	Notes	2010 £m	2009 £m
Financial investments at fair value through profit or loss:			
Classified as held for trading:			
Derivative financial instruments designated as cash flow hedges	22	-	1
Derivative financial instruments designated as fair value hedges	22	-	48
Derivative financial instruments designated as held for trading	22	1,343	1,319
Total financial investments classified as held for trading		1,343	1,368
Designated upon recognition:			
Equity securities and interests in pooled investment funds	43	60,307	50,858
Debt securities	43	59,735	55,518
Investments in associates and joint ventures	16	2,775	1,843
Total financial investments designated upon initial recognition		122,817	108,219
Total financial investments at fair value through profit or loss		124,160	109,587
Loans and receivables:			
Loans	21	3,136	10,233
Receivables and other financial assets	23	1,743	1,570
Investments in associates and joint ventures	16	74	100
Cash and cash equivalents	25	7,434	8,927
Total loans and receivables		12,387	20,830
Less: Financial investments classified as held for sale:			
Loans	21	-	(7,464)
Derivative financial assets	22	-	(139)
Debt securities	43	-	(195)
Receivables and other financial assets	23	-	(55)
Cash and cash equivalents	25	-	(1,491)
Total financial investments		136,547	121,073

The amount of debt securities of continuing operations expected to be recovered or settled after more than 12 months is £56,990m (2009: £52,832m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

21. Loans

	2010 £m	2009 £m
Loans secured by mortgages	2,941	10,009
Loans secured on policies	106	101
Other	89	133
Gross loans	3,136	10,243
Less: Allowance for impairment losses	-	(10)
Net loans	3,136	10,233
Less: Loans classified as held for sale	-	(7,464)
Total loans	3,136	2,769

Loans with variable rates and fixed interest rates are £276m and £2,860m respectively (2009: £286m and £2,483m respectively). Loans that are expected to be recovered after more than 12 months are £2,849m (2009: £2,523m).

22. Derivative financial instruments

The Group 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 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*.

	Contract amount £m	2010 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2009 Fair value assets £m	Fair value liabilities £m
Cash flow hedges	25	-	1	540	1	25
Fair value hedges	-	-	-	852	48	-
Net investment hedges	631	-	25	233	-	4
Held for trading	56,362	1,343	898	39,857	1,319	870
	57,018	1,343	924	41,482	1,368	899
Less: Derivative financial instruments classified as held for sale	-	-	-	(3,651)	(139)	(102)
Total derivative financial instruments	57,018	1,343	924	37,831	1,229	797

Derivative assets of £982m (2009: £1,034m) are expected to be recovered after more than 12 months. Derivative liabilities of £457m (2009: £608m) are expected to be settled after more than 12 months.

(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.

Forward foreign exchange contracts with an aggregate notional principal amount of £25m (2009: £31m) and a net fair value liability position of £1m (2009: asset of £1m) were designated as hedges of future cash flows arising from revenue receivable in foreign currency in 2010 and 2009. The cash flows from these instruments are expected to be reported in the consolidated income statement in 2011. In 2009 and 2010, the ineffectiveness recognised in income statements that arises from these cash flow hedges was less than £1m.

In 2009, interest rate swaps held by discontinued operations, with an aggregate notional principal amount of £509m and a net fair value of (£25m), were designated as hedges of future cash flows arising from debt issued in Sterling. The gain resulting from ineffectiveness recognised in the consolidated income statement that arose from these cash flow hedges was less than £1m.

22. Derivative financial instruments *continued***(a) Cash flow hedges *continued***

	Contract amount £m	2010 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2009 Fair value assets £m	Fair value liabilities £m
Foreign exchange derivatives:						
Forwards	25	-	1	31	1	-
Interest rate derivatives:						
Interest rate swaps	-	-	-	509	-	25
	25	-	1	540	1	25
Less: Cash flow hedges from discontinued operations	-	-	-	(509)	-	(25)
Total cash flow hedges	25	-	1	31	1	-

(b) 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 £631m (2009: £233m) were designated as hedges and gave rise to currency losses for the year of (£39m) (2009: gain of £11m), which have been deferred in the net investment hedge translation reserve. The effectiveness of hedges of net investments in foreign operations is measured with reference to changes in the spot exchange rates. Any ineffectiveness, together with any difference in value attributable to forward points, is recognised in the consolidated income statement. In 2010, the losses recognised in the income statement were £nil (2009: £1m). No amounts were withdrawn from equity during the year (2009: £nil), as there were no disposals of foreign operations.

	Contract amount £m	2010 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2009 Fair value assets £m	Fair value liabilities £m
Foreign exchange derivatives:						
Forwards	631	-	25	233	-	4
Total net investment hedges	631	-	25	233	-	4

(c) 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.

	Contract amount £m	2010 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2009 Fair value assets £m	Fair value liabilities £m
Equity derivatives:						
Equity swaps	-	-	-	5	1	-
Dividends	8	-	-	8	-	1
Futures	3,823	28	36	1,335	19	28
Variance swaps	66	86	170	27	27	40
Options	4,857	356	7	4,423	425	65
Interest rate derivatives:						
Interest rate swaps	13,495	455	203	20,498	445	526
Futures	11,889	52	49	5,061	15	44
Options	154	24	-	160	18	-
Foreign exchange derivatives:						
Cross currency swaps	480	169	-	792	289	-
Forwards	10,510	96	175	3,889	48	82
Futures	454	-	1	-	-	-
Options	4,502	48	83	651	9	30
Other derivatives:						
Property index swaps	-	-	-	211	-	18
Inflation rate swaps	349	1	14	1,528	8	21
Swaptions	2,597	16	11	996	6	-
Credit default swaps	3,178	12	149	273	9	15
	56,362	1,343	898	39,857	1,319	870
Less: Derivative financial instruments held for trading classified as held for sale	-	-	-	(2,291)	(90)	(77)
Total derivative financial instruments held for trading	56,362	1,343	898	37,566	1,229	793

23. Receivables and other financial assets

	2010 £m	2009 £m
Amounts receivable on direct insurance business	69	132
Amounts receivable on reinsurance contracts	9	1
Outstanding sales of investment securities	112	85
Accrued income	987	897
Cancellations of units awaiting settlement	108	88
Collateral pledged in respect of derivative contracts	86	76
Property related assets	145	160
Other	227	131
Total receivables and other financial assets	1,743	1,570
Less: Receivables and other financial assets classified as held for sale	-	(55)
Receivables and other financial assets	1,743	1,515

The amount of receivables and other financial assets of continuing operations expected to be recovered after more than 12 months is £67m (2009: £41m).

24. Other assets

	Notes	2010 £m	2009 £m
Income tax recoverable	19	162	124
Prepayments		28	24
Other		107	159
Other assets		297	307

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

The amount of other assets of continuing operations expected to be recovered after more than 12 months is £50m (2009: £29m).

25. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	551	551
Balance with central bank	-	1,326
Money at call and short notice	664	867
Demand and term deposits with original maturity of less than 3 months	4,981	4,251
Debt investments with less than 3 months to maturity from date of acquisition	1,238	1,932
Total cash and cash equivalents	7,434	8,927
Less: Cash and cash equivalents classified as held for sale	-	(1,491)
Cash and cash equivalents	7,434	7,436

	Notes	2010 £m	2009 £m
Cash and cash equivalents		7,434	8,927
Bank overdrafts	36	(104)	(87)
Total cash and cash equivalents for consolidated statement of cash flows		7,330	8,840

Cash at bank and in hand is non-interest bearing. Money at call and short notice and deposits are subject to variable interest rates. The balance with central bank was held by the Group's discontinued banking operations.

The cash flows attributable to the operating and financing activities of discontinued operations are set out in the table below. There were no investing activities relating to discontinued operations in the year.

	2010 £m	2009 £m
Operating cash flows	(6)	29
Financing cash flows	-	(8)
Total cash flows	(6)	21

26. Share capital

(a) Authorised share capital

The authorised share capital of the Company at the year end was:

	2010 Number	2010 £m	2009 Number	2009 £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:

	2010 Number	2010 £m	2009 Number	2009 £m
At 1 January	2,236,292,157	224	2,177,799,354	218
Shares issued in lieu of cash dividends	44,854,401	4	55,018,211	6
Shares issued in respect of employee share plans	566,626	-	630,003	-
Shares issued in respect of share options	1,305,584	-	2,842,293	-
Demutualisation shares	490	-	449	-
Shares issued in respect of bonus issue	583	-	1,847	-
At 31 December	2,283,019,841	228	2,236,292,157	224

During the year ended 31 December 2010, 44,854,401 shares were issued in respect of dividends paid in the period under the Scrip dividend scheme (2009: 55,018,211).

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 2010, the Company allotted 566,626 (2009: 630,003) ordinary shares to Group employees under such share incentive plans.

The Group also operates a Long-Term Incentive Plan (LTIP) for executives and senior management. During the year ended 31 December 2010, 1,305,584 (2009: 2,842,293) ordinary shares were issued on exercise of share options in respect of the LTIP.

The Scheme of Demutualisation sets a 10-year limit, ending in 2016, 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 2010, 490 ordinary shares were issued to eligible members in respect of their demutualisation entitlements (2009: 449).

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. Equity holders who were entitled to bonus shares but were not allocated shares on 10 July 2007 had until 10 July 2010 to claim their entitlements. During the year ended 31 December 2010, 583 ordinary shares were issued to equity holders entitled to receive bonus shares (2009: 1,847 ordinary 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.

27. Shares held by trusts

The Employee Shares Trust (EST) purchases and holds shares in the Company for delivery to employees under various employee share schemes. Shares purchased by the EST are presented as a deduction from equity in the consolidated statement of financial position. Share-based liabilities to employees may also be settled by the issue of new shares.

Shares held by trusts include shares held by the Unclaimed Asset Trust (UAT). The shares held by the UAT are those not yet claimed by the eligible members of the Standard Life Assurance Company (SLAC) following its demutualisation on 10 July 2006.

Any corresponding obligation to deliver a fixed number of the Company's equity instruments to employees, or eligible members of SLAC, is offset within the shares held by trusts reserve.

The number of shares held by trusts at 31 December 2010 which were not offset by a corresponding obligation to deliver a fixed number of equity instruments was 12,209,946.

28. Share premium reserve

The premium arising on the shares issued during the year was:

	2010 £m	2009 £m
At 1 January	888	792
Shares issued in lieu of cash dividends	88	96
At 31 December	976	888

29. Retained earnings

	Notes	2010 £m	2009 £m
At 1 January		685	774
Profit for the year attributable to equity holders		432	213
Dividends and appropriations		(273)	(260)
Transfer from equity compensation reserve for vested employee share-based payments	30	5	8
Transfer between reserves on disposal of subsidiaries ¹		121	-
Actuarial gains/(losses) on defined benefit pension schemes	38	184	(77)
Aggregate tax items recognised in equity		(59)	27
Other		(1)	-
At 31 December		1,094	685

¹ The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation. The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 and was classified as a discontinued operation for the year ended 31 December 2009.

30. Reconciliation of movements in other reserves

2010	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		6	(21)	268	(21)	3,194	33	266	(2,065)	1,660
Fair value losses on cash flow hedges		-	(2)	-	-	-	-	-	-	(2)
Fair value gains transferred to income statement on cash flow hedges		-	30	-	-	-	-	-	-	30
Net investment hedge		-	-	-	(39)	-	-	-	-	(39)
Revaluation of land and buildings	18	(14)	-	-	-	-	-	-	-	(14)
Exchange differences on translating foreign operations		-	-	122	-	-	-	-	-	122
Dividends and appropriations		-	-	-	-	-	-	(5)	-	(5)
Reserves credit for employee share-based payment schemes		-	-	-	-	-	18	-	-	18
Vested employee share-based payments – shares issued	29	-	-	-	-	-	(5)	-	-	(5)
Vested employee share-based payments – shares purchased		-	-	-	-	-	(10)	-	-	(10)
Transfer between reserves on disposal of subsidiaries ¹		-	-	-	-	(86)	-	-	(35)	(121)
With profits funds: associated UDS movement recognised in equity	34	13	-	(15)	-	-	-	-	-	(2)
Aggregate deferred tax items recognised in equity		-	(6)	-	-	-	-	-	-	(6)
Aggregate current tax items recognised in equity		-	-	(6)	6	-	-	-	-	-
At 31 December		5	1	369	(54)	3,108	36	261	(2,100)	1,626
Balance at 31 December 2010 comprises:										
Total reserve before with profit fund adjustment		4	1	610	(54)	3,108	36	261	(2,100)	1,866
Total with profit fund adjustment		1	-	(241)	-	-	-	-	-	(240)
At 31 December		5	1	369	(54)	3,108	36	261	(2,100)	1,626

¹ The transfer to retained earnings on disposal of subsidiaries is in respect of the sale of Standard Life Bank plc and Standard Life Healthcare Limited during 2010.

The 'with profit fund 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.

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 Companies Act 1985 (which has now been superseded by section 612 of the Companies Act 2006). 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 830 of the Companies Act 2006. The total amount of dividends paid during the year was £278m, of which £5m (2009: £nil) has been treated as a deduction from the special reserve.

30. Reconciliation of movements in other reserves *continued*

2009	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		9	(30)	244	(12)	3,194	17	266	(2,065)	1,623
Fair value losses on cash flow hedges		-	(25)	-	-	-	-	-	-	(25)
Fair value gains transferred to income statement on cash flow hedges		-	37	-	-	-	-	-	-	37
Net investment hedge		-	-	-	(12)	-	-	-	-	(12)
Revaluation of land and buildings	18	(16)	-	-	-	-	-	-	-	(16)
Exchange differences on translating foreign operations		-	-	(65)	-	-	-	-	-	(65)
Reserves credit for employee share-based payment schemes		-	-	-	-	-	24	-	-	24
Vested employee share-based payments – shares issued		-	-	-	-	-	(8)	-	-	(8)
With profits funds: associated UDS movement recognised in equity	34	12	-	92	-	-	-	-	-	104
Aggregate deferred tax items recognised in equity		1	(3)	-	-	-	-	-	-	(2)
Aggregate current tax items recognised in equity		-	-	(3)	3	-	-	-	-	-
At 31 December		6	(21)	268	(21)	3,194	33	266	(2,065)	1,660
Balance at 31 December 2009 comprises:										
Total reserve before with profit fund adjustment		18	(21)	494	(21)	3,194	33	266	(2,065)	1,898
Total with profit fund adjustment		(12)	-	(226)	-	-	-	-	-	(238)
At 31 December		6	(21)	268	(21)	3,194	33	266	(2,065)	1,660

31. Non-controlling interests and third party interest in consolidated funds

The movement in non-controlling interests during the year was:

	2010 £m	2009 £m
At 1 January	296	334
Foreign exchange differences on translating foreign operations	(4)	(16)
Change in net assets attributable to non-controlling interests	61	(33)
Net contributions	(12)	12
Distributions	(6)	(1)
At 31 December	335	296

The movement in third party interest in consolidated funds during the year was:

	2010 £m	2009 £m
At 1 January	3,004	1,603
Foreign exchange differences on translating foreign operations	(73)	(17)
Change in liability for third party interest in consolidated funds	443	323
Net contributions and movements between classifications of investments	2,161	1,145
Distributions	(81)	(50)
At 31 December	5,454	3,004

32. 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 – the Heritage With Profits Fund (HWPF), the 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.

32. 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
- 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
- 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 regular premium 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
- 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

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 Prices 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 2010 is £3,022m (2009: £2,998m) and this represents about 27% (2009: 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 2010 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,928m (2009: £2,339m) and this represents around 18% (2009: 21%) 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 42 – Risk management), there is no impact on shareholder equity for either of the market movements scenarios. As explained in the limitations, this is because although equity holders 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 statement of financial position 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.

For unutilised non-participating insurance contracts and investment contracts, the liability is based on the value of the underlying assets supporting the contracts.

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, and 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.

32. 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 - methods *continued*

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 the Group'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 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 payouts 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

Eligible policies covered by the Mortgage Endowment Promise may receive 'top up' amounts, in accordance with the Scheme of Demutualisation (the Scheme) (Schedule 4).

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 with reference to the ratio of guarantee costs to the asset share for the product most similar in nature.

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:

	2010	2009
Risk discount rate	3.81% - 4.81%	4.37% - 5.47%
Investment returns		
Equities	3.59%	4.21%
Property	3.59%	4.21%
FI – annuity/protection	3.81%	4.37%
FI – other business	3.59%	4.21%
Expense inflation	3.95%	3.97%

The table above shows the changes in the basis between 2009 and 2010. 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 2010 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 and any explicit margins for prudence are 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 participating business is 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.

(a)(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 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 dividends and earnings 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 reflect sustainability and also 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	2010	2009
1. Assurances		
Life (includes Lifetime Protection Series)	2.70%	3.20%
Other	3.45%	4.05%
2. Annuities		
Individual/group		
Non-linked		
Life	3.50%	4.20%
Pensions: reinsured externally	3.85%	4.30%
Pensions: not reinsured externally	5.20%	5.65%
Deferred annuities	4.30%	4.65%
Linked to RPI		
Linked to RPI: reinsured externally	0.25%	0.85%
Linked to RPI: not reinsured externally	0.45%	0.85%
Deferred annuities linked to RPI	0.45%	0.55%

32. 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*

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	2010	2009
1. Assurances		
Lifetime Protection Series	Males: 72.0% TMS00/TMN00 Females: 72.0% TFS00/TFN00	Males: 69.3% TMS00/TMN00 Females: 69.3% TFS00/TFN00
Assurances (excluding Lifetime Protection Series)	72.3% AMC00	74.2% AMC00
2. Annuities		
Individual and group in deferment	70.5% AMC00	72.4% AMC00
Individual after vesting	Males: 98.4% RMC00 Females: 106.6% RFC00	Males: 96.2% RMC00 Females: 105.8% RFC00
Group after vesting	Males: 113.5% RMV00 Females: 113.8% WA00	Males: 114.3% RMV00 Females: 115.6% WA00

In the valuation of annuities and deferred annuities issued in the UK, 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 1.6% pa (2009: 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 1.3% pa (2009: 1.0% pa) and are subject to an additional underpin so that 100% of the CMIR17 improvements apply. From age 90 (100 in the case of deferred annuities), the minimum improvement factors taper down to zero at age 120 (2009: no tapering of improvements). 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 3.95% (2009: 3.97%) 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 unutilised 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.

(a)(iv) 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 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 unutilised participating contracts and guaranteed annuity options on some pension business. All non-utilised life investment contracts (Global Secure Bonds) have now matured – these were valued on an amortised cost basis.

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 unutilised 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, the nominal fund 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. 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.

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 2010 is £159m (2009: £121m) and this represents about 7% (2009: 7%) 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 42(d)(iii) – Sensitivity analysis – Market risk (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 2010 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £143m (2009: £121m) and this represents about 6% (2009: 6%) 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.

32. Insurance contract liabilities, investment contract liabilities and reinsurance assets - terms, methods and assumptions *continued*

(b) Proprietary Business Fund (PBF) *continued*

(b)(II) UK Insurance and investment contract liabilities - methods

Calculation of liabilities

For unithised 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 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 dividends and earnings 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	2010	2009
1. Assurances		
Lifetime Protection Series (term assurance/critical illness)	0.15% / 2.70%	0.15% / 3.15%
Life	2.10%	2.50%
2. Annuities		
Individual/group		
Life	4.55%	4.75%
Pensions	4.55%	4.75%
Linked to RPI	0.65%	0.65%

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	2010	2009
1. Assurances		
Lifetime Protection Series	Males: 72.0% TMS00/TMN00 Females: 72.0% TFS00/TFN00	Males: 69.3% TMS00/TMN00 Females: 69.3% TFS00/TFN00
Assurances (excluding Lifetime Protection Series)	72.3% AMC00	74.2% AMC00
2. Annuities		
Individual after vesting	Males: 91.0% RMC00 Females: 98.6% RFC00	Males: 91.4% RMC00 Females: 100.5% RFC00
Group after vesting	Males: 105.0% RMV00 Females: 105.3% WA00	Males: 108.6% RMV00 Females: 109.8% WA00

In the valuation of annuities issued in the UK, 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 1.6% pa (2009: 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 1.3% pa (2009: 1.0% pa) and are subject to an additional underpin so that 100% of the CMIR17 improvements apply. From age 90 the minimum improvement factors taper down to zero at age 120 (2009: no tapering of improvements). 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 3.95% (2009: 3.97%) 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.

(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 the 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.
- 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 fund 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 written here. 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 of the deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the nominal fund, 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 German market. The value of options and guarantees on the German business is measured using a methodology consistent with the UK.

32. Insurance contract liabilities, investment contract liabilities and reinsurance assets - terms, methods and assumptions *continued*

(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, which is written in the Proprietary Business Fund with the participating element being transferred to the G SMWPF. 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 fund 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, the nominal fund 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 predefined 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 2010 is £642m and these represent around 13% of the total Canadian annuity business. The liability for annuities linked to CPI is approximately £385m. This represents around 8% 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 £57m. 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 £872m at 31 December 2010 (2009: £722m).

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 greatest 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 £31m. At 31 December 2010, the liability for all the TIFs (i.e. pre and post November 2003) is £55m (2009: £44m).

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 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 (£29m) 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 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%.

32. 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)(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 2010 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	2010	2009
6 months	1.14%	0.27%
1 year	1.39%	0.69%
2 years	1.64%	1.46%
3 years	1.91%	1.91%
5 years	2.44%	2.78%
7 years	2.79%	3.13%
10 years	3.14%	3.64%
20 years	3.57%	4.20%
30 years	3.54%	4.09%

The following table shows other key investment returns used in the asset and liability projections under CALM:

Investment returns	2010	2009
Equities	6.94%	6.92%
Property	6.92%	6.86%

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.

Mortality tables used	2010	2009
1. Assurances		
Perspecta Universal Life and Term Life	65%-120% of base table (where base table is 78% of CIA 97-04)	65%-120% of base table (where base table is 56%-61% of CIA 86-92)
Participating and non-participating life, closed to new business	76%-113% of CIA 97-04	56%-86% of CIA 86-92
2. Annuities		
Individual after vesting	53%-100% of IAM83M/IAM83F with internally developed projection scale CAN1921-2004 M/F (2011)	54%-107% of IAM83M/IAM83F with internally developed projection scale CAN1921-2004 M/F (2010)
Group after vesting	92%-111% of GAM94M/GAM94F with internally developed projection scale CAN1921-2004 M/F (2011)	93%-117% of GAM94M/GAM94F with internally developed projection scale CAN1921-2004 M/F (2010)

Mortality assumptions are derived from studies performed during 2010, with data to 2009, 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 consisted of individual and corporate private medical insurance products that included a range of benefit options. All contracts were written on annual premium income basis. A provision for unearned premiums was 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 was attributable to subsequent periods.

Claims incurred comprised 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 comprised provisions for the claims incurred up to, but not paid at, the reporting date, whether reported or not.

Commission payable was 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, Standard Life Assurance Limited (SLAL), a wholly owned subsidiary of the Company, reinsured a portfolio of annuity contracts held within the 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 31 December 2010 value £6.0bn (2009: £6.1bn). For full details see Note 4 – Expenses under arrangement with reinsurers. A floating charge over the ring fenced pool of assets has been granted to the reinsurer.

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 statement of financial position 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.

33. Insurance contract liabilities, non-participating investment contract liabilities, participating investment contract liabilities and reinsurance assets

	Notes	2010 £m	2009 £m
Non-participating insurance contract liabilities	33(a)	23,564	22,164
Non-participating investment contract liabilities	33(b)	75,600	63,728
Non-participating contract liabilities		99,164	85,892
Participating insurance contract liabilities	33(a)	17,357	16,568
Participating investment contract liabilities	33(a)	15,329	14,993
Unallocated divisible surplus	34	788	791
Participating contract liabilities		33,474	32,352

33. Insurance contract liabilities, non-participating investment contract liabilities, participating investment contract liabilities and reinsurance assets *continued*

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:

	2010 £m	2009 £m
Participating contract liabilities before apportionment	32,374	31,269
Apportionment of non-participating PVFP	312	292
	32,686	31,561
Participating insurance contracts	17,357	16,568
Participating investment contracts	15,329	14,993
Participating contract liabilities after apportionment	32,686	31,561
Unallocated divisible surplus before apportionment	1,996	1,940
Apportionment of non-participating PVFP	(1,208)	(1,149)
Unallocated divisible surplus after apportionment	788	791

(a) Insurance contract liabilities, participating investment contracts and reinsurance assets

The movement in insurance contract liabilities, participating investment contracts and reinsurance assets during the year was as follows:

2010	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 £m
At 1 January	16,568	22,164	14,993	53,725	(7,032)	46,693
Expected change	(362)	(525)	(546)	(1,433)	307	(1,126)
Methodology/modelling changes	2	(11)	8	(1)	(7)	(8)
Effect of changes in:						
Economic assumptions	38	583	2	623	(251)	372
Non-economic assumptions	(34)	(43)	(12)	(89)	54	(35)
Effect of:						
Economic experience	1,062	536	769	2,367	(19)	2,348
Non-economic experience	146	(434)	57	(231)	15	(216)
New business	39	816	90	945	(2)	943
Total change in contract liabilities	891	922	368	2,181	97	2,278
Foreign exchange adjustment	(102)	625	(32)	491	(31)	460
Movements attributable to discontinued healthcare operations	-	(147)	-	(147)	4	(143)
At 31 December	17,357	23,564	15,329	56,250	(6,962)	49,288

Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance and investment contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the year, changes in assumptions and, to a limited extent, improvements in modelling techniques.

Following demutualisation it is necessary to recognise the residual estate in the HWPF as a liability within the participating liabilities, 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.

2009	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 £m
At 1 January	17,625	19,635	15,674	52,934	(6,076)	46,858
Expected change	(627)	(379)	(828)	(1,834)	184	(1,650)
Methodology/modelling changes	(17)	(70)	(12)	(99)	(27)	(126)
Effect of changes in:						
Economic assumptions	(311)	1,759	(268)	1,180	(1,117)	63
Non-economic assumptions	(22)	(90)	-	(112)	52	(60)
Effect of:						
Economic experience	205	593	133	931	(25)	906
Non-economic experience	(21)	(324)	272	(73)	(4)	(77)
New business	38	777	110	925	(5)	920
Total change in contract liabilities	(755)	2,266	(593)	918	(942)	(24)
Foreign exchange adjustment	(302)	276	(88)	(114)	(14)	(128)
Movement attributable to discontinued healthcare operations	-	(13)	-	(13)	-	(13)
At 31 December	16,568	22,164	14,993	53,725	(7,032)	46,693

(b) Non-participating investment contract liabilities

The change in non-participating investment contract liabilities was as follows:

	2010 £m	2009 £m
At 1 January	63,728	52,273
Contributions	11,145	8,997
Initial charges and reduced allocations	(9)	(21)
Account balances paid on surrender and other terminations in the year	(7,589)	(6,682)
Investment return credited and related benefits	7,740	9,088
Foreign exchange adjustment	955	376
Recurring management charges	(370)	(303)
At 31 December	75,600	63,728

Refer to Note 42 – 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.

34. Movement in components of unallocated divisible surplus (UDS)

The movement in the UDS was as follows:

	2010 £m	2009 £m
At 1 January	791	864
Change in UDS recognised in the income statement	(22)	(21)
Change in UDS not recognised in the income statement	2	(104)
Foreign exchange adjustment	17	52
At 31 December	788	791

35. Financial liabilities

	Notes	2010 £m	2009 £m
Financial liabilities at fair value through profit or loss:			
Classified as held for trading:			
Derivative financial instruments designated as cash flow hedges	22	1	25
Derivative financial instruments designated as net investment hedges	22	25	4
Derivative financial instruments designated as held for trading	22	898	870
Total financial liabilities classified as held for trading		924	899
Designated upon initial recognition:			
Non-participating contract liabilities		72,670	60,947
Third party interest in consolidated funds	31	5,454	3,004
Total financial liabilities designated upon initial recognition		78,124	63,951
Total financial liabilities at fair value through profit or loss		79,048	64,850
Financial liabilities measured at amortised cost:			
Non-participating contract liabilities		2,930	2,781
Deposits received from reinsurers		6,021	6,104
Borrowings	36	245	3,010
Subordinated liabilities	37	1,799	2,111
Customer accounts related to banking activities and deposits by banks		-	5,927
Other financial liabilities	40	1,826	2,745
Total financial liabilities recognised at amortised cost		12,821	22,678
Less: Financial liabilities classified as held for sale:			
Borrowings	36	-	(2,783)
Subordinated liabilities	37	-	(279)
Customer accounts related to banking activities and deposits by banks		-	(5,927)
Derivative financial liabilities	22	-	(102)
Other financial liabilities	40	-	(8)
Total financial liabilities		91,869	78,429

36. Borrowings

	Notes	2010 £m	2009 £m
Certificates of deposit, commercial paper and medium term notes		-	816
Securitisations – mortgage backed floating rate notes		-	1,967
Bank overdrafts	25	104	87
Other		141	140
Total borrowings		245	3,010
Less: Borrowings classified as held for sale		-	(2,783)
Borrowings		245	227

37. Subordinated liabilities

	2010 £m	2009 £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	660	682
Subordinated guaranteed notes:		
6.14% £265,000,000 fixed rate perpetual	-	279
Mutual Assurance Capital Securities:		
6.546% £300,000,000 fixed rate perpetual	315	315
5.314% €360,000,000 fixed/floating rate perpetual	322	333
Total subordinated liabilities	1,799	2,111
Less: Subordinated liabilities classified as held for sale	-	(279)
Subordinated liabilities	1,799	1,832

The difference between the fair value and carrying value of the subordinated liabilities is presented in Note 43 – Fair value of financial assets and liabilities.

Subordinated liabilities are considered current if the contractual repricing or maturity dates are within one year. The principal amount of subordinated liabilities of continuing operations is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £71m (2009: £72m) 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.

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 rate.

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.

37. Subordinated liabilities *continued*

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.

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 guaranteed 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.

38. 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.

Contributions to plans

The following table shows the actual contributions made to the plans in 2009 and 2010:

	Defined benefit		Defined contribution	
	2010 £m	2009 £m	2010 £m	2009 £m
UK – normal funding	31	36	8	7
UK – additional contributions	70	20	-	-
Canada	4	4	4	3
Ireland	2	2	-	-

Expected contributions to the plans in 2011 are as follows:

	Defined benefit	Defined contribution
	2011 £m	2011 £m
UK – normal funding	29	11
UK – additional contributions	20	-
Canada	5	4
Ireland	1	-

Total contributions to the UK defined benefit scheme include additional contributions of £20m paid in accordance with an existing agreement with the scheme trustees. In addition, as a result of the disposal of Standard Life Healthcare Limited and Standard Life Bank plc in 2010, additional pension contributions were made to the UK defined benefit scheme totalling £40m together with a further £10m representing an acceleration of an agreed additional contribution from 2017 to 2010.

Canada – post-retirement medical benefits

In Canada, certain 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 2010 £m	One percentage point increase 2009 £m	One percentage point decrease 2010 £m	One percentage point decrease 2009 £m
Effect on defined benefit obligation	4	3	(3)	(2)

(a) Analysis of amounts recognised in the consolidated income statement

The amounts recognised in the consolidated income statement for defined contribution and defined benefit schemes are as follows:

	Notes	2010 £m	2009 £m
Current service cost		(67)	(53)
Interest cost on benefit obligation		(110)	(93)
Expected return on plan assets		119	91
Past service cost		59	1
Gains on curtailment		-	4
Credit/(expense) recognised in the income statement	6	1	(50)

Contributions made to defined contribution plans are included within current service cost, with the balance attributed to the Group's defined benefits schemes.

In 2010, a credit from past service costs of £59m has been recognised as a result of a change in the basis of future pension increases in the UK staff pension scheme.

(b) Actuarial gains and losses recognised in the consolidated statement of comprehensive income

The actuarial gains/(losses) recognised in the consolidated statement of comprehensive income are as follows:

	2010 £m	2009 £m
Actual return less expected return on schemes' assets	204	99
Experience gains and losses arising on schemes' liabilities	(2)	41
Changes in assumptions underlying schemes' liabilities	(18)	(370)
Surplus not recognised	-	153
Actuarial gains/(losses) in the statement of comprehensive income	184	(77)

The cumulative amount of actuarial gains recognised in the statement of comprehensive income since 16 November 2003, the date of adoption of IFRS, is £233m (2009: £49m).

The actuarial gains for the year ended 31 December 2010 of £184m (2009: losses of £77m) were recognised directly in retained earnings. Refer to Note 29 – Retained earnings.

(c) Analysis of amounts recognised in the consolidated statement of financial position

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

	2010				2009			
	UK £m	Canada £m	Ireland £m	Total £m	UK £m	Canada £m	Ireland £m	Total £m
Present value of funded obligation	(1,724)	(175)	(51)	(1,950)	(1,700)	(135)	(43)	(1,878)
Present value of unfunded obligation	-	(56)	-	(56)	-	(41)	-	(41)
Fair value of scheme assets	2,005	175	48	2,228	1,644	144	48	1,836
Adjustment for unrecognised past service costs	-	(6)	-	(6)	-	(6)	-	(6)
Net asset/(liability) in the statement of financial position	281	(62)	(3)	216	(56)	(38)	5	(89)

The Group also recognises a net liability of £6m (2009: £5m) arising from a scheme with a total defined benefit obligation of £6m (2009: £5m) administered for the benefit of employees in Germany, resulting in a combined net asset presented in the statement of financial position of £210m (2009: net liability of £94m).

38. Pension and other post-retirement benefit provisions *continued***(d) Defined benefit obligation**

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

	2010 £m	2009 £m
At 1 January	1,924	1,513
Foreign exchange differences	14	2
Current service cost	55	43
Interest cost	110	93
Actuarial losses	20	329
Past service cost	(59)	(1)
Gains on curtailments	-	(4)
Benefits paid	(52)	(51)
At 31 December	2,012	1,924

The defined benefit obligation is as follows:

	2010 £m	2009 £m
Wholly unfunded	62	46
Wholly funded	1,950	1,878
Total defined benefit obligation	2,012	1,924

(e) Plan assets

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

	2010 £m	2009 £m
At 1 January	1,836	1,629
Expected return on scheme assets	119	91
Actuarial gains	204	99
Contributions by employer	107	62
Foreign exchange difference on foreign plans	12	5
Benefits paid	(50)	(50)
At 31 December	2,228	1,836

The distribution of the fair value of the plan assets at 31 December is as follows:

	2010				2009			
	UK £m	Canada £m	Ireland £m	Total £m	UK £m	Canada £m	Ireland £m	Total £m
Equity securities	490	127	23	640	734	78	21	833
Bonds – government	317	46	20	383	239	45	25	309
Bonds – corporate	577	-	5	582	154	3	-	157
Property	47	-	-	47	65	7	1	73
Other	574	2	-	576	452	11	1	464
Total	2,005	175	48	2,228	1,644	144	48	1,836

The expected return on plan assets in the UK is set with reference to the scheme's investment guidelines. Derivative financial 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:

	2010			2009		
	UK %	Canada %	Ireland %	UK %	Canada %	Ireland %
Expected return on plan assets	6.15	7.00	5.00	6.30	7.00	5.93

The actual return on plan assets during 2010 was £323m (2009: £190m).

(f) Principal assumptions

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

	2010			2009		
	UK %	Canada %	Ireland %	UK %	Canada %	Ireland %
Rate of increase in salaries	4.65-5.65	3.50	3.50	4.80-5.80	3.50	3.50
Rate of increase in pensions	3.05-3.65	1.33	1.00	3.80	1.33	1.00
Discount rate	5.30	5.50	5.25	5.60	6.25	6.00
Inflation assumption	3.05-3.65	2.00	2.00	3.80	2.00	2.00

The valuation of scheme liabilities is sensitive primarily to both the assumed discount and inflation rates and in particular to the difference between these two rates. A reduction of ten basis points in the discount rate used to value the UK scheme would increase the defined benefit obligation by £43m (2009: £45m).

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

Table	Improvements	Normal Retirement Age (NRA)	Expectation of life				
			Male, age today		Female, age today		
			NRA	40	NRA	40	
UK	Scheme specific basis reflecting membership demographics UP94 proj to 2015	'Double entry' table, CMI cohort projections with underpin	60	28	30	29	30
Canada		scale AA	63	21	19	23	22
Ireland		Projected to 2025	60	28	31	29	32

(g) History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of the defined benefit obligation	2,012	1,924	1,513	1,587	1,491
Fair value of the plan assets	2,228	1,836	1,629	1,384	1,271
Adjustment for unrecognised past service costs	(6)	(6)	(5)	-	-
Net surplus/(deficit) in the plans	210	(94)	111	(203)	(220)
Surplus not recognised	-	(153)	153	-	-
Experience adjustments on plan liabilities	(20)	(329)	207	22	19
Experience adjustments on plan assets	204	99	107	(25)	(31)

39. Deferred income

	2010 £m	2009 £m
At 1 January	371	382
Additions during the year	83	72
Released to the income statement as fee income	(71)	(80)
Foreign exchange adjustment	(1)	(3)
At 31 December	382	371

40. Other financial liabilities

	2010 £m	2009 £m
Contingent commissions	61	52
Amounts payable on direct insurance business	325	273
Amounts payable on reinsurance contracts	26	25
Outstanding purchases of investment securities	131	399
Accruals	304	258
Creation of units awaiting settlement	75	59
Cash collateral held in respect of securities lending arrangements	-	933
Cash collateral held in respect of derivative contracts	396	274
Property related liabilities	232	224
Other	276	248
Total other financial liabilities	1,826	2,745
Less: Other financial liabilities classified as held for sale	-	(8)
Other financial liabilities	1,826	2,737

The amount of other financial liabilities expected to be settled after more than 12 months is £161m (2009: £159m).

41. Other liabilities

	2010 £m	2009 £m
Provisions	10	21
Other	107	72
Other liabilities	117	93

Provisions comprise obligations in respect of compensation, litigation, staff entitlements and reorganisations. The movement during the year was as follows:

	2010 £m	2009 £m
At 1 January	21	22
Charged/(credited) to the consolidated income statement:		
Additional provisions	6	11
Unused amounts reversed	(6)	(3)
Disposal of subsidiaries	(6)	-
Used during the year	(5)	(8)
Exchange differences	-	(1)
At 31 December	10	21

The amount of other liabilities of continuing operations expected to be settled after more than 12 months is £1m (2009: £nil).

42. 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 Chief Executive (CE) 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, including the Group Enterprise Risk Management Committee (ERMC). 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 Audit and Compliance Committee, which is supported by the Group Internal Audit function, and the Risk and Capital Committee.

The CE and the Group's senior management are responsible for ensuring that the ERM Framework is operating effectively across the Group. The Group's 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

The ERMC supports the CE 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 Credit Risk Committee and Group Risk Management. The ERMC meets at least monthly, and usually in conjunction with the Executive team.

(b) The Group structure

All business units are required to report risk information to the ERMC and CRO. 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 into 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. Quantitative information is presented as follows: UK and Europe life and pensions, Canada and other business units.

UK and Europe life and pensions is subdivided and summarised to separately present the risks borne by the HWPF and other with profits funds which comprise UK Smoothed Managed With Profits Fund, German Smoothed Managed With Profits Fund and German With Profits Fund. The effect of risk on the recourse cash flows arising in the HWPF – the principal means by which surplus arising within the HWPF is transferred to equity holders – is also highlighted where appropriate. Within UK and Europe life and pensions, other funds business includes the financial instruments attributable to Standard Life Assurance Limited Shareholder Fund (SHF), Standard Life Assurance Limited Proprietary Business Fund (PBF) and Standard Life Investment Funds (SLIF). Unit linked business is presented separately. Canada comprises segregated and non-segregated funds business. Other business units include the activities of Standard Life plc, Standard Life Investments Limited and other operations. The Group's healthcare operations, Standard Life Healthcare Limited, was sold on 31 July 2010. Financial assets of £18m and financial liabilities of £160m attributable to Standard Life Healthcare Limited are included in the analysis presented in this Note, as at 31 December 2009, within other business units.

42. Risk management *continued*

(c) Risk identification and assessment

The Group classifies the risks to which it is exposed as follows:

- Market risk
- Credit risk
- Demographic and expense risk
- Liquidity risk
- Operational risk

Each of these classifications is defined and described in the sections of this Note that follow.

Concentrations of risk are monitored using various complementary measures, including the Group's risk metrics, 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 (f) are consistent with those applied in the EEV Sensitivity analysis, which is presented in Note 16 of the Supplementary financial information.

(d) 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 manages such risks through the use of a number of specific controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits
- Clearly defined investment benchmarks for policyholder and equity holder funds
- Stochastic and deterministic asset/liability modelling
- Active use of derivatives to improve the matching characteristics of assets and liabilities

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.

Information on the methods used to determine fair values for each major category of financial instrument measured at fair value is presented in Note 43 – Fair value of financial assets and liabilities.

(d)(i) Elements of market risk

(d)(i)(I) Equity and property risk

The Group is exposed to fluctuations in the equity securities and property markets, covering 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. Limits for equity securities may be expressed as 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
- Development property under construction

(d)(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 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.

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.

(d)(I)(iii) Foreign currency risk

The Group defines foreign currency risk as the risk that the value of overseas operations and profits generated by them falls in Sterling terms. The principal source of this risk arises from the Group's investments in overseas subsidiaries and joint ventures, primarily Canada. Hedges exist to limit the size of the exposure relating to the investment in Canada.

The Group's financial assets are generally held in the local currency of its operational geographic locations, principally to assist with the matching of liabilities. However, foreign currency risk arises where financial assets are held in other currencies, for example to meet the expectations of particular groups of policyholders or to improve the risk profile through diversification. The Group manages this risk through the use of limits on the amount of foreign currency risk that is permitted.

(d)(ii) Market risk concentrations

Financial investments, reinsurance assets and investment property of Standard Life Group

The analysis of market risk concentration presented in the charts that follow can be reconciled to the Group's total assets as follows:

	2010 £m	2009 £m
Total financial investments, reinsurance assets and investment property of Standard Life Group		
UK and Europe life and pensions		
Heritage With Profits Fund and other with profits funds	51,015	50,961
Other funds excluding unit linked assets	5,528	5,265
Unit linked assets	62,704	53,218
Canada		
Non-segregated funds assets	11,211	10,054
Segregated funds assets	12,511	10,030
Other business units	2,825	2,227
	145,794	131,755
Non-controlling interests and third party interest in consolidated funds:		
Financial investments	5,022	2,719
Investment property	1,103	742
	6,125	3,461
Intangible assets	135	106
Deferred acquisition costs	881	872
Investments in associates and joint ventures accounted for using the equity method	238	226
Property, plant and equipment	164	161
Pension and other post-retirement benefits assets	281	-
Deferred tax assets	201	330
Other assets	297	307
	2,197	2,002
Total assets of continuing operations	154,116	137,218
Assets of operations classified as held for sale	-	9,395
Total assets	154,116	146,613

The Group manages market risk concentrations by ensuring that assets are spread across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the relevant business unit. A combination of limits by name, sector and credit rating are used where relevant to reduce concentration risk within asset classes.

The detail that follows provides information on the diversity of the Group's investments as at 31 December 2010 and 31 December 2009. The information presented excludes assets held by third parties which are included in the consolidated statement of financial position as a result of the consolidation of investment vehicles the Group controls. The Group is not exposed to market risk on these assets since the risk is attributable to the third parties and there is a corresponding liability included in the consolidated statement of financial position which represents the interests of the third parties (presented as third party interest in consolidated funds).

42. Risk management *continued*

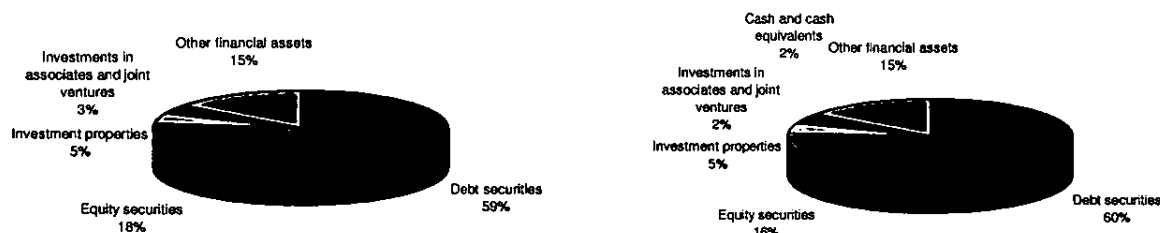
(d) Market risk *continued*

(d)(ii) Market risk concentrations *continued*

UK and Europe life and pensions: Heritage With Profits Fund and other with profits funds, excluding unit linked assets
Financial investments, reinsurance assets and investment property £51,015m (2009: £50,961m)

2010

2009



As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.

Excluding unit linked business, 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 contractual obligations of the fund were determined at the time of the demutualisation of The Standard Life Assurance Company (SLAC), and are principally conventional and unitised participating policies and annuities in payment.

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 Principles and Practices of Financial Management (PPFM)
- 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.

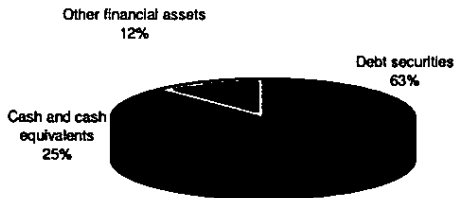
Equity holders receive recourse cash flows and certain other defined payments in accordance with the Scheme and other relevant agreements. The recourse cash flows calculations are based on several different components of which some are sensitive to market movements. Investment returns are specifically excluded from the calculations and are borne by the HWPF, and will ultimately impact the returns to the HWPF participating policyholders.

Following the demutualisation of SLAC, new participating business is written in the Propriety Business Fund (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 Standard Life Assurance Limited (SLAL), the other accepts business written in the UK.

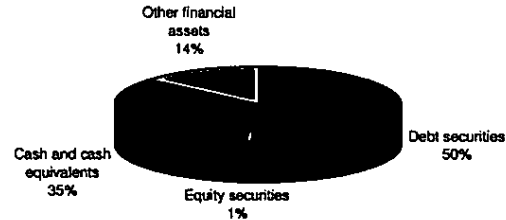
The terms of the Scheme provide for the retention of recourse cash flows under certain circumstances to support the financial position of the HWPF. The equity holder is also exposed to the market risk that the assets of the fund may be insufficient in total to meet obligations. Should such a situation arise, the equity holders would be exposed to the full potential cost of any shortfall.

UK and Europe life and pensions: Other funds business, excluding unit linked assets
Financial investments and reinsurance assets £5,528m (2009: £5,265m)

2010



2009

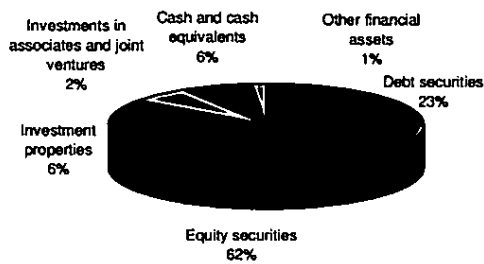


As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.

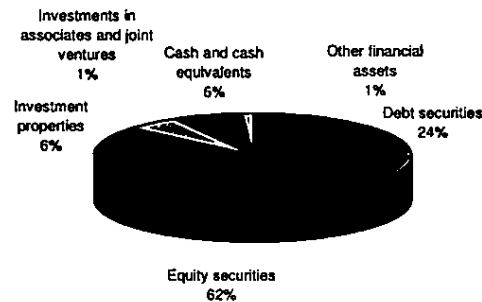
Assets in the other funds business are managed against benchmarks that ensure diversification is spread across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise from the liabilities. A combination of limits by name, sector and credit rating are used where relevant to reduce concentration risk among the assets held.

UK and Europe life and pensions: Unit linked assets
Financial investments and investment property £62,704m (2009: £53,218m)

2010



2009

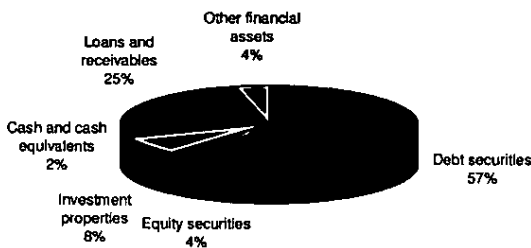


As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.

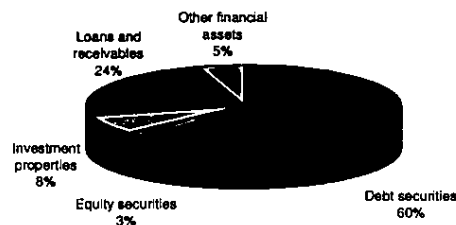
Unit linked assets are largely managed in accordance with the mandates of the particular funds, and losses, occurring as a result of market risk, are normally attributed to those funds. The exposure of equity holders to market risk is predominantly limited to variations in charges arising as a consequence of changes in the fair value of assets under management.

Canada, excluding segregated funds assets
Financial investments, reinsurance assets and investment property £11,211m (2009: £10,054m)

2010



2009



Equity holders are exposed to market risks from Canada non-segregated fund business including losses from mismatches between financial assets and liabilities. Equity holders also have exposure to variations in costs of meeting guarantees to policyholders made in respect of certain contracts, which may arise as a consequence of changes in the value of underlying assets.

42. Risk management *continued*

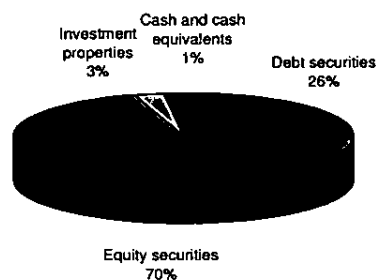
(d) Market risk *continued*

(d)(ii) Market risk concentrations *continued*

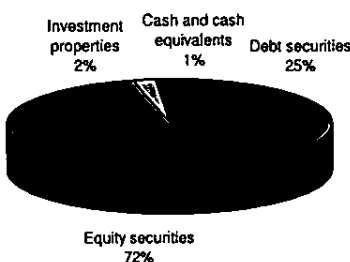
Canada segregated funds assets

Financial investments and investment property £12,511m (2009: £10,030m)

2010



2009

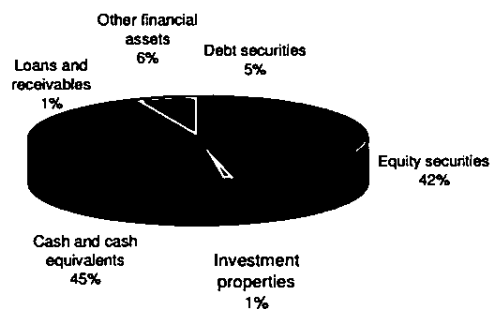


Similar to unit linked business, the exposure of equity holders to market risk in respect of segregated fund business is predominantly limited to variations in charges arising as a consequence of changes in the value of assets under management.

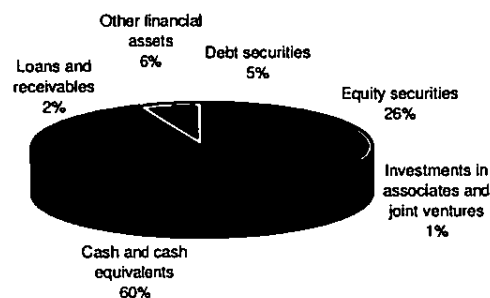
Other business units

Financial investments, reinsurance assets and investment property £2,825m (2009: £2,227m)

2010



2009



The majority of the other business units' assets represent unit linked assets that are managed by Standard Life International Limited. The equity holders' exposure to market risk in respect of these assets is predominantly limited to variations in charges arising as a consequence of changes in the value of assets under management.

(d)(iii) Sensitivity analysis - market risk

The Group's profit after tax and equity are sensitive to variations in respect of the Group's market risk exposures and a sensitivity analysis is presented in the tables that follow. 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 reporting date. For each sensitivity 'test', the impact of a reasonably possible change in a single sensitivity factor is presented, 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 is included in the sensitivity analysis where there is an impact, the change in unit linked liabilities and the corresponding asset movement has not been presented. This is also true of the other with profits funds with the exception of the German With Profits Fund (GWPF). As at 31 December 2010 the sensitivity of GWPF to market risk was not material.

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 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 present the effect of the sensitivity factors on the third party assets and liabilities held by third parties and the liability for third party interest in consolidated funds since the total net impact on profits after tax and equity will be nil.

2010 Increase/(decrease) in profit after tax	Equity				Property				Interest	
	+10% £m	-10% £m	+20% £m	-20% £m	+10% £m	-10% £m	+20% £m	-20% £m	+1% £m	-1% £m
UK and Europe life and pensions										
Heritage With Profits Fund:										
Recourse cash flows	-	-	-	-	-	-	-	-	-	-
Other funds:										
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	265	(321)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-	-	-	(79)	90
Assets backing	-	-	-	-	-	-	-	-	(277)	336
	-	-	-	-	-	-	-	-	(91)	105
Canada										
Non-participating insurance contract liabilities	(2)	2	(4)	4	12	(14)	21	(32)	314	(454)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Participating insurance contract liabilities	(15)	15	(29)	29	(6)	6	(12)	12	21	(26)
Assets backing – participating insurance contract liabilities	15	(15)	29	(29)	6	(6)	12	(12)	(21)	26
Assets backing – non-participating insurance contract liabilities	16	(16)	31	(31)	32	(32)	64	(64)	(307)	385
Assets backing – non-participating investment contract liabilities	-	-	-	-	-	-	-	-	(82)	104
Other assets and liabilities	3	(3)	7	(7)	38	(38)	77	(77)	(24)	28
	17	(17)	34	(34)	82	(84)	162	(173)	(99)	63
Other business units										
Other assets and liabilities	9	(9)	17	(17)	-	-	-	-	4	(4)
	9	(9)	17	(17)	-	-	-	-	4	(4)
Total	26	(26)	51	(51)	82	(84)	162	(173)	(186)	164

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 consolidated income statement.

42. Risk management *continued***(d) Market risk *continued*****(d)(iii) Sensitivity analysis - market risk *continued***

2009 Increase/(decrease) in profit after tax	Equity				Property				Interest	
	+10% £m	-10% £m	+20% £m	-20% £m	+10% £m	-10% £m	+20% £m	-20% £m	+1% £m	-1% £m
UK and Europe life and pensions										
Heritage With Profits Fund:										
Recourse cash flows	-	-	-	-	-	-	-	-	-	-
Other funds business:										
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	161	(200)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-	-	-	(91)	91
Assets backing	-	-	-	-	-	-	-	-	(175)	218
	-	-	-	-	-	-	-	-	(105)	109
Canada										
Non-participating insurance contract liabilities	(4)	2	(12)	-	41	(43)	79	(89)	218	(272)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Participating insurance contract liabilities	(11)	11	(22)	22	(5)	5	(10)	10	14	(17)
Assets backing – participating insurance contract liabilities	11	(11)	22	(22)	5	(5)	10	(10)	(14)	17
Assets backing – non-participating insurance contract liabilities	13	(13)	27	(27)	33	(33)	64	(64)	(204)	249
Assets backing – non-participating investment contract liabilities	-	-	-	-	-	-	-	-	(76)	93
Other assets and liabilities	9	(9)	19	(19)	8	(8)	15	(15)	(32)	39
	18	(20)	34	(46)	82	(84)	158	(168)	(94)	109
Other business units										
Other assets and liabilities	10	(10)	20	(20)	-	-	-	-	2	(2)
	10	(10)	20	(20)	-	-	-	-	2	(2)
Total	28	(30)	54	(66)	82	(84)	158	(168)	(197)	216

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 consolidated income statement.

The impact on total equity is equal to that in the table above in respect of each of the scenarios shown.

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 reporting 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 fair value through profit or loss (FVTPL), their value is sensitive to the circumstances considered. The mismatch in measurement bases is reflected in the sensitivity analysis reported in respect of Canada.

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, in particular the HWPF and the GWPF, 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.

(e) 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 assets due to widening of mortgage, bond and swap spreads.

The Group's credit risk exposure mainly arises from its investments in its financial instruments. Concentrations of credit risk are managed by setting maximum exposure limits to types of financial instruments and counterparties. The limits are established using the following controls:

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum counterparty exposure limits are set with reference to internal credit assessments.
Derivative financial instruments	Maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented. Refer to (e)(iii) for further details on collateral.
Debt securities	The Group's policy is to set exposure limits by name of issuer, sector and credit rating.
Loans	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	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.

42. Risk management *continued***(e) Credit risk *continued*****(e)(i) Credit exposure**

The analysis of credit risk exposure presented in the tables that follow can be reconciled to the Group's total assets as follows:

	2010 £m	2009 £m
Financial investments (excluding equity securities) and reinsurance assets:		
UK and Europe life and pensions		
Heritage With Profits Fund and other with profits funds	39,385	40,496
Other funds, excluding unit linked assets	5,522	5,237
Unit linked assets	23,404	19,214
Canada		
Non-segregated funds assets	9,888	8,906
Segregated funds assets	3,475	2,721
Other business units	1,630	1,651
	83,304	78,225
Non-controlling interests and third party interest in consolidated funds – financial investments (excluding equity securities and interests in pooled investment funds) ¹	3,061	1,250
Equity securities	57,144	48,630
	60,205	49,880
Intangible assets	135	106
Deferred acquisition costs	881	872
Investments in associates and joint ventures accounted for using the equity method	238	226
Investment property	8,410	7,111
Property, plant and equipment	164	161
Pension and other post-retirement benefits assets	281	-
Deferred tax assets	201	330
Other assets	297	307
Total assets of continuing operations	154,116	137,218
Assets of operations classified as held for sale	-	9,395
Total assets	154,116	146,613

¹ Comprises £116m (2009: £72m) attributable to investments in associates and joint ventures, £105m (2009: £30m) attributable to derivative financial assets, £1,997m (2009: £876m) attributable to debt securities, £127m (2009: £82m) attributable to other assets and £716m (2009: £190m) attributable to cash and cash equivalents.

The tables that follow provide an analysis of the quality of financial assets that are neither past due nor impaired at the reporting date and are exposed to credit risk. For those financial assets with credit ratings assigned by external rating agencies, classification is within the range of AAA to BBB. AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB have been classified as below BBB. For those financial assets that do not have credit ratings assigned by external rating agencies but where the Group has assigned internal ratings for use in managing and monitoring credit risk, the assets have been classified in the analysis that follows as 'internally rated' with the exception of Canada's loans secured by mortgages. These mortgages have been analysed in the table according to the internal ratings assigned to them. If a financial asset is neither rated by an external agency nor 'internally rated', it is classified as 'not rated'. The total amounts presented represent the Group's maximum exposure to credit risk at the reporting date without taking into account any collateral held. The analysis also provides information on the concentration of credit risk.

For UK and Europe life and pensions, the objective evidence that is taken into account in determining whether any impairment of debt securities has occurred includes:

- 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

For UK and Europe life and pensions, assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

For Canada, the objective evidence that is taken into account in determining whether any impairment of loans has occurred includes:

- Loans 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
- A significant decline in the value of a security underlying a mortgage unless reasonably assumed that mortgage terms and conditions will be met

UK and Europe life and pensions: Heritage With Profits Fund and other with profits funds business
Total credit exposure £39.4bn (2009: £40.5bn)

	Debt securities		Loans		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Investments in associates and joint ventures		Receivables and other financial assets ¹		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Neither past due nor impaired:																
AAA	20,336	21,242	-	-	43	118	-	-	-	104	1,558	1,138	-	-	21,937	22,602
AA	2,063	2,286	-	-	59	364	117	159	6,501	6,500	-	-	-	-	8,740	9,309
A	4,800	4,469	-	-	119	429	157	179	48	44	-	-	-	-	5,124	5,121
BBB	1,420	1,393	-	-	-	-	-	-	-	-	-	-	-	-	1,420	1,393
Below BBB	772	700	-	-	-	-	-	-	-	-	-	-	-	-	772	700
Not rated	327	332	45	23	1	-	331	380	-	-	-	-	331	248	1,035	983
Internally rated	134	119	162	188	-	-	-	-	8	8	-	-	-	-	304	315
	29,852	30,541	207	211	222	911	605	718	6,557	6,656	1,558	1,138	331	248	39,332	40,423
Past due	-	-	-	-	-	-	-	-	-	-	-	-	21	34	21	34
Impaired	32	38	-	-	-	-	-	-	-	-	-	-	-	1	32	39
Total	29,884	30,579	207	211	222	911	605	718	6,557	6,656	1,558	1,138	352	283	39,385	40,496

¹ As a result of the split presentation of UK and Europe life and pensions, receivables and other financial assets include 'intra-fund' balances.

At 31 December 2010, receivables and other financial assets of £20m (2009: £32m) were past due by less than three months, £1m (2009: £1m) were past due by between three and six months, and £nil (2009: £1m) were past due by over one year.

The equity holders' exposure to credit risk arising from investments held in the Heritage With Profits Fund (HWPF) and other with profits funds is similar in principle to that described for market risk exposures in Section (d). As at 31 December 2010, the financial assets of the HWPF include £6bn (2009: £6.1bn) of assets (primarily debt securities) deposited back under the terms of an external annuity reinsurance transaction, 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.

42. Risk management *continued***(e) Credit risk *continued*****(e)(i) Credit exposure *continued*****UK and Europe life and pensions: Other funds business****Total credit exposure £5.5bn (2009: 5.2bn)**

	Debt securities		Loans		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Investments in associates and joint ventures		Receivables and other financial assets ¹		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Neither past due nor impaired:																
AAA	1,071	1,233	-	-	71	778	-	-	-	1	8	7	-	-	1,150	2,019
AA	552	204	-	-	898	844	264	77	2	-	-	-	-	-	1,716	1,125
A	1,264	632	-	-	396	198	33	238	4	2	-	-	-	-	1,697	1,070
BBB	147	133	-	-	-	-	-	-	-	-	-	-	-	-	147	133
Below BBB	63	54	-	-	-	-	-	-	-	-	-	-	-	-	63	54
Not rated	88	131	-	-	-	-	-	-	-	-	-	1	357	408	445	540
Internally rated	289	283	-	-	-	-	-	-	3	3	-	-	-	-	292	286
	3,474	2,670	-	-	1,365	1,820	297	315	9	6	8	8	357	408	5,510	5,227
Past due	-	-	-	-	-	-	-	-	-	-	-	-	11	9	11	9
Impaired	1	1	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Total	3,475	2,671	-	-	1,365	1,820	297	315	9	6	8	8	368	417	5,522	5,237

¹ As a result of the split presentation of UK and Europe life and pensions, receivables and other financial assets include 'intra-fund' balances.

At 31 December 2010, receivables and other financial assets of £9m (2009: £6m) were past due by less than three months, £nil (2009: £1m) were past due by between three and six months, £1m (2009: £1m) were past due by between six and 12 months and £1m (2009: £1m) were past due by over one year.

The equity holder is exposed to credit risk of the assets attributable to the other funds business of UK and Europe life and pensions in a similar manner to that for market risk, as described in Section (d).

UK and Europe life and pensions: unit linked business**Total credit exposure £23.4bn (2009: £19.2bn)**

	Debt securities		Loans		Cash and cash equivalents		Interests in pooled investment funds		Derivative financial assets		Investments in associates and joint ventures		Receivables and other financial assets ¹		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Neither past due nor impaired:																
AAA	6,741	6,481	-	1	446	517	-	-	-	-	1,103	630	-	-	8,290	7,629
AA	1,836	1,622	-	-	709	713	4	3	115	90	-	-	-	-	2,664	2,428
A	3,303	2,713	40	85	2,239	1,756	2,816	1,751	216	73	-	-	-	-	8,614	6,378
BBB	1,603	1,133	14	26	19	-	-	-	-	-	-	-	-	-	1,636	1,159
Below BBB	1,020	574	3	-	73	-	-	-	-	-	-	-	-	-	1,096	574
Not rated	137	38	-	-	-	-	343	474	4	2	35	56	534	451	1,053	1,021
Internally rated	24	14	-	-	-	-	-	-	-	-	-	-	-	-	24	14
	14,664	12,575	57	112	3,486	2,986	3,163	2,228	335	165	1,138	686	534	451	23,377	19,203
Past due	-	-	-	-	-	-	-	-	-	-	-	-	10	6	10	6
Impaired	17	2	-	-	-	-	-	-	-	-	-	-	-	3	17	5
Total	14,681	12,577	57	112	3,486	2,986	3,163	2,228	335	165	1,138	686	544	460	23,404	19,214

¹ As a result of the split presentation of UK and Europe life and pensions, receivables and other financial assets include 'intra-fund' balances.

At 31 December 2010, receivables and other financial assets of £9m (2009: £4m) were past due by less than three months, £nil (2009: £1m) were past due by between three and six months, and £1m (2009: £1m) were past due by between six and 12 months. The table above includes £3.2bn (2009: £2.2bn) of the assets that are held by the unit linked business as reinsured external fund links. Under certain circumstances the equity holder may be exposed to losses relating to the default of the reinsured external fund link provider. These exposures are actively monitored and managed by the Group and the Group considers the circumstances under which losses may arise to be very remote.

Canada: non-segregated funds
Total credit exposure £9.9bn (2009: £8.9bn)

	Debt securities		Loans		Cash and cash equivalents		Reinsurance assets		Investments in associates and joint ventures		Receivables and other financial assets		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Neither past due nor impaired:														
AAA	998	1,260	1,459	1,166	9	5	-	-	-	-	-	-	2,466	2,431
AA	1,959	1,706	856	605	112	45	3	5	-	-	-	-	2,930	2,361
A	2,895	2,542	284	448	63	18	216	198	-	-	-	-	3,458	3,206
BBB	410	365	92	41	-	-	-	-	-	-	-	-	502	406
Below BBB	-	51	3	10	-	-	-	-	-	-	-	-	3	61
Not rated	82	-	96	86	-	-	177	163	22	17	116	92	493	358
Internally rated	16	65	-	-	-	-	-	-	-	-	-	-	16	65
	6,360	5,989	2,790	2,356	184	68	396	366	22	17	116	92	9,868	8,888
Impaired	-	-	20	18	-	-	-	-	-	-	-	-	20	18
Total	6,360	5,989	2,810	2,374	184	68	396	366	22	17	116	92	9,888	8,906

The equity holder is exposed to credit risk of the assets held within Canada non-segregated funds.

Canada: segregated funds
Total credit exposure £3.5bn (2009: £2.7bn)

	Debt securities		Loans		Cash and cash equivalents		Receivables and other financial assets		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Neither past due nor impaired:										
AAA	1,393	1,082	22	11	31	45	-	-	1,446	1,138
AA	901	582	18	10	78	29	-	-	997	621
A	683	672	8	12	65	52	-	-	756	736
BBB	183	182	2	1	-	-	-	-	185	183
Below BBB	-	-	-	-	-	-	-	-	-	-
Not rated	28	-	-	-	7	-	56	43	91	43
Internally rated	-	-	-	-	-	-	-	-	-	-
Total	3,188	2,518	50	34	181	126	56	43	3,475	2,721

At 31 December 2010, £nil (2009: £0.6m) of collateral was held in respect of loans and advances which are past due and the estimated gross fair value of collateral held against loans and advances that were impaired was £20m (2009: £18m). This also equates to the consolidated statement of financial position carrying value.

Canada also has unrecognised commitments in respect of financial instruments including letter of credit and commitments to extend credit of £72m as at 31 December 2010 (2009: £134m). Refer to Note 46(b).

42. Risk management *continued***(e) Credit risk *continued*****(e)(i) Credit exposure *continued*****Other business units****Total credit exposure £1.6bn (2009: £1.7bn)**

	Debt securities		Loans		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Investments in associates and joint ventures		Receivables and other financial assets		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Neither past due nor impaired:																
AAA	24	47	-	-	36	87	-	-	-	-	7	22	-	-	67	156
AA	80	16	-	-	777	480	-	-	-	1	-	-	-	-	857	497
A	10	17	-	-	443	764	1	1	-	3	-	-	-	-	454	785
BBB	11	18	-	-	22	4	-	-	-	-	-	-	-	-	33	22
Below BBB	2	1	-	-	2	-	-	-	-	-	-	-	-	-	4	1
Not rated	23	14	12	38	-	-	-	-	-	-	-	-	164	126	199	178
Internally rated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	150	113	12	38	1,280	1,335	1	1	-	4	7	22	184	126	1,614	1,639
Past due	-	-	-	-	-	-	-	-	-	-	-	-	16	12	16	12
Total	150	113	12	38	1,280	1,335	1	1	-	4	7	22	180	138	1,630	1,651

At 31 December 2010, receivables and other financial assets of £12m (2009: £12m) were past due by less than three months, £2m (2009: £nil) were past due by between three and six months, £1m (2009: £nil) were past due by between six and 12 months and £1m (2009: £nil) were past due by over one year.

The credit risk analysis for other business units includes unit linked assets that are managed by Standard Life International Limited. The equity holders' exposure to credit risk in respect of these assets is predominantly limited to variations in charges arising as a consequence of changes in the value of assets under management.

Unrecognised financial instrument commitments made by Private Equity Funds of £315m at 31 December 2010 (2009: £696m) were held by other business units. These include amounts committed by limited partnerships to raise funding during 'investment periods'. Refer to Note 46(b).

(e)(ii) Credit spreads

As at 31 December 2010, it is expected that an adverse movement in credit spreads of 50 basis points, with no change to default allowance, would result in a reduction to profit for the year of £71m (2009: £105m). A further reduction of net profit after tax of £37m (2009: £24m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

(e)(iii) Collateral accepted and pledged in respect of financial instruments

Collateral in respect of derivative financial instruments is accepted from and provided to certain market counterparties to mitigate counterparty risk in the event of default. The use of collateral in respect of derivative financial instruments 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. At 31 December 2010, the Group had pledged £86m (2009: £76m) of cash and £278m (2009: £1,625m) of securities as collateral for derivative financial liabilities.

At 31 December 2010, the Group had accepted £396m (2009: £1,216m) of cash and £4,434m (2009: £5,222m) 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.

(e)(iv) Credit risk on loans and receivables and financial liabilities designated as at fair value through profit or loss

(e)(iv)(i) Loans and receivables

The Group holds a portfolio of financial instruments which meet the definition of loans and receivables under IAS 39 *Financial Instruments: Recognition and Measurement* and on initial recognition were designated as at fair value through profit or loss (FVTPL). The Group's exposure to such financial instruments at 31 December 2010 was £281m (2009: £274m). The fair value of these loans and receivables 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 £22m gain (2009: £4m gain) in relation to these loans and receivables were recognised in the consolidated income statement. The amount of this movement that is attributable to changes in the credit risk of these instruments was a gain of £4m (2009: £3m).

As described in Section (d) 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 loans and receivables incorporates both movements arising from credit risk and resulting from changes in market conditions.

(e)(iv)(ii) Financial liabilities

The Group has designated unit linked non-participating investment contract liabilities as at FVTPL. As the fair value of the liability is based on the bid value of the underlying portfolio of assets, 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.

(f) 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 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:

- 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 variances in expectations
- 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 below.

(f)(i) Elements of demographic and expense risk

(f)(i)(i) Components of insurance risk as defined by IFRS 4 *Insurance Contracts*

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.

42. Risk management *continued***(f) Demographic and expense risk *continued*****(f)(i) Elements of demographic and expense risk *continued*****(f)(i)(ii) Other financial risks****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.

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 arising from early retirements, surrenders – either 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 Canada's 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 result in 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 be further affected if it is considered necessary or prudent to increase provisions to reflect increased expectations of future costs of policy administration.

(f)(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 32.

The tables that follow illustrate 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 reporting date and considering the consequential impacts assuming other assumptions remain unchanged.

(Decrease)/increase on profit after tax and equity 2010	Longevity		Expenses		Persistency		Morbidity/mortality	
	+5% £m	-5% £m	+10% £m	-10% £m	+10% £m	-10% £m	+5% £m	-5% £m
UK and Europe life and pensions								
Heritage With Profits Fund								
Recourse cash flows	(14)	14	(10)	9	1	(2)	(5)	5
Other funds								
Non-participating insurance contract liabilities	(69)	65	(3)	3	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-	-	-
Canada								
Non-participating insurance contract liabilities	(41)	38	(10)	10	7	(5)	(7)	7
Non-participating investment contract liabilities	-	-	(2)	2	-	-	-	-
Total	(124)	117	(25)	24	8	(7)	(12)	12

(Decrease)/increase on profit after tax and equity 2009	Longevity		Expenses		Persistency		Morblidity/mortality	
	+5% £m	-5% £m	+10% £m	-10% £m	+10% £m	-10% £m	+5% £m	-5% £m
UK and Europe life and pensions								
Heritage With Profits Fund								
Recourse cash flows	(15)	14	(10)	9	1	(1)	(3)	3
Other funds								
Non-participating insurance contract liabilities	(67)	63	(2)	2	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-	-	-
Canada								
Non-participating insurance contract liabilities	(33)	31	(8)	9	5	(4)	(7)	7
Non-participating investment contract liabilities	-	-	(2)	2	-	-	-	-
Total	(115)	108	(22)	22	6	(5)	(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 and reinsurance.

For the HWPF, the tables above illustrate the impact of demographic and expense risk on the recourse cash flows, which have been determined in accordance with the Scheme 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. Refer to Section (d)(iii).

The other funds business of UK and Europe life and pensions currently bears longevity risk, as a consequence of the reinsurance arrangements that exist between UK's long-term business fund, the HWPF and the Proprietary Business Fund.

Limitations

The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those presented 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 reporting 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 rate.

(g) Liquidity risk

The Group defines liquidity risk as the risk that the business units 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 cost.

Business units employ risk management techniques relevant to their product types with the objective of mitigating exposures to liquidity risk. For annuity, with profits, and unit linked business, liquidity risk is primarily managed by holding a range of diversified instruments which are assessed against estimated cash flow and funding requirements.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. Business units actively manage and monitor the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching. The Group's assets are analysed in Section (d)(ii) and Section (e)(i) of this Note. For UK and Europe life and pensions, the reinsurance treaty between the Group and Canada Life International Re provides for the cash settlement of amounts owed by Canada Life International Re.

42. Risk management *continued*

(g) Liquidity risk *continued*

For with profits contracts, a portfolio of assets is maintained in the relevant funds appropriate to the nature and term of the expected pattern of payments of liabilities. Within that portfolio, liquidity is provided by substantial holdings of cash and highly liquid assets (principally government bonds). Where it is necessary to sell less liquid assets within the relevant portfolios, then any incurred losses are generally being passed onto policyholders in accordance with policyholders' reasonable expectations; such losses are managed and mitigated through actively anticipating net disinvestment based on policyholder behaviour and seeking to execute sales of underlying assets in such a way that the cost to policyholders is minimised.

For non-participating unit linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets. If considered necessary, deferral terms within the policy conditions applying to the majority of the Group's contracts are invoked. As at 31 December 2010, none (2009: three) of the funds under management were subject to deferral.

Both UK and Europe life and pensions and Canada undertake periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to extreme policyholder behaviour).

All business units are required to monitor, assess, manage and control liquidity risk in accordance with the relevant principles within the Group's risk policy framework. Oversight is provided both at a Group level and within the business unit. In addition, all business units benefit from membership of a larger Group to the extent that, centrally, the Group:

- Coordinates strategic planning and funding requirements
- Monitors, assesses and oversees the investment of assets within the Group
- Monitors and manages risk, capital requirements, and available capital on a group-wide basis
- Maintains a portfolio (currently undrawn) of committed bank facilities

Each business unit is responsible for the definition and management of its contingency funding plan.

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

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Group considers the extent of liquidity risk arising from its activities to be de-minimis.

(g)(i) Maturity analysis

The tables that follow present the expected timing of the cash flows payable on the amounts recognised on the consolidated statement of financial position for the participating and non-participating contract liabilities of the Group as at the reporting date. As the Shareholder Fund does not hold any policyholder contract liabilities, it is excluded from the analyses that follow. To align with the risk management approach towards liquidity risk and existing management projections, the analysis that follows facilitates consideration of the settlement obligations of both insurance and investment contracts.

2010	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
UK and Europe life and pensions							
Heritage With Profits Fund and other with profits funds:							
Non-participating insurance contract liabilities (excluding unit linked)	878	3,031	2,848	1,949	1,216	1,543	11,465
Non-participating investment contract liabilities (excluding unit linked)	-	1	1	1	1	-	4
Participating insurance contract liabilities	2,287	7,545	3,254	1,310	911	1,341	16,648
Participating investment contract liabilities	631	2,654	3,295	3,181	2,410	3,153	15,324
Standard Life Investment Funds and Proprietary Business Fund:							
Non-participating insurance contract liabilities (excluding unit linked)	148	534	548	443	343	505	2,521
Non-participating investment contract liabilities (excluding unit linked)	-	1	1	1	-	1	4
Unit linked liabilities	4,915	16,696	15,272	10,729	6,894	7,230	61,736
Total UK and Europe life and pensions	8,859	30,462	25,219	17,614	11,775	13,773	107,702
Canada							
Participating insurance contract liabilities	3	14	32	42	52	566	709
Participating investment contract liabilities	-	5	-	-	-	-	5
Non-participating insurance contract liabilities	538	1,804	1,528	972	645	2,713	8,200
Non-participating investment contract liabilities	2,150	5,760	2,931	1,326	637	605	13,409
Total Canada	2,691	7,583	4,491	2,340	1,334	3,884	22,323
Other							
Non-participating insurance contract liabilities	6	-	-	-	-	-	6
Non-participating investment contract liabilities	170	347	434	434	434	-	1,819
Total Other	176	347	434	434	434	-	1,825
Total	11,726	38,392	30,144	20,388	13,543	17,657	131,850
Unallocated divisible surplus							788
Total participating and non-participating contract liabilities							132,638

42. Risk management *continued***(g) Liquidity risk *continued*****(g)(i) Maturity analysis *continued***

	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
2009							
UK and Europe life and pensions							
Heritage With Profits Fund and other with profits funds:							
Non-participating insurance contract liabilities (excluding unit linked)	893	3,058	2,862	1,960	1,230	1,509	11,512
Non-participating investment contract liabilities (excluding unit linked)	5	1	1	1	1	1	10
Participating insurance contract liabilities	1,725	7,575	3,643	1,168	753	1,105	15,969
Participating investment contract liabilities	638	2,649	3,323	3,117	2,276	2,985	14,988
Standard Life Investment Funds and Proprietary Business Fund:							
Non-participating insurance contract liabilities (excluding unit linked)	123	446	451	366	285	464	2,135
Non-participating investment contract liabilities (excluding unit linked)	-	1	1	1	1	1	5
Unit linked liabilities	4,088	14,378	12,826	9,033	5,801	6,458	52,584
Total UK and Europe life and pensions	7,472	28,108	23,107	15,646	10,347	12,523	97,203
Canada							
Participating insurance contract liabilities	2	11	27	36	43	480	599
Participating investment contract liabilities	-	5	-	-	-	-	5
Non-participating insurance contract liabilities	405	1,346	1,516	902	576	2,319	7,064
Non-participating investment contract liabilities	1,708	4,518	2,417	1,207	643	742	11,235
Total Canada	2,115	5,880	3,960	2,145	1,262	3,541	18,903
Other							
Non-participating insurance contract liabilities	148	2	1	-	-	-	151
Non-participating investment contract liabilities	101	231	288	288	288	-	1,196
Total Other	249	233	289	288	288	-	1,347
Total	9,836	34,221	27,356	18,079	11,897	16,064	117,453
Unallocated divisible surplus							791
Total participating and non-participating contract liabilities							118,244

The analysis that follows presents the undiscounted cash flows payable by remaining contractual maturity at the reporting date and includes non-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 non-participating investment contract unit linked liabilities of UK and Europe 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 dependent on the underlying financial assets.

In respect of derivative financial instruments, the analysis presents the net effect of all cash flows of derivative financial instruments expected to be settled on a gross basis and the cash flows of derivative financial liabilities that are expected to be settled on a net 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
2010							
Non-participating investment contract liabilities (excluding unit linked and segregated funds)	1,695	814	274	69	34	41	2,927
Non-participating investment contract liabilities – unit linked	62,182	-	-	-	-	-	62,182
Non-participating investment contract liabilities – segregated funds	10,488	-	-	-	-	-	10,488
Derivative financial instruments	3,836	(106)	169	164	70	(11)	4,122
Subordinated liabilities	111	1,271	567	169	567	-	2,685
Borrowings	52	-	-	-	-	-	52
Other financial liabilities	1,221	76	39	23	19	197	1,575
Total	79,585	2,055	1,049	425	690	227	84,031

	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
2009							
Non-participating investment contract liabilities (excluding unit linked and segregated funds)	1,592	787	272	68	31	30	2,780
Non-participating investment contract liabilities – unit linked	52,478	-	-	-	-	-	52,478
Non-participating investment contract liabilities – segregated funds	8,470	-	-	-	-	-	8,470
Derivative financial instruments	196	159	133	63	61	59	671
Subordinated liabilities	113	1,033	604	488	601	-	2,839
Borrowings	34	13	-	-	-	-	47
Other financial liabilities	2,400	211	40	39	22	266	2,978
Total	65,283	2,203	1,049	658	715	355	70,263

Excluded from the above analysis are deposits received from reinsurers. These reflect the liability to repay the deposit received from an external reinsurer under the reinsurance transaction referred to in Section (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 2010. In addition, £515m (2009: £893m) of undiscounted cash flows were repayable on demand as at 31 December 2010 and the undiscounted cash flows which had no contractual maturity date were £226m (2009: £285m).

The Group also had unrecognised commitments in respect of financial instruments as at 31 December 2010 of £373m and £21m with a contractual maturity of within one year and between one and five years respectively (2009: £812m, £22m).

At 31 December 2010, the undiscounted contractual cash flows payable in respect of financial liabilities (excluding derivative financial instruments) held by third parties, included in the consolidated statement of financial position, was £116m (2009: £75m), the majority of which was due within one year.

At 31 December 2010, third party interest in consolidated funds was £5,454m (2009: £3,004m), of which the contractual maturity was £5,443m (2009: £2,798m) within one year, £11m (2009: £8m) in five to 10 years and £nil (2009: £198m) in 10 to 15 years.

42. Risk management *continued*

(h) Securities lending arrangements

The Group enters into securities lending arrangements as part of normal operating activities. Assets are pledged by third parties as collateral to support this activity. Collateral held by the Group in respect of securities lending agreements at the reporting date was £4,231 m (2009: £5,078m) of securities and £nil (2009: £933m) of cash.

The securities lending arrangements in place as at 31 December 2010 are under a number of agreements, including the Global Master Securities Lending Agreement, Master Securities Lending Agreement, Master Gilt Edged Stock Lending Agreement, Master Equity and Fixed Interest Stock Lending Agreement and Overseas Securities Lending Agreement. The loaned securities continue to be recognised on the consolidated statement of financial position and 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:

	2010 £m	2009 £m
Domestic government	4,091	5,736
Domestic corporate	-	93
International fixed income	3	-
Total assets on loan	4,094	5,829

(i) 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.

Operational risk is 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 to which the Group is exposed 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 '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 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 risk associated with the robustness of the strategic planning process and the threats to the achievement of the strategy. Strategic risks are considered across the Group through the business 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.

43. Fair value of financial assets and liabilities

(a) Determination of fair value hierarchy

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

- Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
This category includes listed equity securities, certain government bonds and supranational institution bonds and exchange traded futures and options.
- Level 2** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
This category includes certain government bonds, listed or quoted corporate bonds, non-participating investment contract liabilities, third party interest in consolidated funds and derivative instruments that are not exchange traded. Corporate bonds have generally been classified as level 2 instruments as the composite price provided by external pricing providers may include, as an input, quotes provided by some banks that are not based on actual transaction prices.
- Level 3** Inputs for the asset or liability that are not based on observable market data.
Level 3 financial instruments principally include unlisted equity securities, corporate bonds for which prices are not available from external pricing providers or where such prices are based on a single broker indicative quote and third party interest in consolidated funds which are not priced daily and where a significant proportion of the fund's assets are valued using inputs that are not based on observable market data (refer to Section (c)(iv) for further details).

(b) Financial investments and financial liabilities

An analysis of the Group's financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes 20 and 35 and includes those financial assets and liabilities held at fair value.

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

Unless otherwise stated, the accounting policies in relation to the Group's financial assets and liabilities measured at fair value are set out in accounting policy (q). Further information on the methods used to determine fair values for each major category of financial instrument measured at fair value is given below.

Investments in associates and joint ventures – 2010: £2,775m (2009: £1,843m)

As explained in the Group's accounting policy (b)(ii), investments in investment vehicles which back policyholder liabilities and which meet the definition of an associate or joint venture are designated as at fair value through profit or loss. Investments in such investment vehicles which are priced on a daily basis are valued using prices sourced from the fund administrator and, where the fund is considered to be actively traded, are treated as level 1 instruments within the fair value hierarchy (refer to Section (c)(i) below).

Equity securities and interests in pooled investment funds – 2010: £60,307m (2009: £50,858m)

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

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

43. Fair value of financial assets and liabilities *continued***(c) Methods and assumptions used to determine fair value of financial assets and liabilities *continued*****Debt securities – 2010: £59,735m (2009: £55,518m of which £195m was classified as held for sale)**

For debt securities, the Group has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally 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. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

- **Government and supranational institution bonds**
These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are treated as level 1 or level 2 instruments within the fair value hierarchy.
- **Corporate bonds (listed or quoted in an established over-the-counter market including asset backed securities)**
These instruments are generally valued using prices received from external pricing providers who 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, and therefore these instruments are treated as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are treated as level 3 instruments.

For instruments for which prices are either not available from external 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 inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy.
- **Other corporate bonds including unquoted bonds**
These instruments are valued using models. For unquoted bonds the model includes credit spreads which are obtained from brokers or estimated internally. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

Derivative instruments

Derivative financial assets – 2010: £1,343m (2009: £1,368m of which £139m was classified as held for sale) and derivative financial liabilities – 2010: £924m (2009: £899m of which £102m was classified as held for sale)

Exchange traded futures and options are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore treated as level 1 instruments within the fair value hierarchy. The majority of the Group's derivatives are valued using valuation techniques based on observable market data, and are therefore treated as level 2 instruments within the fair value hierarchy.

Non-participating investment contract liabilities and third party interest in consolidated funds

Non-participating investment contract liabilities – 2010: £72,670m (2009: £60,947m) and third party interest in consolidated funds – 2010: £5,454m (2009: £3,004m)

The Group's accounting policies in respect of non-participating investment contracts and third party interest in consolidated funds are set out in accounting policies (w)(iii) and (b)(i) respectively. The fair values of these liabilities are equal to the value of the units allocated to the contracts or in the case of third party interest in consolidated funds, the value of the units or shares held by parties external to the Group. The unit price is based on the bid price of the fund assets at the reporting date before expenses of selling or buying underlying assets. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets in which these funds are invested. Those liabilities determined without significant difference to the daily published prices of the underlying funds are considered to be level 2 instruments within the fair value hierarchy. Where liabilities are not priced daily, those with a significant proportion of backing assets valued using unobservable market inputs are considered level 3, otherwise the liabilities are considered level 2 within the fair value hierarchy.

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

The tables that follow present an analysis of financial assets measured at fair value by level of the fair value hierarchy.

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010	2009
	2010	2009	2010	2009	2010	2009		
£m	£m	£m	£m	£m	£m	£m	£m	
Investments in associates and joint ventures	2,775	1,843	-	-	-	-	2,775	1,843
Derivative financial assets	435	398	908	970	-	-	1,343	1,368
Equity securities	59,059	49,621	40	17	1,208	1,220	60,307	50,858
Debt securities	25,147	26,158	33,102	27,845	1,486	1,515	59,735	55,518
Financial assets at fair value	87,416	78,020	34,050	28,832	2,694	2,735	124,160	109,587
Less: Financial assets classified as held for sale	-	-	-	(334)	-	-	-	(334)
Total financial assets at fair value	87,416	78,020	34,050	28,498	2,694	2,735	124,160	109,253

During 2010, debt securities with a carrying value of £1,456m were transferred from level 1 to level 2. This transfer reflected reduced activity in the market for certain European government bonds. There were no significant transfers of financial assets between level 1 and level 2 during 2009.

UK and Europe life and pensions – Financial assets measured at fair value

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010 £m	2009 £m
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m		
Heritage With Profits Fund and other with profits funds								
Investments in associates and joint ventures	1,559	1,138	-	-	-	-	1,559	1,138
Derivative financial assets	334	391	271	327	-	-	605	718
Equity securities	8,606	7,527	-	-	729	624	9,335	8,151
Debt securities	17,969	19,029	11,543	11,027	371	523	29,883	30,579
	28,468	28,085	11,814	11,354	1,100	1,147	41,382	40,586
Other funds								
Investments in associates and joint ventures	8	7	-	-	-	-	8	7
Derivative financial assets	-	-	297	315	-	-	297	315
Equity securities	5	28	-	-	-	-	5	28
Debt securities	509	714	2,639	1,800	328	157	3,476	2,671
	522	749	2,936	2,115	328	157	3,786	3,021
Unit linked funds								
Investments in associates and joint ventures	1,102	630	-	-	-	-	1,102	630
Derivative financial assets	72	6	263	159	-	-	335	165
Equity securities	38,547	33,111	40	12	65	61	38,652	33,184
Debt securities	5,943	5,899	8,644	6,419	94	259	14,681	12,577
	45,664	39,646	8,947	6,590	159	320	54,770	46,556
Total	74,654	68,480	23,697	20,059	1,587	1,624	99,938	90,163

The Heritage With Profits Fund has significant holdings in private equity investments which are classified as level 3 equity securities.

A number of funds have holdings in debt securities that are valued using a single broker indicative quote or using an internal model. These instruments have been classified as level 3.

Canada – Financial assets measured at fair value

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010 £m	2009 £m
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m		
Non-segregated funds								
Equity securities	459	371	-	-	1	1	460	372
Debt securities	-	-	5,722	5,483	638	506	6,360	5,989
	459	371	5,722	5,483	639	507	6,820	6,361
Segregated funds								
Equity securities	8,709	7,079	-	5	-	-	8,709	7,084
Debt securities	-	-	3,150	2,474	38	44	3,188	2,518
	8,709	7,079	3,150	2,479	38	44	11,897	9,602
Total	9,168	7,450	8,872	7,962	677	551	18,717	15,963

These funds have holdings in certain debt securities valued using a single broker indicative quote or using an internal model. These instruments have been classified as level 3.

43. Fair value of financial assets and liabilities *continued***(c) Methods and assumptions used to determine fair value of financial assets and liabilities *continued*****(c)(i) Fair value hierarchy for financial assets measured at fair value in the statement of financial position *continued*****Other – Financial assets measured at fair value**

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010 £m	2009 £m
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m		
Investments in associates and joint ventures	7	22	-	-	-	-	7	22
Derivative financial assets	-	-	1	1	-	-	1	1
Equity securities	1,175	559	-	-	12	11	1,187	570
Debt securities	42	33	106	67	2	13	150	113
Total	1,224	614	107	68	14	24	1,345	706

Non-controlling interests and third party interest in consolidated funds – Financial assets measured at fair value

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010 £m	2009 £m
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m		
Investments in associates and joint ventures	99	46	-	-	-	-	99	46
Derivative financial assets	29	1	76	29	-	-	105	30
Equity securities	1,558	946	-	-	401	523	1,959	1,469
Debt securities	684	483	1,298	380	15	13	1,997	876
Total	2,370	1,476	1,374	409	416	536	4,160	2,421

Non-controlling interests and third party interest in consolidated funds include external holdings in certain private equity investment vehicles which are considered to be level 3 equity securities.

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

The tables that follow present an analysis of financial liabilities measured at fair value by level of the fair value hierarchy.

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010 £m	2009 £m
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m		
Non-participating investment contract liabilities	-	-	72,670	60,947	-	-	72,670	60,947
Third party interest in consolidated funds	-	-	5,443	2,799	11	205	5,454	3,004
Derivative financial liabilities	95	81	829	818	-	-	924	899
Financial liabilities at fair value	95	81	78,942	64,564	11	205	79,048	64,850
Less: Financial liabilities classified as held for sale	-	-	-	(102)	-	-	-	(102)
Total financial liabilities at fair value	95	81	78,942	64,462	11	205	79,048	64,748

There were no significant transfers between level 1 and 2 financial liabilities during the year.

Financial liabilities measured at fair value

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010	2009
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
UK and Europe life and pensions – Heritage With Profits Fund and other with profits funds business								
Derivative financial liabilities	8	16	122	446	-	-	130	462
	8	16	122	446	-	-	130	462
Other funds								
Derivative financial liabilities	-	-	3	45	-	-	3	45
	-	-	3	45	-	-	3	45
Unit linked funds								
Non-participating investment contract liabilities	-	-	60,363	51,282	-	-	60,363	51,282
Derivative financial liabilities	62	54	507	193	-	-	569	247
	62	54	60,870	51,475	-	-	60,932	51,529
Total UK and Europe life and pensions	70	70	60,995	51,966	-	-	61,065	52,036
Canada – Segregated funds								
Non-participating investment contract liabilities	-	-	10,488	8,469	-	-	10,488	8,469
	-	-	10,488	8,469	-	-	10,488	8,469
Non-segregated funds								
Derivative financial liabilities	2	-	-	-	-	-	2	-
	2	-	-	-	-	-	2	-
Total Canada	2	-	10,488	8,469	-	-	10,490	8,469
Other								
Non-participating investment contract liabilities	-	-	1,819	1,196	-	-	1,819	1,196
Derivative financial liabilities	-	-	27	4	-	-	27	4
	-	-	1,846	1,200	-	-	1,846	1,200
Non-controlling interests and third party interest in consolidated funds								
Third party interest in consolidated funds	-	-	5,443	2,799	11	205	5,454	3,004
Derivative financial liabilities	23	11	170	28	-	-	193	39
	23	11	5,613	2,827	11	205	5,647	3,043
Total	95	81	78,942	64,462	11	205	79,048	64,748

The third party interest in consolidated funds liability includes the liabilities for third party interest in consolidated private equity investment vehicles which are classified as level 3 financial liabilities.

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

The movements during the year of level 3 financial assets and liabilities held at fair value are analysed below.

2010	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
Equity securities	1,220	259	150	-	(164)	(238)	(19)	1,208	282
Debt securities	1,515	83	488	-	(492)	(159)	51	1,486	63
Third party interest in consolidated funds	(205)	(4)	-	(33)	-	225	6	(11)	-

43. Fair value of financial assets and liabilities *continued***(c) Methods and assumptions used to determine fair value of financial assets and liabilities *continued*****(c)(iii) Reconciliation of movements in level 3 instruments *continued***

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2009									
Equity securities	1,371	(125)	143	-	(89)	7	(87)	1,220	(120)
Debt securities	1,618	(23)	314	-	(524)	105	25	1,515	(51)
Third party interest in consolidated funds	(236)	41	-	(29)	-	-	19	(205)	41

Total gains or losses recognised in the consolidated income statement shown above are included in net investment return, with the exception of gains on third party interest in consolidated funds which are included in the line Change in liability for third party interest in consolidated funds.

UK and Europe life and pensions – Analysis of movements in level 3 financial instruments

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2010									
Heritage With Profits Fund and other with profits funds business									
Equity securities	624	132	75	-	(113)	20	(9)	729	149
Debt securities	523	12	16	-	(125)	(55)	-	371	2
Other funds									
Debt securities	157	6	120	-	(93)	138	-	328	8
Unit linked funds									
Equity securities	61	4	6	-	(16)	10	-	65	-
Debt securities	259	23	172	-	(154)	(206)	-	94	14

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2009									
Heritage With Profits Fund and other with profits funds business									
Equity securities	706	(27)	67	-	(73)	-	(49)	624	(39)
Debt securities	465	(6)	36	-	(169)	197	-	523	(34)
Other funds									
Debt securities	58	7	146	-	(81)	27	-	157	(4)
Unit linked funds									
Equity securities	88	(23)	2	-	(6)	-	-	61	(24)
Debt securities	563	(27)	64	-	(221)	(120)	-	259	(17)

During the year, £182m (2009: £501m) of debt securities were transferred from level 2 to level 3 and £305m (2009: £397m) of debt securities were transferred from level 3 to level 2. Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers.

Canada – Analysis of movements in level 3 financial instruments

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2010									
Non-segregated funds									
Equity securities	1	-	-	-	-	-	-	1	-
Debt securities	506	40	128	-	(79)	(4)	47	638	37
Segregated funds									
Debt securities	44	3	26	-	(14)	(25)	4	38	2

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2009									
Non-segregated funds									
Equity securities	3	(1)	-	-	(1)	-	-	1	-
Debt securities	442	7	62	-	(28)	-	23	506	6
Segregated funds									
Debt securities	50	1	4	-	(13)	-	2	44	1

Other – Analysis of movements in level 3 financial instruments

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2010									
Equity securities	11	-	1	-	-	-	-	12	(1)
Debt securities	13	-	1	-	(11)	(1)	-	2	-

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2009									
Equity securities	6	(1)	-	-	(1)	7	-	11	(1)
Debt securities	14	(3)	-	-	1	1	-	13	(2)

43. Fair value of financial assets and liabilities *continued***(c) Methods and assumptions used to determine fair value of financial assets and liabilities *continued*****(c)(iii) Reconciliation of movements in level 3 instruments *continued*****Non-controlling interests and third party interest in consolidated funds – Analysis of movements in level 3 financial instruments**

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2010									
Equity securities	523	123	68	-	(35)	(268)	(10)	401	134
Debt securities	13	(1)	25	-	(16)	(6)	-	15	-
Third party interest in consolidated funds	(205)	(4)	-	(33)	-	225	6	(11)	-

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Issues £m	Sales £m	Transfers in/(out of) level 3 £m	Foreign exchange adjustment £m	At 31 December £m	Total gains/(losses) recognised in the income statement for assets or liabilities held at 31 December £m
2009									
Equity securities	568	(73)	74	-	(8)	-	(38)	523	(56)
Debt securities	26	(2)	2	-	(13)	-	-	13	(1)
Third party interest in consolidated funds	(236)	41	-	(29)	-	-	19	(205)	41

Included in the transfers in/out of level 3 shown above are reductions in level 3 equity securities of £268m (2009: £nil) and level 3 third party interest in consolidated funds of £225m (2009: £nil) arising from the loss of control of a private equity investment vehicle which had previously been consolidated.

(c)(iv) Sensitivity of level 3 financial instruments measured as at fair value to changes in key assumptions

As noted above, the Group holds financial instruments which have been classified as level 3 instruments, principally comprising:

- Private equity holdings which, because of the nature of the fund structures in which the Group invests, are valued based on valuations received from the investment managers of the underlying funds
- Certain debt securities for which prices are either not available from external pricing providers or the prices that are available are considered stale, in which case the Group generally uses unobservable inputs, principally single broker indicative quotes to determine the fair value of these instruments

For the majority of these instruments the Group does not use internal models to value the securities but rather obtains valuations from external parties and reviews the appropriateness of those valuations. Due to the externally generated nature of the majority of valuations used for level 3 instruments, the Group has limited access to the significant assumptions and data sources used by the external party and accordingly no sensitivity analysis has been presented.

Where internal models are used to value level 3 instruments, changes in the assumptions used within those models to reasonably possible alternative assumptions do not have a significant impact on profit before tax or total assets or liabilities.

(d) 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 observable market inputs where available, or are estimated using other valuation techniques.

	Notes	2010 Carrying value £m	2010 Fair value £m
Financial assets			
Loans secured by mortgages	21	2,941	3,077
Financial liabilities			
Subordinated guaranteed bonds	37	1,162	1,119
Mutual Assurance Capital Securities	37	637	563
Non-participating investment contract liabilities	35	2,930	3,163
	Notes	2009 Carrying value £m	2009 Fair value £m
Financial assets			
Loans secured by mortgages	21	7,791	7,931
Loans secured by mortgages subject to securitisation	21	2,218	2,255
Financial liabilities			
Securitisations – mortgage backed floating rate notes	36	1,967	1,921
Subordinated guaranteed bonds	37	1,184	1,135
Subordinated notes	37	279	228
Mutual Assurance Capital Securities	37	648	547
Non-participating investment contract liabilities	35	2,781	3,010

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 32. The carrying value of participating investment contract liabilities at 31 December 2010 was £15,330m (2009: £14,993m).

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 measured at amortised cost approximates their fair value.

44. Statement of cash flows

(a) Change in operating assets

	2010 £m	2009 £m
Investment property	(1,205)	1,137
Equity securities and interests in pooled investment funds	(9,408)	(10,674)
Debt securities	(4,049)	(4,390)
Derivative net (liabilities)/assets	(23)	953
Reinsurance assets	100	(936)
Investment in associates ¹	(694)	665
Receivables and other financial assets and other assets	(78)	449
Deferred acquisition costs	(218)	(198)
Loans	(151)	1,920
Change in operating assets	(15,726)	(11,074)

¹ 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.

44. Statement of cash flows *continued***(b) Change in operating liabilities**

	2010 £m	2009 £m
Customer accounts related to banking activities	-	(1,036)
Other financial liabilities and other liabilities	(900)	(2,319)
Deposits received from reinsurers	(83)	136
Pension and other post-retirement benefit provisions	(123)	(25)
Deferred income	12	(8)
Insurance contract liabilities	1,823	1,486
Investment contract liabilities	11,285	10,486
Certificates of deposit, commercial paper, medium term notes and securitisations	-	(184)
Change in liability for third party interest in consolidated funds	443	323
Change in operating liabilities	12,457	8,859

(c) Non-cash and other items

	Notes	2010 £m	2009 £m
(Gain)/loss on disposal of property, plant and equipment		(1)	1
Depreciation of property, plant and equipment	5	12	10
Amortisation of intangible assets	5	22	17
Amortisation of deferred acquisition costs	5	196	173
Impairment losses on intangible assets	5	-	7
Impairment losses on deferred acquisition costs	5	-	33
Impairment losses on investments in associates	5	4	7
Other impairment losses recognised		-	8
Reversal of impairment on property, plant and equipment	5	(9)	(4)
Interest cost on other borrowings		6	10
Adjustment for finance costs on banking activities		-	(45)
Finance costs		113	123
Net foreign exchange losses/(gains) on investment activities		23	(61)
Share of (profit)/loss from associates and joint ventures	16	(24)	29
Adjustment for non-cash movements in investment income		(80)	(52)
Change in unallocated divisible surplus	34	(22)	(21)
Non-cash and other items		240	235

45. Contingent liabilities, indemnities and guarantees**(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 litigation) will have a material effect on the results and financial position of the Group.

The Group is subject to insurance solvency regulations in all of the territories in which it issues insurance and investment contracts, and it has complied in material respects with local solvency and other regulations. Therefore, there are no contingencies in respect of these regulations.

(b) Issued share capital

The Scheme of Demutualisation sets a 10-year time limit, ending in 2016, 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.

(c) Other

In the ordinary course of business, Standard Life Trust Company (SLTC) 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 SLTC has provided as security a bank credit facility up to a maximum of CA\$84m.

46. Commitments

(a) Capital commitments

As at 31 December 2010, capital expenditure that was authorised and contracted for, but not provided and incurred, was £251m (2009: £296m) in respect of investment properties. Of this amount, £239m (2009: £283m) and £12m (2009: £13m) relates to the contractual obligations to purchase, construct, or develop investment property and repair, maintain or enhance investment property respectively.

(b) Unrecognised financial instruments

As at 31 December 2010, the Group had committed the following unrecognised financial instruments to customers and third parties.

	2010 £m	2009 £m
Commitments to extend credit:		
Original term to maturity of one year or less	51	112
Original term to maturity of more than one year	7	1,859
Other commitments	335	715

The commitments to extend credit with an original term to maturity of more than one year as at 31 December 2009 were primarily in respect of the Group's banking business, Standard Life Bank plc, which was sold on 1 January 2010.

Included in other commitments is £315m (2009: £696m) 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 non-controlling interests. 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:

	2010 £m	2009 £m
Not later than one year	17	16
Later than one year and no later than five years	21	18
Later than five years	44	32
Total operating lease commitments	82	66

47. 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 72 to 85. 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 three year performance period for the 2010 plan commenced on 1 January 2010. The grant date for the plan was 25 June 2010 with additional grants being made during the year to individuals who joined the plan after 25 June 2010.

The three year performance period for the 2009 plan commenced on 1 January 2009. The grant date for the plan was 20 April 2009 with additional grants being made during the year to individuals who joined the plan after 20 April 2009.

For the 2008 plan, 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. In addition, in respect of the 2008 and 2009 plans, the number of options that ultimately vest is also subject to a Total Shareholder Return multiplier. The performance target of the 2009 plan was altered during 2010. For 2009, the performance condition continues to be based on the Group's return on capital, while the performance condition for the 2010-2011 performance period of the 2009 plan is based on the Group's operating profit. Since this modification relates to non-market vesting conditions, there was no impact on the fair value of the granted instruments recognised by the Group. The performance target for the 2010 plan is based on the Group's operating profit.

(ii) Standard Life Investments Long-Term Incentive Plan

Prior to 6 November 2009, the Standard Life Investments LTIP was a cash-based award dependent on certain performance conditions being achieved over a three year period. In order to improve the alignment of awards of key individuals within Standard Life Investments with the Group's corporate goals, the cash-based awards in respect of the 2007 and 2008 plan were converted to a share-based payment scheme in 2009. Under the terms of the conversion, the number of options awarded, which will have a nil exercise price, was based on the average share price over the last five trading days immediately prior to the date of grant. The 2009-2011 award was structured as a share-based payment from commencement.

Under the terms of the 2008 plan, share options are awarded subject to a service condition, and the requirement for participants to retain shares in respect of the share options awarded under the 2007 plan, which vested on 10 March 2010 (net of disposals required to meet personal tax liabilities in respect of the 2007 plan).

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

The majority of the awards granted under the Standard Life Investments LTIP are equity-settled share-based payment transactions. The awards in respect of employees in USA, France and Asia are cash-settled.

(iii) 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 the date of grant.

(iv) Performance shares

All eligible employees may be awarded free performance shares if certain Group profit targets are met. No shares were awarded to eligible employees in respect of their services for the year ended 31 December 2010 (2009: none).

(v) Annual bonus deferred shares

Details of the annual bonus are set out in the Directors' remuneration report on pages 72 to 85. The majority of the members of the executive and senior management including executive Directors participate in the Group annual bonus. Under the terms of the 2010 annual bonus, half of any bonus above 25% of salary will be settled in shares which are deferred for a period of two years, subject to the deferred amount being worth 10% or more of salary. For 2009, half of any bonus above 35% of salary was settled in shares which were 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.

The share-based payment expense in respect of the deferred shares has been measured with reference to the proportion of the annual bonus entitlement to be settled in deferred shares and will be recognised over the vesting period, which includes a two year deferral period. The share-based payment expense in respect of annual bonus deferred shares amounted to £1m (2009: £1m).

The number of instruments granted in relation to the year to 31 December 2010 was 1,088,145 (2009: 884,432), and has been calculated with reference to the monetary value of the annual bonus to be settled in deferred shares, divided by the average Standard Life plc share price during the month of December 2010.

(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.

	2010	2009	2008
Main grant			
Date of grant	25 June 2010	20 April 2009	21 April 2008
Number of instruments granted	7,176,431	6,667,906	4,755,073
Share price at date of grant	178.50p	187.00p	249.50p
Additional grants during the year			
Range of dates of grant	18 August 2010 – 20 December 2010	26 May 2009 – 16 September 2009	1 May 2008 – 24 November 2008
Number of additional instruments granted	271,077	165,382	526,258
Share price at date of grant	200.00p – 231.50p	198.00p – 202.25p	229.00p – 266.50p
Average share price at date of grant	211.00p	199.50p	246.50p
Expected outcome of meeting performance criteria (at the grant date)	50%	50%	50%
Fair value per granted instrument determined at the grant date	179p	155p	217p

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

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

The 'Black-Scholes' option pricing model is used to value the options granted under the LTIP. From 2008 onwards, 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 of the 2008 and 2009 plans.

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

As at 31 December 2010, 17,010,829 options were outstanding (2009: 14,615,186). The weighted average remaining expected life at 31 December 2010 was 1.54 years (2009: 1.61 years), while the weighted average remaining contractual life was 2.04 years (2009: 2.11 years).

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

	2010	2009
Outstanding at 1 January	14,615,186	11,326,541
Granted	7,447,508	6,833,288
Forfeited	(2,303,051)	(302,010)
Exercised	(1,401,207)	(3,069,160)
Expired	(1,347,607)	(173,473)
Outstanding at 31 December	17,010,829	14,615,186

The options exercised during 2010 relate to the 2007 plan. The options exercised during 2009 related to the 2006 portion of the 2005/2006 plan. The weighted average share price at the time of exercise of the options was 205p (2009: 177p). The weighted average exercise price was nil.

47. Employee share-based payments *continued*

(b) Standard Life Investments Long-Term Incentive Plan

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

	2010	2009	2008
Main grant			
Date of grant	16 June 2010	6 November 2009	6 November 2009
Number of instruments granted	15,521,139	10,933,348	5,131,893
Share price at date of grant	188p	213p	213p
Contractual life (years)	3.96 years	3.80 years	3.69 years
Expected option life at grant date (years)	3.50 years	2.95 years	1.84 years
Expected outcome of meeting performance criteria (at the grant date)	50%	50%	n/a
Fair value per granted instrument determined at the grant date	188p	213p	213p
Fair value per cash settled instrument granted determined at 31 December 2010	216p	216p	216p

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

As at 31 December 2010, 31,118,960 options were outstanding (2009: 21,066,243). The weighted average remaining expected life at 31 December 2010 was 1.10 years (2009: 1.40 years), while the weighted average remaining contractual life was 1.57 years (2009: 1.90 years).

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

	2010	2009
Outstanding at 1 January	21,066,243	-
Granted	15,521,139	21,066,243
Forfeited	(781,237)	-
Exercised	(4,687,185)	-
Outstanding 31 December	31,118,960	21,066,243

The options exercised during 2010 relate to the 2007 plan. The weighted average share price at the time of exercise was 207p. The weighted average exercise price was nil.

(c) Share incentive plans

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

	2010	2009	2008
Number of instruments granted	719,178 ¹	789,287 ¹	685,909 ¹
Share price at date of grant	202p	198p	230p
Fair value per cash settled instrument granted determined at the grant date	202p	198p	230p

¹ Included in the number of instruments granted are 119,194 (2009: 120,265; 2008: 94,910) rights to shares granted to eligible employees in Canada, Germany and Austria.

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

(d) Employee share-based payment expense

The amounts recognised as an expense in Note 6 for share-based payment transactions with employees are as follows:

	2010 £m	2009 £m
Share options granted under long-term incentive plans	17	26
Annual bonus deferred shares granted	1	1
Matching shares granted under share incentive plans	1	1
	19	28

The amount in respect of share options granted under long-term incentive plans in 2009 includes the impact of the conversion of the Standard Life Investments LTIP from a cash-based to a largely share-based payment award.

The Standard Life Investments LTIP cash-settled expense amounted to £1.0m in 2010 (2009: £1.6m). The remaining employee share-based payment expense is equity-settled. The liability for cash-settled share-based payments outstanding at 31 December is £2.4m (2009: £1.6m).

48. 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 and investment management business.

Transactions with related parties carried out by the Group during the year were as follows:

	2010 £m	2009 £m
Sale to:		
Associates	17,340	11,607
Joint ventures	32	2
	17,372	11,609
Purchase from:		
Associates	18,052	10,907
Joint ventures	19	100
	18,071	11,007

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 arising from transactions carried out by the Group with related parties are as follows:

	2010 £m	2009 £m
Due from related parties:		
Joint ventures	74	100
	74	100

In addition to the amounts shown above, the Group's defined benefit pension schemes have assets of £655m (2009: £528m) invested in investment vehicles managed by the Group.

48. Related party transactions *continued*

(b) Compensation of key management personnel

Key management personnel comprise 21 people (2009: 19 people) within the Group, including all Directors, both executive and non-executive and the direct reports of the position of 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 72 to 85.

The summary of compensation of key management personnel is as follows:

	2010 £m	2009 £m
Salaries and other short-term employee benefits	10	9
Post-employment benefits	-	1
Termination benefits	1	1
Share-based payments	2	1
Total compensation of key management personnel	13	12

(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 72 to 85.

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 2010, the key management personnel contributed £1.9m (2009: £11.1m) to products sold by the Group.

49. 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 1.5 – 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 equity holder value by driving profit attributable to equity holders.

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 Chief Financial Officer. 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 42.

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 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 an insurance group by the FSA. 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 £3,997m at 31 December 2010 (2009: £1,642m) 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.

49. Capital statement *continued*

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 was a subsidiary of SLAL until its disposal on 1 January 2010 and therefore its capital resources were included within life business equity holders' funds in 2009. The Group's capital position, based on draft regulatory returns, is set out below:

2010	UK regulated life business			Total UK regulated life business £m	Overseas life operations £m	Total life business £m	Other activities ² £m	Group total £m
	Heritage With Profits Fund ¹ £m	Proprietary business funds £m	Life business equity holders' funds £m					
Available capital resources								
Equity holders' funds								
Held outside life assurance funds	-	-	1,008	1,008	1,220	2,228	796	3,024
Held within life assurance funds	-	879	-	879	-	879	-	879
Equity attributable to ordinary equity holders of Standard Life plc	-	879	1,008	1,887	1,220	3,107	796	3,903
Unallocated divisible surplus	788	-	-	788	-	788	-	788
Other qualifying capital								
Subordinated liabilities	-	-	-	-	-	-	1,799	1,799
Internal subordinated liabilities	-	-	1,799	1,799	257	2,056	(2,056)	-
	-	-	1,799	1,799	257	2,056	(257)	1,799
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	3,262	(2)	-	3,260	(80)	3,180	-	3,180
Exclusion of deferred acquisition costs and other inadmissible assets	(122)	(528)	(326)	(976)	(111)	(1,087)	(43)	(1,130)
Exclusion of deferred income	114	231	-	345	(1)	344	-	344
Changes to the valuation of other assets and liabilities	(11)	(259)	(120)	(390)	128	(262)	208	(54)
	3,243	(558)	(446)	2,239	(64)	2,175	165	2,340
Total available capital resources to meet regulatory requirement	4,031	321	2,361	6,713	1,413	8,126	704	8,830
Analysed as follows:								
Capital not subject to constraints	-	-	2,336	2,336	577	2,913	623	3,536
Capital subject to constraints	4,031	321	25	4,377	836	5,213	81	5,294
Total available capital resources	4,031	321	2,361	6,713	1,413	8,126	704	8,830
Regulatory capital requirement				2,910	709	3,619	33	3,652
Analysis of contract liabilities								
Participating								
Insurance contracts	16,648	-	-	16,648	709	17,357	-	17,357
Investment contracts	15,324	-	-	15,324	5	15,329	-	15,329
Total participating contract liabilities	31,972	-	-	31,972	714	32,686	-	32,686
Unit linked								
Insurance contracts	1,316	59	-	1,375	1,823	3,198	-	3,198
Investment contracts	35,810	26,289	-	62,099	10,571	72,670	-	72,670
Total unit linked liabilities	37,126	26,348	-	63,474	12,394	75,868	-	75,868
Other non-participating								
Insurance contracts	11,657	2,901	-	14,558	5,805	20,363	3	20,366
Investment contracts	4	313	-	317	2,613	2,930	-	2,930
Total other non-participating liabilities	11,661	3,214	-	14,875	8,418	23,293	3	23,296
Total contract liabilities	80,759	29,562	-	110,321	21,526	131,847	3	131,850

¹ Capital resources amounting to £34m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £511m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

² The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and its capital resources are not, therefore, included in the analysis.

2009	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 ¹ £m	Proprietary business funds £m	Life business equity holders' funds ² £m					
Available capital resources								
Equity holders' funds								
Held outside life assurance funds	-	-	1,077	1,077	1,053	2,130	710	2,840
Held within life assurance funds	-	617	-	617	-	617	-	617
Equity attributable to ordinary equity holders of Standard Life plc	-	617	1,077	1,694	1,053	2,747	710	3,457
Unallocated divisible surplus	791	-	-	791	-	791	-	791
Other qualifying capital								
Subordinated liabilities	-	-	265	265	-	265	1,846	2,111
Internal subordinated liabilities	-	-	1,876	1,876	236	2,112	(2,112)	-
	-	-	2,141	2,141	236	2,377	(266)	2,111
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	1,485	20	-	1,505	(75)	1,430	-	1,430
Exclusion of deferred acquisition costs and other inadmissible assets	(143)	(496)	(484)	(1,123)	(87)	(1,210)	(119)	(1,329)
Exclusion of deferred income	132	207	-	339	(2)	337	-	337
Changes to the valuation of other assets and liabilities	(610)	(90)	645	(55)	79	24	225	249
	864	(359)	161	666	(85)	581	106	687
Total available capital resources to meet regulatory requirement	1,655	258	3,379	5,292	1,204	6,496	550	7,046
Analysed as follows:								
Capital not subject to constraints	-	-	3,112	3,112	422	3,534	432	3,966
Capital subject to constraints	1,655	258	267	2,180	782	2,962	118	3,080
Total available capital resources	1,655	258	3,379	5,292	1,204	6,496	550	7,046
Regulatory capital requirement				2,040	666	2,706	81	2,787
Analysis of contract liabilities								
Participating								
Insurance contracts	15,969	-	-	15,969	599	16,568	-	16,568
Investment contracts	14,988	-	-	14,988	5	14,993	-	14,993
Total participating contract liabilities	30,957	-	-	30,957	604	31,561	-	31,561
Unit linked								
Insurance contracts	1,266	36	-	1,302	1,408	2,710	-	2,710
Investment contracts	33,788	18,647	-	52,435	8,512	60,947	-	60,947
Total unit linked liabilities	35,054	18,683	-	53,737	9,920	63,657	-	63,657
Other non-participating								
Insurance contracts	11,709	2,389	-	14,098	5,207	19,305	149	19,454
Investment contracts	10	296	-	306	2,475	2,781	-	2,781
Total other non-participating liabilities	11,719	2,685	-	14,404	7,682	22,086	149	22,235
Total contract liabilities	77,730	21,368	-	99,098	18,206	117,304	149	117,453

¹ Capital resources amounting to £13m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £365m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

² The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010. For the year ended 31 December 2009, its capital resources were included within life business equity holders' funds.

49. Capital statement *continued*

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 2010, SLAL had available capital resources of £6.7bn (2009: £5.3bn) and a CRR of £2.9bn (2009: £2.0bn). 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 £4.4bn at 31 December 2010 (2009: £2.2bn) represents capital resources held within long-term business funds, or in relation to other regulated entities, the amount of the CRR.

Overseas life operations

Capital resources of £1,413m (2009: £1,204m), which relate mainly to operations in Canada, also include operations in Asia. The capital resources of the operations in Canada are based on local Generally Accepted Accounting Principles 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 £836m at 31 December 2010 (2009: £782m).

Other activities

At 31 December 2010, capital resources of £704m (2009: £550m) and capital subject to constraints of £81m (2009: £118m) relate to the Group's 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. Through branches, the Group also 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 has issued subordinated liabilities of £257m (2009: £236m) to the Company. During the year, Standard Life Investments Limited repaid the subordinated liabilities of £15m that it had issued. This amount of subordinated liabilities is included within the capital resources of that business during 2009. At Group level only subordinated liabilities issued to external parties are included in the Group's capital resources.

Group capital requirement

The Group must also calculate a group solvency position under the Insurance Groups Directive (IGD). The IGD calculation is a very prudent aggregate value for the Group's capital resources. The capital held within the long-term business funds of approximately £4.4bn (2009: £1.9bn) is restricted to the level of the CRR of those funds of approximately £2.6bn (2009: £1.6bn). Therefore, the Group recognises no net surplus in respect of capital within the long-term business funds.

The estimated IGD position at 31 December 2010 is shown in the Business review Section 1.5 – Capital and cash generation.

In respect of the Group's IGD reporting there were no breaches of regulatory capital requirements at any time during the year.

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 32 and Note 33.

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 42.

Movements in capital

The movements in the total capital resources shown in the capital statement are set out below.

	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 equity holders funds £m					
2010								
At 1 January	1,655	258	3,379	5,292	1,204	6,496	550	7,046
Methodology/modelling changes	675	4	-	679	(47)	632	-	632
Change in assumptions used to measure life assurance contract liabilities and experience differences	(56)	8	-	(48)	(6)	(54)	-	(54)
New business	(16)	(138)	-	(154)	(26)	(180)	-	(180)
Investment surplus	2,415	87	5	2,507	98	2,605	-	2,605
Equity holder/inter-fund transfers	(71)	71	-	-	32	32	(32)	-
Dividend transfers	-	-	(205)	(205)	-	(205)	19	(186)
Other factors	(571)	31	(818)	(1,358)	158	(1,200)	167	(1,033)
At 31 December	4,031	321	2,361	6,713	1,413	8,126	704	8,830

	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 equity holders funds £m					
2009								
At 1 January	2,976	267	2,756	5,999	1,188	7,187	558	7,745
Methodology/modelling changes	113	12	-	125	(38)	87	-	87
Change in assumptions used to measure life assurance contract liabilities and experience differences	19	13	-	32	7	39	-	39
New business	(20)	(117)	-	(137)	(26)	(163)	-	(163)
Investment surplus	(124)	17	6	(101)	102	1	-	1
Equity holder/inter-fund transfers	(869)	(63)	932	-	16	16	(16)	-
Dividend transfers	-	-	(173)	(173)	-	(173)	15	(158)
Other factors	(440)	129	(142)	(453)	(45)	(498)	(7)	(505)
At 31 December	1,655	258	3,379	5,292	1,204	6,496	550	7,046

Changes in assumptions used to measure contract liabilities have not had a significant impact on capital resources.

Equity holder/inter-fund transfers include the transfer of £nil (2009: £844m) from the HWPF to the Shareholder Fund in respect of the recourse cash flows for UK and Ireland and £71m (2009: £25m) to the Proprietary Business Funds in relation to additional expenses charged on German unitised with profits business.

Equity holder/inter-fund transfers in 2009 of £844m include £588m relating to a contingent loan agreement. In 2010, a £195m repayment of this contingent loan was made from the Shareholder Fund to SLAL's HWPF. This loan repayment is included in other factors.

50. 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 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 ^{2,3}	Scotland	51	Investment trust
The Standard Life Assurance Company 2006 ^{1,3}	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
Veignet (Holdings) Limited	England	100	Holding company

¹ 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.

² Indicates listed entity.

³ Indicates the entity has had a different reporting date to the Group but has been consolidated consistently at 31 December 2010.

A complete list of the Company's subsidiaries is available as an attachment to the Company's Annual Return.

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 whether 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.

51. Events after the reporting period

On 11 January 2011, the Group's offer for the entire issued and to be issued share capital of Focus Solutions Group plc (Focus) was declared wholly unconditional and therefore is the effective date of the acquisition. Focus is a provider of software and consultancy solutions to the financial services industry, enabling its clients to automate the delivery of financial products and services to their customers across multiple distribution channels in a rapid and efficient manner. Continued investment in innovative technology is central to the delivery of the Group's accelerated growth strategy. The acquisition will enable the development of new and existing propositions, enhancing the customer experience and driving greater efficiencies. The consideration, acquisition date fair value of net assets acquired and resulting goodwill are as follows:

	£m
Purchase consideration	
Cash paid	41
Loan notes issued	7
Total purchase consideration	48
Fair value of net assets acquired:	
Intangible assets	22
Other assets	8
Cash and cash equivalents	1
Deferred tax assets	3
Other creditors	(6)
Deferred tax liabilities	(6)
	22
Goodwill	26

The goodwill is attributable to the workforce of the acquired business and its growth prospects as well as the significant synergies expected to arise as a result of the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

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 (the Group) for the year ended 31 December 2010 which comprise the European Embedded Value (EEV) consolidated income statement, the EEV consolidated statement of comprehensive income, the EEV consolidated statement of financial position and the relevant Notes 1 to 17 (the supplementary financial statements) which have been prepared in accordance with the EEV basis set out on pages 209 to 210 and on pages 236 to 241 and which should be read in conjunction with the audited consolidated financial statements.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the supplementary financial statements in accordance with the EEV basis set out in Notes 1 and 17. Our responsibility, as set out in our letter of engagement dated 2 August 2010, is to audit and express an opinion on the supplementary financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinion, has been prepared for and only for the Company's Directors as a body in accordance with our letter of engagement dated 2 August 2010, 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.

Scope of the audit of the supplementary financial statements

An audit involves obtaining evidence about the amounts and disclosures in the supplementary financial statements sufficient to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the supplementary financial statements.

Opinion on the supplementary financial statements

In our opinion, the supplementary financial statements for the year ended 31 December 2010 have been properly prepared in all material respects in accordance with the EEV basis set out on pages 209 to 210 and on pages 236 to 241.

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
10 March 2011

- (a) The supplementary financial statements are published on the website of Standard Life plc. 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 2010

	Notes	2010 ¹ £m	Restated 2009 ¹ £m
Covered business			
UK		436	506
Canada		250	192
International		93	29
HWPf TVOG		(8)	143
Covered business operating profit	2(a)	771	870
Non-covered business operating profit/(loss)			
Global investment management ²	6(b)	33	42
UK		28	(18)
Group corporate centre costs		(54)	(50)
Other	6(c)	9	-
Non-covered business operating profit/(loss)		16	(26)
Operating profit before tax from continuing operations		787	844
Non-operating items			
Long-term investment return and tax variances		578	70
Effect of economic assumption changes		(209)	(539)
Impairment of investments in associates		(1)	-
Restructuring and corporate transaction expenses ³		(71)	(52)
Other non-operating items		-	(9)
Consolidation adjustment for different accounting bases ⁴		51	67
Non-operating profit/(loss) before tax from continuing operations		348	(463)
Profit before tax from continuing operations		1,135	381
Tax attributable to:			
Operating profit		(249)	(247)
Non-operating items		(90)	122
Profit after tax from continuing operations		796	256
Profit after tax from discontinued operations		20	49
Total profit after tax		816	305

¹ The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation. The presentation of the 2009 comparatives in certain primary statements and in the corresponding notes has been reclassified accordingly, as indicated. The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 and was classified as a discontinued operation for the year ended 31 December 2009. Refer to Note 1 – Basis of preparation.

² Global investment management operating profit before tax is stated after excluding profits of £70m (2009: £33m) which have been generated by life and pensions business. Refer to Note 17 – EEV methodology.

³ Refer to IFRS financial information Note 8 – Restructuring and corporate transaction expenses.

⁴ This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 17 – EEV methodology.

EEV earnings per share (EPS) For the year ended 31 December 2010

	2010	Restated 2009
EEV operating profit after tax from continuing operations (£m)¹	538	597
Basic EPS (pence) from continuing operations	24.0	27.1
Weighted average number of ordinary shares in issue (millions)	2,242	2,201
Diluted EPS (pence) from continuing operations	23.9	27.1
Weighted average number of ordinary shares on a diluted basis (millions)	2,248	2,203

¹ EEV operating profit before tax from continuing operations of £787m (2009: £844m) less attributed tax on operating profit from continuing operations of £249m (2009: £247m).

EEV consolidated statement of comprehensive income For the year ended 31 December 2010

	Notes	2010 £m	Restated 2009 £m
Profit after tax		816	305
Less: Profit after tax from discontinued operations		20	49
Profit from continuing operations		796	256
Fair value (losses)/gains on cash flow hedges ¹		(2)	1
Actuarial gains/(losses) on defined benefit pension schemes ¹		184	(77)
Exchange differences on translating foreign operations ²		152	26
Net investment hedge ¹		(39)	(12)
Aggregate tax effect of items not recognised in income statement		(59)	27
Other		9	13
Other comprehensive income/(expense) for the period		245	(22)
Total comprehensive income for the period attributable to equity holders from continuing operations		1,041	234
Profit after tax from discontinued operations		20	49
Other comprehensive income from discontinued operations ³		24	8
Total comprehensive income for the period attributable to equity holders from discontinued operations		44	57
Total comprehensive income for the period attributable to equity holders	7	1,085	291

¹ Consistent with the IFRS consolidated statement of comprehensive income for the year ended 31 December 2010.

² Exchange differences primarily relate to Canada £139m.

³ Refer to IFRS financial information Note 10 – Discontinued operations.

EEV consolidated statement of financial position

As at 31 December 2010

	Notes	31 December 2010 £m	31 December 2009 £m
Covered business			
Free surplus		1,202	925
Required capital		1,031	956
Net worth		2,233	1,881
Present value of in-force		4,277	3,775
Cost of required capital		(439)	(391)
Total embedded value of covered business	2(c)	6,071	5,265
Non-covered business			
Global investment management		256	195
UK		271	(19)
Group corporate centre		457	389
Other		221	255
Discontinued operations		-	343
Total net assets of non-covered business	6(a)	1,205	1,163
Consolidation adjustment for different accounting bases ¹		45	7
Total Group embedded value	7	7,321	6,435
Equity			
Share capital		228	224
Shares held by trusts		(21)	-
Share premium reserve		976	888
Retained earnings on an IFRS basis		1,094	685
Other reserves		1,626	1,660
Additional retained earnings on an EEV basis		3,418	2,978
Total equity		7,321	6,435

¹ This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 17 – EEV methodology.

EEV per share

As at 31 December 2010

	31 December 2010	31 December 2009
Total Group embedded value (£m)	7,321	6,435
EEV per share (pence)	322	288
Diluted closing number of ordinary shares in issue (millions)	2,275	2,237

Approved on behalf of the Board of Directors on 10 March 2011 by the following Directors:

Gerry Grimstone, Chairman

Jackie Hunt, Chief Financial Officer

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 17. 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 in Note 17 – EEV methodology.

The regulatory basis for setting actuarial reserves and required capital has been calculated assuming the continuation of current regimes. Therefore, no allowance has been made for the change in reserving or required capital bases anticipated under either Solvency 2 or from the adoption of IFRS reporting in place of local GAAP in the Canada business.

Non-covered business

Following the Group's decision to replace IFRS underlying profit with IFRS operating profit as the chosen supplementary measure of IFRS performance, non-covered business EEV operating profit was represented by IFRS operating profit for the first time for the six months ended 30 June 2010. See Accounting policies – Basis of preparation of the IFRS financial information for more detail.

Prior to this change, EEV operating profit for non-covered business was defined as IFRS normalised underlying profit. Comparatives for the 12 months to 31 December 2009 have not been restated to reflect the inclusion of non-covered business on an IFRS operating profit basis, on the basis that a restatement would be immaterial in the context of the Group EEV operating profit for this period.

1. Basis of preparation *continued*

Segmentation

Under the EEV Principles and Guidance we are required to provide business classifications which are consistent with those used for the primary statements. In the IFRS financial statements the Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed, as required under IFRS 8. The EEV segmentation has been prepared in a consistent manner, whilst also distinguishing between covered and non-covered business. The Heritage With Profits Fund time value of options and guarantees (HWPF TVOG) is disclosed separately in EEV, as explained in Note 2(a) – Segmental analysis – covered business – Segmental EEV income statement.

Within the IFRS segmental analysis, UK operations primarily comprise life and pensions, UK non-covered mutual funds business and the non-covered UK pension scheme. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation for the year ended 31 December 2010. The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010. The comparatives for the year ended 31 December 2009 include both the banking and healthcare businesses as discontinued operations. UK non-covered business is shown within Note 6 – Non-covered business.

The EEV consolidated income statement presents EEV operating profit for continuing operations only and therefore excludes the results for the discontinued operations. The presentation of the comparatives has been restated accordingly. Prior to the exclusion of EEV operating profit from discontinued operations, total Group EEV operating profit before tax would have been £919m for the 12 months ended 31 December 2009.

Included within the International reporting segment are the Group's operations in Ireland and Germany, which for 31 December 2009 reporting were included in the Europe segment. Also included are the Group's business in Hong Kong and the Group's joint venture businesses in India and China, which were previously included in the Asia segment for 31 December 2009 reporting. This change in composition of reportable segments corresponds to changes made during the reporting period to the way in which the Group is managed and is consistent with the reportable segments in the IFRS financial information. The comparative information for the 12 months ended 31 December 2009 has been restated accordingly.

Impact of UK legislation enacted in 2010

The impact of UK legislation enacted in 2010:

- a) Reduced the corporation tax rate from 28% to 27% effective from 1 April 2011, and
- b) Increased the rate of Value Added Tax (VAT) from 17.5% to 20% effective from 4 January 2011

These changes have been included within our best estimate assumptions for UK corporation tax and VAT as at 31 December 2010.

In the Budget statement of 22 June 2010, the government also announced an intention to make further reductions in corporation tax of 1% in 2012, 2013 and 2014. However, these reductions are subject to legislation in future years and have not been included within the best estimate assumptions as at 31 December 2010.

Sensitivity analysis

The sensitivity analysis contained within Note 16 – Sensitivity analysis – economic and non-economic assumptions shows the sensitivity of the embedded value and the new business contribution to different scenarios. The sensitivity of the embedded value and new business contribution to a 10% fall in the market value of equity assets and a 10% fall in the market value of property assets is disclosed separately for the first time for the results as at 31 December 2010. Prior to this, we disclosed a combined test of the embedded value to a 10% fall in the market value of equity and property assets.

PVIF monetisation profile

Additional information has been included in the new Note 12 – PVIF monetisation profile to indicate the cash that may emerge in the next five years from the in-force PVIF. This assumes that future experience is in line with the assumptions used to calculate the PVIF, and ignores any future new business. The expected cash emergence is provided on both a discounted basis, equivalent to the PVIF used within the closing EEV, and also on an undiscounted basis.

Equivalent analyses are also provided for the new business written during the year. This is based on the cash expected to emerge from the PVIF calculated at the end of the year, and excludes all cash flows that have emerged from point of sale to end of year.

Events after the reporting period

On 11 January 2011, the Group's offer for the entire issued and to be issued share capital of Focus Solutions Group plc (Focus) was declared wholly unconditional and therefore is the effective date of the acquisition. Focus is a provider of software and consultancy solutions to the financial services industry, enabling its clients to automate the delivery of financial products and services to their customers across multiple distribution channels in a rapid and efficient manner. Continued investment in innovative technology is central to the delivery of the Group's accelerated growth strategy. The acquisition will enable the development of new and existing propositions, enhancing the customer experience and driving greater efficiencies. Refer to IFRS financial information Note 51 – Events after the reporting period.

2. Segmental analysis - covered business

(a) Segmental EEV income statement

This Note provides an analysis of EEV covered business as defined in Note 17 – EEV methodology.

12 months to 31 December 2010	Notes	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
Contribution from new business	3	173	68	67	-	308
Contribution from in-force business:						
Expected return on existing business		237	142	43	-	422
Experience variances	4	32	16	(13)	(8)	27
Operating assumption changes	5	44	18	19	-	81
Development expenses		(30)	(10)	(27)	-	(67)
Expected return on free surplus		(20)	16	4	-	-
Operating profit/(loss) before tax		436	250	93	(8)	771
Investment return and tax variances		463	40	22	53	578
Effect of economic assumption changes		(77)	(83)	10	(59)	(209)
Restructuring costs		(39)	(1)	(5)	-	(45)
Profit/(loss) before tax		783	206	120	(14)	1,095
Attributed tax		(212)	(53)	(27)	4	(288)
Profit/(loss) after tax		571	153	93	(10)	807
12 months to 31 December 2009	Notes	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
Contribution from new business	3	139	46	28	-	213
Contribution from in-force business:						
Expected return on existing business		204	132	39	-	375
Experience variances	4	148	4	(18)	143	277
Operating assumption changes	5	60	11	(3)	-	68
Development expenses		(18)	(6)	(23)	-	(47)
Expected return on free surplus		(27)	5	6	-	(16)
Operating profit before tax		506	192	29	143	870
Investment return and tax variances		(8)	(31)	47	62	70
Effect of economic assumption changes		(243)	(292)	(13)	9	(539)
Restructuring costs		(34)	(1)	(8)	-	(43)
Profit/(loss) before tax		221	(132)	55	214	358
Attributed tax		(62)	34	(15)	(60)	(103)
Profit/(loss) after tax		159	(98)	40	154	255

An analysis of profit after tax by territory is provided in Note 9 – Analysis of covered business EEV PVIF and net worth movements (net of tax).

Operating profit before tax for covered business is calculated using the expected long-term investment return which is based on opening economic assumptions. 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.

2. Segmental analysis – covered business *continued*

(a) Segmental EEV income statement *continued*

HWPf TVOG represents the time value of financial options and guarantees (TVOG) arising from the Heritage With Profits Fund (HWPf). Although the HWPf includes business written by the UK, Germany and Ireland, the Group manages the risk at an aggregate level. This is consistent with the Group's IFRS financial statements as disclosed in Note 42 – Risk management. The results for Canada and International include the cost of the Canada and Asia businesses' TVOG and the cost of TVOG arising on business written outside of the HWPf in Germany.

The increase in the expected return on existing business is primarily due to higher opening PVIF and higher opening risk discount rates.

The higher development costs of £67m in 2010 compared to £47m in 2009 reflect the increased investment in the business. Development costs of £30m in the UK mainly relate to the investment in corporate and retail propositions and brand development. The £27m of development costs in International include £10m that reflect the costs of developing the joint venture businesses to build future growth, and £17m in the wholly owned businesses.

The negative £20m expected return on free surplus in the UK reflects the relatively low expected returns currently available on cash assets within free surplus, along with a higher expected increase in the value of subordinated debt liabilities relative to the expected return on the assets backing subordinated debt. The increase in the expected return on free surplus within Canada reflects the impact of an asset switch which resulted in more real estate within free surplus.

Profits within investment return and tax variances are largely driven by the impact of higher investment returns experienced in 2010 than had been anticipated. The UK profit of £463m includes a £43m profit from the Contract for Differences – refer to Note 6(b) – Non-covered business – Global investment management EEV profits before tax. This also includes a £21m loss, in excess of the expected returns that are included in the expected return on free surplus, arising from differences in movements of subordinated debt liabilities and the assets that are backing the subordinated debt. The £53m profit from HWPf TVOG reflects the impact of higher than expected returns which reduced the burnthrough risk.

Effect of economic assumption changes was a loss of £209m. The impact of assuming lower future investment returns generated a loss of £426m, which included a loss of £59m reflecting higher HWPf burnthrough costs. This was partially offset by a non-operating profit of £185m (2009: loss £214m), which is explained in Note 13 – Principal economic assumptions – deterministic calculations – covered business. The UK result also benefited from a £30m contribution from the combined impact of a 1% reduction in corporation tax and a 2.5% increase in the rate of VAT. Refer to Note 1 – Basis of preparation.

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 4 – Experience variances and Note 10 – Time value of options and guarantees (TVOG).

Restructuring expenses primarily represent the covered business costs associated with the Group's Transformation and Solvency 2 Programmes as described in the IFRS financial information Note 8 – Restructuring and corporate transaction costs.

(b) Segmental analysis of movements in EEV

	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
12 months to 31 December 2010					
Opening EEV	3,120	1,553	658	(66)	5,265
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	3,120	1,553	658	(66)	5,265
Profit/(loss) after tax	571	153	93	(10)	807
Internal capital transfers	(15)	(65)	(3)	-	(83)
Transfer back of surplus to Standard Life Investments	(47)	(3)	(2)	-	(52)
Transfer back of mutual funds net worth	28	(4)	-	-	24
Actuarial losses on defined benefit pension schemes	-	(20)	(9)	-	(29)
Foreign exchange differences	-	139	(5)	-	134
Aggregate tax effect of items not recognised in income statement	-	5	-	-	5
Closing EEV	3,657	1,758	732	(76)	6,071

12 months to 31 December 2009	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Opening EEV	3,129	1,597	626	(220)	5,132
Opening adjustments	-	-	33	-	33
Opening adjusted EEV	3,129	1,597	659	(220)	5,165
Profit/(loss) after tax	159	(98)	40	154	255
Internal capital transfers	(175)	(2)	(1)	-	(178)
Transfer back of surplus to Standard Life Investments	(19)	(3)	(2)	-	(24)
Transfer back of mutual funds net worth	20	(1)	-	-	19
Actuarial (losses)/gains on defined benefit pension schemes	-	(16)	13	-	(3)
Foreign exchange differences	-	71	(51)	-	20
Aggregate tax effect of items not recognised in income statement	-	5	-	-	5
Other	6	-	-	-	6
Closing EEV	3,120	1,553	658	(66)	5,265

Internal capital transfers mainly reflect dividend transfers to Standard Life plc.

Opening adjustments in International for the 12 months to 31 December 2009 reflect the inclusion of the Asia businesses on an EEV basis for the first time.

(c) Segmental analysis of opening and closing EEV

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Analysis of EEV					
Free surplus	673	136	91	-	900
PVIF	2,359	962	545	(66)	3,800
Required capital	139	770	47	-	956
Cost of capital	(51)	(315)	(25)	-	(391)
Opening adjusted EEV	3,120	1,553	658	(66)	5,265
Analysis of EEV					
Free surplus	930	226	46	-	1,202
PVIF	2,637	1,061	655	(76)	4,277
Required capital	159	813	59	-	1,031
Cost of capital	(69)	(342)	(28)	-	(439)
Closing EEV	3,657	1,758	732	(76)	6,071

The adjustment to opening EEV net worth and PVIF represents a change to the presentation of certain Canada GAAP guarantee reserves. Prior to the results for the 12 months to 31 December 2010, these reserves were replaced with a time value of options and guarantees (TVOG) within the Group's EEV results. In order to better align the Group's EEV net worth movement and the Group's primary measure of performance, IFRS operating profit, these reserves are now included within the EEV net worth with an offset in the PVIF. This change does not affect the TVOG. Total EEV operating profit for the 12 months to 31 December 2010 is also unaffected by this adjustment.

2. Segmental analysis - covered business *continued***(c) Segmental analysis of opening and closing EEV *continued***

12 months to 31 December 2009	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
Analysis of EEV					
Free surplus	899	154	124	-	1,177
PVIF	2,173	939	528	(220)	3,420
Required capital	95	737	29	-	861
Cost of capital	(38)	(233)	(22)	-	(293)
Opening adjusted EEV	3,129	1,597	659	(220)	5,165
Analysis of EEV					
Free surplus	673	161	91	-	925
PVIF	2,359	937	545	(66)	3,775
Required capital	139	770	47	-	956
Cost of capital	(51)	(315)	(25)	-	(391)
Closing EEV	3,120	1,553	658	(66)	5,265

Opening adjusted EEV in International for the 12 months to 31 December 2009 reflects the inclusion of the Asia businesses on an EEV basis for the first time.

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 17 – EEV methodology.

NBC and the present value of new business premium (PVNBP) margins are shown after the effect of required capital.

12 months to 31 December 2010	Fee (F) – Spread/risk (S/R)	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNBP £m	PVNBP multiplier ¹	PVNBP margin ² %
Individual pensions ³	F	19	3,539	92	3,858	3.5	0.5
Savings and investments	F	7	1,827	23	1,997	7.4	0.4
Annuities	S/R	56	341	-	341	-	16.5
Protection	S/R	-	-	1	1	1.0	(12.9)
Retail		82	5,707	116	6,197	4.2	1.3
Corporate pensions ³	F	45	1,225	508	3,287	4.1	1.4
Institutional pensions	F	46	3,472	-	3,472	-	1.3
Corporate		91	4,697	508	6,759	4.1	1.3
UK		173	10,404	624	12,956	4.1	1.3
Fee	F	47	1,216	68	2,048	12.2	2.3
Spread/risk	S/R	21	239	52	1,000	14.6	2.1
Canada		68	1,455	120	3,048	13.3	2.2
Wholly owned	F	44	1,313	77	1,929	8.0	2.3
Joint ventures		23	74	119	550	4.0	4.3
International		67	1,387	196	2,479	5.6	2.7
Total covered business		308	13,246	940	18,483	5.6	1.7

¹ The PVNBP multiplier is calculated as the total of PVNBP less single premiums, divided by annualised regular premiums.

² PVNBP margins are calculated as the ratio of the new business contribution to the present value of new business premiums and are based on the underlying unrounded numbers.

³ Individual pensions include Retail Trustee Investment Plan. This was previously included in Corporate pensions. The 2010 impact on PVNBP is £25m.

12 months to 31 December 2009	Fee (F) – Spread/risk (S/R)	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNB £m	PVNB multiplier ¹	PVNB margin ² %
Individual pensions ³	F	7	3,096	79	3,388	3.7	0.2
Savings and investments	F	(3)	1,256	19	1,406	7.9	(0.2)
Annuities	S/R	76	448	-	448	-	17.1
Protection	S/R	-	-	1	2	2.0	11.9
Retail		80	4,800	99	5,244	4.5	1.5
Corporate pensions ³	F	34	908	437	2,640	4.0	1.3
Institutional pensions	F	25	2,253	17	2,296	2.5	1.1
Corporate		59	3,161	454	4,936	3.9	1.2
UK		139	7,961	553	10,180	4.0	1.4
Fee	F	23	817	43	1,326	11.8	1.7
Spread/risk	S/R	23	415	45	1,134	16.0	2.0
Canada		46	1,232	88	2,460	14.0	1.9
Wholly owned	F	17	881	58	1,430	9.5	1.2
Joint ventures ⁴		11	72	96	478	4.2	2.3
International		28	953	154	1,908	6.2	1.5
Total covered business		213	10,146	795	14,548	5.5	1.5

¹ The PVNB multiplier is calculated as the total of PVNB less single premiums, divided by annualised regular premiums.

² PVNB margins are calculated as the ratio of the new business contribution to the present value of new business premiums and are based on the underlying unrounded numbers.

³ Individual pensions include Retail Trustee Investment Plan. This was previously included in Corporate pensions. The 2009 impact on PVNB is £22m.

⁴ Single premiums in India have been restated by £8m to reflect the reclassification of regular premiums to single premiums. The impact on regular premiums is negative £2m. The impact on PVNB for the 12 months to 31 December 2009 is £2m.

4. Experience variances

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWP TVOG £m	Total £m
Lapses	(3)	-	(2)	-	(5)
Maintenance expenses	(4)	5	1	-	2
Mortality and morbidity	4	17	-	-	21
Tax	(8)	9	(1)	-	-
Other	43	(15)	(11)	(8)	9
Total	32	16	(13)	(8)	27

Mortality profits in Canada arise from a release of annuity reserves following an exercise to validate the policy data.

Other UK variances include a £28m gain from the impact of investment strategy changes in the assets backing annuity business; a £17m loss from an agreement to fund future recharges to non-covered businesses; various modelling improvements which generated a profit of £31m; with £1m of other profits mainly arising from the impact of reserve changes and other reconciliations and management actions. The £15m loss from other variances in Canada arises from various reconciliations and variances. The majority results from premium projection variances within Canada group insurance business. The £11m loss in International mainly reflects reserving changes in the joint venture businesses.

4. Experience variances *continued*

For the 12 months to 31 December 2009, other UK variances included a £111m benefit from reduction in market risk plus the EEV operating profit benefit from a £63m release of deferred annuity reserves, offset by £38m of modelling changes for life business. The £143m of other HWPF TVOG variances primarily reflected the benefits of changes in asset allocations and hedging arrangements which reduced the HWPF burnthrough risk.

12 months to 31 December 2009	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Lapses	1	-	(5)	-	(4)
Maintenance expenses	(8)	-	4	-	(4)
Mortality and morbidity	2	18	(1)	-	19
Tax	26	(5)	8	-	29
Other	127	(9)	(24)	143	237
Total	148	4	(18)	143	277

5. Operating assumption changes

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Lapses	13	-	(7)	-	6
Maintenance expenses	48	68	14	-	130
Mortality and morbidity	(19)	(12)	2	-	(29)
Tax	(1)	-	-	-	(1)
Other	3	(38)	10	-	(25)
Total	44	18	19	-	81

Positive lapse assumption changes in the UK include improved long-term assumptions for most life and pension contracts. These changes in long-term assumptions reflect recent experience, after adjusting for the short-term impact of increased pension lapse activity ahead of the change in the minimum retirement age. The assumption change also anticipates the short-term impact of potential higher switching activity prior to the introduction of the Retail Distribution Review.

Expense assumption gains in the UK and in Europe reflect changes in the expense allocation for investment related expenses. The UK figure also includes an allowance for the expected benefits on maintenance costs arising from the headcount reductions announced during 2010, but only to the extent that these arrangements had been finalised by 31 December 2010.

Canada expense assumption profits of £68m mainly arise from improved expenses for group savings and retirement products, reflecting the significant growth in the business volumes during 2010.

The losses from mortality assumption changes in the UK and in Canada mainly arise from valuation and best estimate annuitant mortality.

The other assumption changes in Canada include a £37m loss from a reduction in expected fee income in our group savings and retirement products.

For the 12 months to 31 December 2009, positive lapse assumption changes in UK and Canada mainly arose from the improved persistency of pension business. The £26m loss in International reflected higher paid up assumptions in Germany and higher lapse rates for offshore business.

12 months to 31 December 2009	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Lapses	69	34	(26)	-	77
Maintenance expenses	(18)	(8)	16	-	(10)
Mortality and morbidity	7	4	1	-	12
Tax	1	-	-	-	1
Other	1	(19)	6	-	(12)
Total	60	11	(3)	-	68

6. Non-covered business

Non-covered business EEV operating profit is represented by IFRS operating profit as adjusted for Standard Life Investments (global investment management) look through profits and the return on mutual funds which are recognised in covered business. Refer to Note 1 – Basis of preparation.

UK non-covered primarily comprises UK non-covered mutual funds business and the non-covered UK pension scheme. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation for the year ended 31 December 2010. The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010. The comparatives for the year ended 31 December 2009 include both the banking and healthcare businesses as discontinued operations.

(a) Segmental analysis - non-covered business

12 months to 31 December 2010	Global investment management £m	UK £m	Discontinued operations £m	Other including group corporate centre £m	Total non-covered business £m
Opening EEV net assets	195	(19)	343	644	1,163
Opening adjustments	-	34	-	(34)	-
Opening adjusted EEV net assets	195	15	343	610	1,163
(Loss)/profit after tax	26	(9)	20	(66)	(29)
Transfer back of net worth from covered business	52	(28)	-	4	28
Foreign exchange differences	2	-	-	16	18
Internal capital transfers	(18)	144	(387)	344	83
Distributions to equity holders	-	-	-	(278)	(278)
Other	(1)	149	24	48	220
Closing EEV net assets	256	271	-	678	1,205

The transfer back of net worth from covered business represents the transfer of profits and losses in relation to the Group's investment management business, the UK mutual funds business (within UK non-covered, Standard Life Savings Limited) and the Canada mutual funds business (within other non-covered), necessary to reconcile the opening and closing EEV net assets. For further detail refer to Note 17 – EEV methodology under consolidation adjustments.

The opening adjustment of £34m represents the reclassification of other non-covered to UK non-covered business during the period.

On 15 May 2009, the Group's equity holders approved the introduction of the Scrip dividend scheme, effective for the final 2008 dividend payment onwards. Investors taking part in the Scrip scheme receive their dividend entitlement in the form of new shares issued in lieu of cash dividends. For the 12 months ended 31 December 2010, dividends paid comprise £92m (2009: £102m) settled by the issue of shares under the Scrip scheme, and £186m paid in cash (2009: £158m).

The other movement in the UK EEV net assets relates to the change in the UK non-covered pension scheme surplus of £214m (2009: £73m deficit) and the associated deferred tax liability of £65m (2009: £23m deferred tax asset).

Other movements in other including group corporate centre predominantly relate to the £92m issue of share capital other than in cash in relation to the Scrip dividend paid by Standard Life plc, offset by shares acquired by employee trusts of £35m.

6. Non-covered business *continued***(a) Segmental analysis - non-covered business *continued***

12 months to 31 December 2009	Global investment management £m	UK £m	Discontinued operations £m	Other including group corporate centre £m	Total non-covered business £m
Opening EEV net assets	143	31	309	672	1,155
Opening adjustments	-	-	-	-	-
Opening adjusted EEV net assets	143	31	309	672	1,155
Profit/(loss) after tax	26	(26)	49	(48)	1
Transfer back of net worth from covered business	24	(20)	-	1	5
Foreign exchange differences	1	-	-	5	6
Internal capital transfers	-	46	(23)	155	178
Distributions to equity holders	-	-	-	(260)	(260)
Other	1	(50)	8	119	78
Closing EEV net assets	195	(19)	343	644	1,163

(b) Global investment management EEV profits before tax

Global investment management profits are included in EEV on a look through basis. This means that the profits from global investment management generated from the life and pensions business are allocated to covered business. However, the excluded life and pensions profits include £33m (2009: £19m) of profits relating to products which are actively marketed and sold to third parties through global investment management distribution channels. If these profits are added to the third party profits disclosed for non-covered business, there are £66m (2009: £61m) of third party related profits for global investment management.

	12 months to 31 December 2010 £m	12 months to 31 December 2009 £m
Life and pensions look through profits before tax	70	33
Less: Third party related life and pensions profits before tax	33	19
Life and pensions look through profits before tax excluding third party profits	37	14
Third party related life and pensions profits before tax	33	19
Third party related profits before tax	33	42
Total third party related profits before tax	66	61
Total EEV operating profit before tax	103	75
Non-operating items ¹	3	(11)
Total EEV profit before tax	106	64

¹ The non-operating items for the 12 months to 31 December 2010 include £nil in relation to the net negative fair value movement in respect of the liability remaining following the restructuring of a sub-fund of the Standard Life Investments (Global Liquidity Funds) plc and the 'Contract for Differences' written in September 2008, limited the liability for Standard Life Investments (2009: £9m). As at 31 December 2010, the Contract for Differences was closed at market value and all payments had been settled in full. The losses for all periods relating to the non-life net negative fair value movement and the fair value movement of assets brought directly on to the statement of financial position are also excluded from IFRS operating profit along with £3m positive other non-operational adjustments (2009: £2m).

Changes in the cost allocation methodology relating to inputs to the EEV profit calculation were introduced during 2010 together with other minor changes. The 2009 equivalent impact of these changes is an increase of £11m in life and pensions look through profits before tax, and a similar reduction in total third party related profits before tax. On this basis, the year-on-year growth in total third party related profits before tax is 32%.

(c) Other EEV operating profits before tax

	12 months to 31 December 2010 £m	12 months to 31 December 2009 £m
Canada non-life subsidiaries	1	(1)
Mutual funds transferred to covered business	(3)	(2)
Canada non-life subsidiaries excluding transfers to covered business	(2)	(3)
Standard Life plc income/(expense)	3	(2)
Other	8	5
Other non-covered business EEV operating profit before tax	9	-

Canada non-life subsidiaries are included within the Canada segment of the IFRS financial statements.

Included within other are the head office costs relating to the International businesses. These costs are included within the International segment of the IFRS financial statements.

7. EEV reconciliation of movements in consolidated statement of financial position

	12 months to 31 December 2010 £m	12 months to 31 December 2009 £m
Opening EEV	6,435	6,245
Opening adjustments	-	33
Opening adjusted EEV	6,435	6,278
Total comprehensive income for the period attributable to equity holders	1,085	291
Distributions to equity holders	(278)	(260)
Issue of share capital other than in cash	92	102
Shares acquired by employee trusts	(35)	-
Reserves credit for employee share-based payment schemes	18	24
Shares gifted to charity	4	-
Closing EEV	7,321	6,435

The opening adjustment for the 12 months to 31 December 2009 reflects the inclusion of the Asia businesses on an EEV basis for the first time.

8. Reconciliation of EEV net assets to IFRS net assets

	31 December 2010 £m	31 December 2009 £m
Net assets on an EEV basis	7,321	6,435
Present value of in-force life and pensions business net of cost of capital	(3,838)	(3,384)
EEV net worth	3,483	3,051
Adjustment of long-term debt to market value	(40)	(101)
Canada marked to market	(46)	(49)
Deferred acquisition costs net of deferred income reserve	378	358
Deferred tax differences	98	157
Adjustment for share of joint ventures	35	35
Consolidation adjustment for different accounting bases ¹	(45)	(7)
Other	40	13
Net assets attributable to equity holders on an IFRS basis	3,903	3,457

¹ This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 17 – EEV methodology.

Reconciling items are shown net of tax where appropriate.

9. Analysis of covered business EEV PVIF and net worth movements (net of tax)

(a) Total

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	925	956	1,881	3,384	5,265
Opening adjustments	(25)	-	(25)	25	-
Opening adjusted EEV	900	956	1,856	3,409	5,265
Contribution from new business	(265)	45	(220)	451	231
Contribution from in-force business:					
Expected return on existing business	(1)	37	36	275	311
Expected return transfer to net worth	625	(59)	566	(566)	-
Experience variances	35	(1)	34	(17)	17
Operating assumption changes	6	(55)	(49)	108	59
Development expenses	(51)	-	(51)	-	(51)
Expected return on free surplus	2	-	2	-	2
Operating profit/(loss) after tax	351	(33)	318	251	569
Investment return and tax variances	179	10	189	234	423
Effect of economic assumption changes	(73)	31	(42)	(110)	(152)
Restructuring expenses	(33)	-	(33)	-	(33)
Profit after tax	424	8	432	375	807
Internal capital transfers	(83)	-	(83)	-	(83)
Transfer back of surplus to Standard Life Investments	(52)	-	(52)	-	(52)
Transfer back of mutual funds net worth	24	-	24	-	24
Actuarial losses on defined benefit pension schemes	(29)	-	(29)	-	(29)
Foreign exchange differences	13	67	80	54	134
Aggregate tax effect of items not recognised in income statement	5	-	5	-	5
Closing EEV	1,202	1,031	2,233	3,838	6,071

The adjustment to opening EEV net worth and PVIF net of cost of capital represents a change to the presentation of certain Canada GAAP guarantee reserves. Prior to the results for the 12 months to 31 December 2010, these reserves were replaced with a time value of options and guarantees (TVOG) within the Group's EEV results. In order to better align the Group's EEV net worth movement and the Group's primary measure of performance, IFRS operating profit, these reserves are now included within the EEV net worth. Total EEV operating profit for the 12 months to 31 December 2010 is unaffected by this adjustment.

12 months to 31 December 2009	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	1,235	844	2,079	3,053	5,132
Opening adjustments	(58)	17	(41)	74	33
Opening adjusted EEV	1,177	861	2,038	3,127	5,165
Contribution from new business	(252)	64	(188)	346	158
Contribution from in-force business:					
Expected return on existing business	(1)	39	38	236	274
Expected return transfer to net worth	579	(60)	519	(519)	-
Experience variances	32	11	43	156	199
Operating assumption changes	41	(4)	37	7	44
Development expenses	(36)	-	(36)	-	(36)
Expected return on free surplus	(11)	-	(11)	-	(11)
Operating profit after tax	352	50	402	226	628
Investment return and tax variances	(256)	13	(243)	296	53
Effect of economic assumption changes	(138)	(1)	(139)	(255)	(394)
Restructuring expenses	(32)	-	(32)	-	(32)
Profit/(loss) after tax	(74)	62	(12)	267	255
Internal capital transfers	(178)	-	(178)	-	(178)
Transfer back of surplus to Standard Life Investments	(24)	-	(24)	-	(24)
Transfer back of mutual funds net worth	19	-	19	-	19
Actuarial losses on defined benefit pension schemes	(3)	-	(3)	-	(3)
Foreign exchange differences	(3)	33	30	(10)	20
Aggregate tax effect of items not recognised in income statement	5	-	5	-	5
Other	6	-	6	-	6
Closing EEV	925	956	1,881	3,384	5,265

For the 12 months to 31 December 2009, Asia businesses are included within the covered business results for the first time on an EEV basis. This is reflected in the opening adjustment of £33m.

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

(b) UK and HWPF TVOG

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	673	139	812	2,242	3,054
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	673	139	812	2,242	3,054
Contribution from new business	(134)	17	(117)	242	125
Contribution from in-force business:					
Expected return on existing business	(1)	5	4	169	173
Expected return transfer to net worth	374	(3)	371	(371)	-
Experience variances	34	(3)	31	(15)	16
Operating assumption changes	(26)	-	(26)	58	32
Development expenses	(21)	-	(21)	-	(21)
Expected return on free surplus	(14)	-	(14)	-	(14)
Operating profit after tax	212	16	228	83	311
Investment return and tax variances	187	-	187	190	377
Effect of economic assumption changes	(80)	4	(76)	(23)	(99)
Restructuring expenses	(28)	-	(28)	-	(28)
Profit after tax	291	20	311	250	561
Internal capital transfers	(15)	-	(15)	-	(15)
Transfer back of surplus to Standard Life Investments	(47)	-	(47)	-	(47)
Transfer back of mutual funds net worth	28	-	28	-	28
Closing EEV	930	159	1,089	2,492	3,581

12 months to 31 December 2009	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	899	95	994	1,915	2,909
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	899	95	994	1,915	2,909
Contribution from new business	(109)	21	(88)	188	100
Contribution from in-force business:					
Expected return on existing business	(1)	4	3	144	147
Expected return transfer to net worth	342	(3)	339	(339)	-
Experience variances	32	19	51	158	209
Operating assumption changes	19	(1)	18	24	42
Development expenses	(13)	-	(13)	-	(13)
Expected return on free surplus	(19)	-	(19)	-	(19)
Operating profit after tax	251	40	291	175	466
Investment return and tax variances	(213)	1	(212)	251	39
Effect of economic assumption changes	(71)	3	(68)	(99)	(167)
Restructuring expenses	(25)	-	(25)	-	(25)
Profit/(loss) after tax	(58)	44	(14)	327	313
Internal capital transfers	(175)	-	(175)	-	(175)
Transfer back of surplus to Standard Life Investments	(19)	-	(19)	-	(19)
Transfer back of mutual funds net worth	20	-	20	-	20
Other	6	-	6	-	6
Closing EEV	673	139	812	2,242	3,054

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

(c) Canada

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	161	770	931	622	1,553
Opening adjustments	(25)	-	(25)	25	-
Opening adjusted EEV	136	770	906	647	1,553
Contribution from new business	(18)	20	2	48	50
Contribution from in-force business:					
Expected return on existing business	-	30	30	75	105
Expected return transfer to net worth	142	(60)	82	(82)	-
Experience variances	14	5	19	(6)	13
Operating assumption changes	30	(55)	(25)	39	14
Development expenses	(8)	-	(8)	-	(8)
Expected return on free surplus	12	-	12	-	12
Operating profit/(loss) after tax	172	(60)	112	74	186
Investment return and tax variances	(12)	9	(3)	32	29
Effect of economic assumption changes	4	27	31	(92)	(61)
Restructuring expenses	(1)	-	(1)	-	(1)
Profit/(loss) after tax	163	(24)	139	14	153
Internal capital transfers	(65)	-	(65)	-	(65)
Transfer back of surplus to Standard Life Investments	(3)	-	(3)	-	(3)
Transfer back of mutual funds net worth	(4)	-	(4)	-	(4)
Actuarial losses on defined benefit pension schemes	(20)	-	(20)	-	(20)
Foreign exchange differences	14	67	81	58	139
Aggregate tax effect of items not recognised in income statement	5	-	5	-	5
Closing EEV	226	813	1,039	719	1,758

The adjustment to opening EEV net worth and PVIF net of cost of capital represents a change to the presentation of certain Canada GAAP guarantee reserves. Prior to the results for the 12 months to 31 December 2010, these reserves were replaced with a TVOG within the Group's EEV results. In order to better align the Group's EEV net worth movement and the Group's primary measure of performance, IFRS operating profit, these reserves are now included within the EEV net worth. Total EEV operating profit for the 12 months to 31 December 2010 is unaffected by this adjustment.

12 months to 31 December 2009	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	154	737	891	706	1,597
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	154	737	891	706	1,597
Contribution from new business	(38)	35	(3)	37	34
Contribution from in-force business:					
Expected return on existing business	-	34	34	64	98
Expected return transfer to net worth	132	(60)	72	(72)	-
Experience variances	14	(14)	-	3	3
Operating assumption changes	15	(3)	12	(5)	7
Development expenses	(4)	-	(4)	-	(4)
Expected return on free surplus	3	-	3	-	3
Operating profit/(loss) after tax	122	(8)	114	27	141
Investment return and tax variances	(43)	9	(34)	12	(22)
Effect of economic assumption changes	(60)	(4)	(64)	(152)	(216)
Restructuring expenses	(1)	-	(1)	-	(1)
(Loss)/profit after tax	18	(3)	15	(113)	(98)
Internal capital transfers	(2)	-	(2)	-	(2)
Transfer back of surplus to Standard Life Investments	(3)	-	(3)	-	(3)
Transfer back of mutual funds net worth	(1)	-	(1)	-	(1)
Actuarial losses on defined benefit pension schemes	(16)	-	(16)	-	(16)
Foreign exchange differences	6	36	42	29	71
Aggregate tax effect of items not recognised in income statement	5	-	5	-	5
Closing EEV	161	770	931	622	1,553

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

(d) International

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	91	47	138	520	658
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	91	47	138	520	658
Contribution from new business	(113)	8	(105)	161	56
Contribution from in-force business:					
Expected return on existing business	-	2	2	31	33
Expected return transfer to net worth	109	4	113	(113)	-
Experience variances	(13)	(3)	(16)	4	(12)
Operating assumption changes	2	-	2	11	13
Development expenses	(22)	-	(22)	-	(22)
Expected return on free surplus	4	-	4	-	4
Operating profit/(loss) after tax	(33)	11	(22)	94	72
Investment return and tax variances	4	1	5	12	17
Effect of economic assumption changes	3	-	3	5	8
Restructuring expenses	(4)	-	(4)	-	(4)
Profit/(loss) after tax	(30)	12	(18)	111	93
Internal capital transfers	(3)	-	(3)	-	(3)
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	(2)
Actuarial losses on defined benefit pension schemes	(9)	-	(9)	-	(9)
Foreign exchange differences	(1)	-	(1)	(4)	(5)
Closing EEV	46	59	105	627	732

12 months to 31 December 2009	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	182	12	194	432	626
Opening adjustments	(58)	17	(41)	74	33
Opening adjusted EEV	124	29	153	506	659
Contribution from new business	(105)	8	(97)	121	24
Contribution from in-force business:					
Expected return on existing business	-	1	1	28	29
Expected return transfer to net worth	105	3	108	(108)	-
Experience variances	(14)	6	(8)	(5)	(13)
Operating assumption changes	7	-	7	(12)	(5)
Development expenses	(19)	-	(19)	-	(19)
Expected return on free surplus	5	-	5	-	5
Operating profit/(loss) after tax	(21)	18	(3)	24	21
Investment return and tax variances	-	3	3	33	36
Effect of economic assumption changes	(7)	-	(7)	(4)	(11)
Restructuring expenses	(6)	-	(6)	-	(6)
Profit/(loss) after tax	(34)	21	(13)	53	40
Internal capital transfers	(1)	-	(1)	-	(1)
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	(2)
Actuarial gains on defined benefit pension schemes	13	-	13	-	13
Foreign exchange differences	(9)	(3)	(12)	(39)	(51)
Closing EEV	91	47	138	520	658

For the 12 months to 31 December 2009, Asia businesses are included within the covered business results for the first time on an EEV basis. This is reflected in the opening adjustment of £33m.

10. Time value of options and guarantees (TVOG)

	31 December 2010 £m	31 December 2009 £m
UK and Europe HWPF	(76)	(66)
Canada	(26)	(23)
International	(17)	(17)
Total	(119)	(106)

The UK and Europe HWPF TVOG reflects the value of shareholder exposure to the policyholder guarantees within the HWPF. The value of this exposure has increased by £10m during 2010, with the favourable impact of better than expected investment performance over the year being offset by the effect of modelling changes and, in particular, the effect of a downward shift in the yield curve.

11. Market value of subordinated liabilities within covered business

	31 December 2010 £m	31 December 2009 £m
UK	(1,682)	(1,682)
Canada	(302)	(244)
Total	(1,984)	(1,926)

Subordinated liabilities within EEV covered business are based on the market value of the debt. The free surplus shown in Note 2(c) – Segmental analysis – covered business – Segmental analysis of opening and closing EEV is net of these liabilities.

The £58m increase in the Canada subordinated debt liability includes £23m from currency movements.

The impact of these movements is reflected in non-operating profit in the UK and Canada as shown in Note 2(a) – Segmental analysis – covered business – Segmental EEV income statement. For Canada, however, this has been offset by the Group EEV consolidation adjustment in respect of Canada subordinated debt liability, as shown in the EEV consolidated income statement.

12. PVIF monetisation profile

The following tables show the PVIF emergence on a discounted and undiscounted basis along with a reconciliation to the total closing PVIF as disclosed in Note 2(c) – Segmental analysis – covered business – Segmental analysis of opening and closing EEV, and the PVIF net of cost of capital impact from new business as disclosed in Note 9 – Analysis of covered business EEV PVIF and net worth movements (net of tax).

(a) PVIF emergence

In-force business	PVIF £m	Discounted		Undiscounted	
		Cash emerging in first 5 years £m	%	Cash emerging in first 5 years £m	%
At 31 December 2010					
UK	2,637	1,348	51	1,566	34
Canada	1,087	379	35	461	14
International	672	356	53	401	37
Total	4,396	2,083	47	2,428	27
New business					
At 31 December 2010					
UK	249	109	44	129	28
Canada	55	15	27	18	12
International	169	101	60	110	44
Total	473	225	48	257	30

(b) Reconciliation to closing PVIF

In-force business	Reconciliation of discounted PVIF			Total £m
	PVIF £m	TVOG £m		
At 31 December 2010				
UK	2,637	(76)		2,561
Canada	1,087	(26)		1,061
International	672	(17)		655
Total	4,396	(119)		4,277

* See also Note 2(c) – Segmental analysis – covered business – Segmental analysis of opening and closing EEV.

New business	Reconciliation of discounted PVIF			
	PVIF £m	Cost of capital £m	TVOG £m	Total £m
At 31 December 2010				
UK	249	(7)	-	242
Canada	55	(7)	-	48
International	169	(4)	(4)	161
Total	473	(18)	(4)	451

* See also Note 9 – Analysis of covered business EEV PVIF and net worth movements (net of tax).

As outlined in Note 1 – Basis of preparation, the Group's EEV results do not include any allowance for changes to the reserving or required capital bases anticipated under future reporting or regulatory regimes. The PVIF monetisation profile therefore excludes changes anticipated from the adoption of IFRS reporting in place of local GAAP in the Canada business, and also the regulatory changes under Solvency 2.

13. Principal economic assumptions - deterministic calculations - covered business

(a) Gross investment returns and expense inflation

At 31 December 2010	UK %	Canada %	Europe %
Gross investment returns			
Risk free	3.49	3.29	2.96
Corporate bonds	4.08 *	**	n/a
Equities	6.49	8.60	5.96
Property	5.49	8.60	4.96
Other			
Expense inflation:	3.95	***	
Germany			2.29
Ireland			3.01

* Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 4.91% for annuities that are level or subject to fixed escalations and 4.02% for annuities where escalations are linked to a price index.

** 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.

*** 0.691% in 2011. The rate in subsequent years is based on a moving 30-year bond yield less a 3% deduction.

At 31 December 2009	UK %	Canada %	Europe %
Gross investment returns			
Risk free	4.11	3.85	3.39
Corporate bonds	4.71 *	**	n/a
Equities	7.11	8.60	6.39
Property	6.11	8.60	5.39
Other			
Expense inflation:	3.97	***	
Germany			2.62
Ireland			3.34

* Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 5.36% for annuities that are level or subject to fixed escalations and 4.11% for annuities where escalations are linked to a price index.

** 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.

*** 1.367% in 2010. The rate in subsequent years is based on a moving 30-year bond yield less a 3% deduction.

(b) Risk discount rates - in-force business

At 31 December 2010	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	1.80	1.60	2.60	1.80	1.60
Non-market risk	1.80	1.60	2.80	1.80	1.60
Total	3.60	3.20	5.40	3.60	3.20
Cost of capital adjustment	-	(0.50)	(1.80)	-	(0.50)
Risk margin after cost of capital adjustment	3.60	2.70	3.60	3.60	2.70
Risk discount rates – in-force business					
Risk free	3.49	3.49	3.29	2.96	2.96
Risk margin	3.60	2.70	3.60	3.60	2.70
Risk discount rate¹	7.09	6.19	6.89	6.56	5.66

¹ Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 6.73% and 6.10% respectively. The weighted average for Europe includes an allowance for Standard Life International Limited (SLIL) which uses the same risk discount rate assumptions as UK business.

At 31 December 2009	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	1.80	1.50	2.50	1.80	1.50
Non-market risk	1.70	1.80	2.80	1.70	1.80
Total	3.50	3.30	5.30	3.50	3.30
Cost of capital adjustment	-	(0.50)	(2.00)	-	(0.50)
Risk margin after cost of capital adjustment	3.50	2.80	3.30	3.50	2.80
Risk discount rates – in-force business					
Risk free	4.11	4.11	3.85	3.39	3.39
Risk margin	3.50	2.80	3.30	3.50	2.80
Risk discount rate¹	7.61	6.91	7.15	6.89	6.19

¹ Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 7.38% and 6.56% respectively. The weighted average for Europe includes an allowance for SLIL which uses the same risk discount rate assumptions as UK business.

Changes in market risk margins generally arise from changes in the mix of business and asset allocations. In Canada, the market risk is also impacted by the relative movements in the returns assumed on equities and property compared to risk free.

During 2010, management action in Canada resulted in less equities and properties being used to back fixed liabilities. If this action had not been taken, the market risk margin in Canada would have been 0.2% higher. The impact of this reduction in the risk discount rate was a profit of £40m, which is reported through Canada other operating assumption changes as reported in Note 2(a) – Segmental analysis – covered business – Segmental EEV income statement.

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) – Segmental analysis – covered business – Segmental EEV income statement. The amount that relates to the changes in risk discount rate is a total of £185m, arising from UK: profit £156m; Canada: profit £7m; and International: profit £22m. These profits reflect the benefit of reduced risk discount rates which are mainly driven by reductions in risk free rates.

13. Principal economic assumptions - deterministic calculations - covered business *continued*

(c) Risk discount rates - new business

12 months to 31 December 2010	UK HWPF %	UK equity holder owned funds %	Canada %	Europe HWPF %	Europe equity holder owned funds %
Risk margin – new business					
Risk margin before cost of capital adjustment:					
Market risk	1.80	1.50	1.40	1.80	1.50
Non-market risk	0.50	1.60	1.90	0.50	1.60
Total	2.30	3.10	3.30	2.30	3.10
Cost of capital adjustment	-	(0.40)	(0.70)	-	(0.40)
Risk margin after cost of capital adjustment	2.30	2.70	2.60	2.30	2.70
Risk discount rates – new business					
Risk free ¹	4.11	4.11	3.85	3.39	3.39
Risk margin	2.30	2.70	2.60	2.30	2.70
Risk discount rate²	6.41	6.81	6.45	5.69	6.09

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 2009.

² Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe were 6.77% and 6.31% respectively. The weighted average for Europe includes an allowance for SLIL which uses the same risk discount rate assumptions as UK business.

12 months to 31 December 2009	UK HWPF %	UK equity holder owned funds %	Canada %	Europe HWPF %	Europe equity holder owned funds %
Risk margin – new business					
Risk margin before cost of capital adjustment:					
Market risk	1.70	1.40	1.50	1.70	1.40
Non-market risk	0.50	1.80	1.90	0.50	1.80
Total	2.20	3.20	3.40	2.20	3.20
Cost of capital adjustment	-	(0.40)	(0.20)	-	(0.40)
Risk margin after cost of capital adjustment	2.20	2.80	3.20	2.20	2.80
Risk discount rates – new business					
Risk free ¹	3.42	3.42	3.07	2.95	2.95
Risk margin	2.20	2.80	3.20	2.20	2.80
Risk discount rate²	5.62	6.22	6.27	5.15	5.75

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 2008.

² Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe were 6.11% and 5.83% respectively. The weighted average for Europe includes an allowance for SLIL which uses the same risk discount rate assumptions as UK business.

(d) International - Asia

The PVIF and cost of required capital of the Asia businesses is calculated using a 'risk neutral' approach whereby projected investment returns and discount rates are based on risk free rates. The risk free rates used were:

	31 December 2010 %	31 December 2009 %
India	6.81	7.50
China	3.92	3.66
Hong Kong	1.55	2.45

As a result of this risk neutral approach there is no requirement to hold a market risk margin within the risk discount rate.

Non-market risk has been allowed for via a specific deduction to the PVIF, based on a non-market risk 'cost of capital' approach. This has reduced the PVIF at 31 December 2010 by £28m (2009: £21m). Similarly, the 2010 pre-tax NBC has been reduced by £18m (2009: £12m) as an allowance for non-market risk.

14. Principal economic assumptions - stochastic calculations

The level of the TVOG is generally calculated using a stochastic projection. This requires 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 17 – EEV methodology.

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 account index
- Gross redemption yield term structure
- Equity total return index
- Property total return index
- Gilt total return index
- Corporate bond total return index
- Equity dividend yields
- Property rental yields
- Price inflation
- Earnings inflation

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 repo rates and government strips.

Inflation

This variable is calibrated based on the relationship between the real and nominal yield curves.

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

Dividend yields are derived from current market observable yields (FTSE All Stocks for UK and Euro Stoxx 50 for Europe).

Rental yields are derived from rental income on our actual portfolio of property (with three month lag).

14. Principal economic assumptions - stochastic calculations *continued***Swaption-implied volatilities**

The implied volatility is that required in order that the price of the option calculated via the Black-Scholes Formula equals the market price of that option.

The model swaption-implied volatilities are set out in the following table:

UK Sterling Option term (years)	31 December 2010 Swap term (years)		31 December 2009 Swap term (years)	
	10	15	10	15
10	14.4%	14.2%	14.5%	14.3%
15	14.5%	14.3%	14.6%	14.5%
20	14.2%	13.9%	14.5%	15.2%
25	13.6%	13.3%	15.6%	17.5%

Euro Option term (years)	31 December 2010 Swap term (years)		31 December 2009 Swap term (years)	
	15	20	15	20
10	15.5%	15.1%	16.0%	15.5%
15	15.0%	14.4%	15.4%	15.4%
20	13.5%	12.8%	15.0%	15.8%
25	12.6%	N/A	16.6%	N/A

Equity-implied volatilities

The implied volatility is that required in order that the price of the option calculated via the Black-Scholes Formula equals the market price of that option.

The model equity-implied volatilities are set out in the following table:

UK equities Term (years)	31 December 2010	31 December 2009
10	25.4%	26.6%
15	26.7%	26.6%
20	27.4%	26.9%
25	28.4%	28.0%
European equities		
Term (years)		
10	25.8%	27.1%
15	27.9%	27.7%
20	29.0%	28.6%
25	29.6%	30.0%

Property-implied volatilities

Property-implied volatilities have been set as best estimate levels of volatility based on historic data.

For the UK and Europe, the model is calibrated to property-implied volatility of 15% for 31 December 2010 and 15% for 31 December 2009.

Note 10 – Time value of options and guarantees (TVOG) also shows the value of TVOG in Canada and International, which are in addition to the HWPF TVOG. Where material, these values are also calculated using ESG similar to that used for the HWPF TVOG calculation.

15. Foreign exchange

A description of the approach to the currency translation for foreign entities is provided in Note 17 – EEV methodology.

The principal exchange rates applied are:

Local currency: £	Closing 31 December 2010	Average to 31 December 2010	Closing 31 December 2009	Average to 31 December 2009
Canada	1.556	1.605	1.693	1.778
Europe	1.167	1.165	1.126	1.118
India	70.007	70.803	75.148	75.388
China	10.317	10.477	11.025	10.649
Hong Kong	12.171	12.032	12.522	12.086

16. 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 assets
- 10% fall in market value of property assets
- 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 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Embedded value	3,657	1,758	732	(76)	6,071
Risk discount rate +1%	(175)	(148)	(44)	-	(367)
Risk discount rate -1%	202	184	50	-	436
Interest returns +1%	(3)	13	(1)	19	28
Interest returns -1%	11	(76)	(10)	(74)	(149)
Fall in equity market values by 10%	(162)	(30)	(21)	(2)	(215)
Fall in property market values by 10%	(16)	(52)	(2)	(5)	(75)
Maintenance expenses -10%	120	94	10	-	224
Lapse rates -10%	111	119	14	(8)	236
Annuitant mortality -5%	(57)	(45)	(4)	-	(106)
Non-annuitant mortality -5%	12	54	(2)	(2)	62
Prescribed minimum capital	-	71	-	-	71

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 17 – EEV methodology, the impact of these sensitivities on the Group EEV consolidation adjustment is not included in this sensitivity analysis.

16. Sensitivity analysis - economic and non-economic assumptions *continued***New business contribution:**

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
New business contribution	173	68	67	-	308
Risk discount rate +1%	(25)	(10)	(10)	-	(45)
Risk discount rate -1%	29	12	10	-	51
Interest returns +1%	(2)	(2)	(1)	-	(5)
Interest returns -1%	2	1	(8)	-	(5)
Fall in equity market values by 10%	(23)	(10)	(5)	-	(38)
Fall in property market values by 10%	(1)	-	-	-	(1)
Maintenance expenses -10%	18	14	3	-	35
Lapse rates -10%	13	11	5	-	29
Annuitant mortality -5%	(2)	-	-	-	(2)
Non-annuitant mortality -5%	-	7	-	-	7
Prescribed minimum capital	-	2	-	-	2

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 demographic 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.

17. 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, unless otherwise stated.

The Group's covered business is its life assurance and pensions businesses in the UK, Canada and International (Germany including Austria, Ireland, Hong Kong and joint venture businesses in China and India), 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.

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 the UK business

Canada covered business also includes mutual funds.

International covered business consists of:

- The Group's Germany branch of Standard Life Assurance Limited (SLAL)
- The Group's Ireland branch of SLAL
- The Group's offshore bond business, which is sold by SLIL
- The Group's business in Hong Kong (Standard Life Asia Limited)
- The Group's share of results in the joint venture in India, HDFC Standard Life Insurance Company Limited, at 26% for the 12 months to 31 December 2010 (during the 12 months to 31 December 2009: 26%)
- The Group's share of results in the joint venture in China, Heng An Standard Life Insurance Company Limited, at 50% for the 12 months to 31 December 2010 (during the 12 months to 31 December 2009: 50%)

The Group's non-covered business predominantly consists of the third party global investment management business of Standard Life Investments, Standard Life plc, the non-covered business of Standard Life Savings Limited, other non-life and pensions entities and the Group's UK pension scheme. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and the banking business, Standard Life Bank plc, was sold on 1 January 2010. Both businesses have been classified as discontinued operations.

Non-covered business EEV operating profit is represented by IFRS operating profit as adjusted for Standard Life Investments (global investment management) look through profits and the return on mutual funds which are recognised in covered business.

Consolidation adjustments

Covered business includes the profits and losses arising from non-covered businesses providing investment management and other services to the Group's life and pensions businesses. As a result, the profits and losses on an IFRS basis have been removed from the relevant non-covered segments (investment management, UK non-covered and other non-covered) and are instead included within the EEV results of the covered businesses.

The capitalised value of the future profits and losses from such service companies are included in the opening and closing embedded value for the relevant business, but the net assets remain within the relevant non-covered businesses. A transfer of profits from the covered business to the non-covered business is deemed to occur in order to reconcile the profits and losses arising in the financial period within each segment with the opening and closing EEV net assets.

The consolidation adjustment to remove the impact of the accounting differences for the Canada subordinated liability is explained in more detail under subordinated liabilities within the EEV methodology.

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 in the EEV methodology.

Allowance is made for external reinsurance and reinsurance within the Group. The cash flows include the profits and losses arising in Group companies providing global 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 in the EEV methodology.

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.

17. EEV methodology *continued*

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 13 – Principal economic assumptions – deterministic calculations – covered business.

In Asia, the PVIF and cost of required capital is calculated using a 'risk neutral' approach whereby projected investment returns and discount rates are based on risk free rates. As a result, there is no need for an additional market risk margin in the discount rate. Non-market risk is deducted directly from the PVIF using a 'cost of capital' approach on the risk capital arising from the key sources of non-market risk. For the Asia businesses, this methodology would give a similar result to the methodology used in the UK, Europe and Canada since the calibration of a risk discount rate would have allowed for the market and non-market risks.

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.

The levels of required capital are reviewed in detail once a year.

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 the purposes of assessing EEV, the Group excludes any 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' funds. As part of the annual assessment, projections of the expected surplus in the HWPF, on best estimate assumptions, are carried out to assess whether this is sufficient to cover the level of required capital in respect of the HWPF.

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)
- Asia – required capital is based on the local statutory capital requirements

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 Europe 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.

An adjustment is made to allow for TVOG arising on a selection of guaranteed annuity benefits on unit linked and smoothed-managed businesses within Germany.

Canada

The main options and guarantees within the Canada business are in respect of minimum investment returns, guaranteed maturity and death benefits, and vested bonuses, which apply to certain investment and insurance contracts.

Asia

The TVOG in the Asia businesses within International arises from guarantees and options given to with profits business written in India and China.

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.

The Group's offshore business, which is sold by SLIL, is included within International results but has the same economic assumptions as UK covered business.

Details of the assumptions used for this reporting period are provided in Note 13 – Principal economic assumptions – deterministic calculations – covered business.

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.

Global investment management expenses are also allowed for, and the assumptions for these reflect the actual investment expenses of Standard Life Investments in providing global investment management services to the life and pensions business rather than the investment fees actually charged.

17. EEV methodology *continued*

Restructuring and corporate transaction expenses for covered and non-covered business are consistent with those identified in the IFRS operating profit adjustments and primarily represent costs in relation to the Group's Transformation and Solvency 2 Programmes, and transaction costs in relation to the sale of Standard Life Healthcare Limited and Standard Life Bank plc. Refer to the IFRS financial information Note 8 – Restructuring and corporate transaction expenses for further detail.

Acquisition costs used within the calculation of the NBC reflect the full acquisition expenses incurred in writing new business in the period.

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 any 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.

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.

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 is determined as follows:

- New contracts written during the period are included as new business
- New premiums on recurrent single premium contracts are included as new business
- 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.

For the Asia businesses, new business is defined as that arising from the sale of new contracts during the reporting period. The value of new business includes the value of expected renewals on those new contracts.

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.

During 2009, a loan was made to the HWPF by Standard Life plc, repayment of which is contingent on the emergence of recourse cash flows and surplus in the HWPF (contingent loan agreement). A transfer to equity holders was then made to transfer the remaining unallocated surplus to equity holders without equity holder tax arising. As a result of this the market risk associated with unallocated surplus was reduced. Future transfers to equity holders from the HWPF will, in the first instance, take the form of repayments under the contingent loan agreement. Such transfers can be made without equity holder tax arising for a number of years. Over time the actual effective tax rate on these transfers to equity holders 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 Canada form part of covered business and have been deducted at market value within the EEV. The Canada 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 Canada subordinated liability.

For non-covered business, no adjustment is made to the IFRS valuation of debt.

Foreign exchange

Embedded value and other items within the statement of financial position denominated in foreign currencies have been translated to Sterling using the appropriate closing exchange rates. NBC and other items within the income statement have been translated using the appropriate average exchange rates. Gains and losses arising from foreign exchange differences on consolidation are presented separately within the EEV consolidated statement of comprehensive income. Details of the exchange rates applied are provided in Note 15 – Foreign exchange.

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 2010 which comprise the Company income statement, the Company statement of comprehensive income, the Company statement of financial position, the Company statement of changes in equity, the Company statement of cash flows, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 56, the Directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended
- Have been properly prepared in accordance with IFRSs as adopted by the European Union
- Have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- The information given in the Directors' report for the financial year for which the Company financial statements are prepared is consistent with the Company financial statements

Matters on which we are required to report by exception

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

- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the consolidated financial statements of Standard Life plc for the year ended 31 December 2010.

Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
10 March 2011

- (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.

Company statement of comprehensive income
For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Revenue			
Net investment return	A	474	332
Total revenue		474	332
Expenses			
Administrative expenses	B	95	84
Interest payable on subordinated liabilities		113	115
Total expenses		208	199
Profit before tax		266	133
Income tax credit	F	18	17
Profit for the year		284	150
Other comprehensive income for the year		-	-
Total comprehensive income for the year		284	150

The Notes on pages 248 to 267 are an integral part of these financial statements.

Company statement of financial position
As at 31 December 2010

	Notes	2010 £m	2009 £m
Assets			
Investments in subsidiaries	G	4,948	4,964
Investments in associates and joint ventures	H	68	69
Loans to subsidiaries		1,297	1,370
Derivative financial assets	K	25	3
Equity securities and interests in pooled investment funds	J	28	25
Debt securities	J	1	12
Receivables and other financial assets	L	57	53
Other assets	M	19	7
Cash and cash equivalents	N	377	302
Total assets		6,820	6,805
Equity			
Share capital	O	228	224
Shares held by trusts	P	(25)	-
Share premium reserve	Q	976	888
Retained earnings	R	376	274
Other reserves	S	3,405	3,493
Total equity		4,960	4,879
Liabilities			
Subordinated liabilities	U	1,799	1,832
Deferred tax liabilities	I	4	3
Derivative financial liabilities	K	25	4
Other financial liabilities	V	32	87
Total liabilities		1,860	1,926
Total equity and liabilities		6,820	6,805

Approved on behalf of the Board of Directors on 10 March 2011 by the following Directors:

Gerry Grimstone, Chairman

Jackie Hunt, Chief Financial Officer

The Notes on pages 248 to 267 are an integral part of these financial statements.

Company statement of changes in equity

For the year ended 31 December 2010

2010	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January	224	-	888	274	3,493	4,879
Profit for the year	-	-	-	284	-	284
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	284	-	284
Issue of share capital other than in cash	4	-	88	-	-	92
Reserves credit for employee share-based payment schemes	-	-	-	-	18	18
Transfer to retained earnings for vested employee share-based payment schemes	-	-	-	5	(5)	-
Shares acquired by employee trusts	-	(35)	-	-	-	(35)
Shares distributed by employee trusts	-	10	-	-	(10)	-
Transfer between reserves on disposal of subsidiary	-	-	-	86	(86)	-
Dividends and appropriations	-	-	-	(273)	(5)	(278)
31 December	228	(25)	976	376	3,405	4,960

2009	Share capital £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January	218	792	376	3,477	4,863
Profit for the year	-	-	150	-	150
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	150	-	150
Issue of share capital other than in cash	6	96	-	-	102
Reserves credit for employee share-based payment schemes	-	-	-	24	24
Transfer to retained earnings for vested employee share-based payment schemes	-	-	8	(8)	-
Dividends and appropriations	-	-	(260)	-	(260)
31 December	224	888	274	3,493	4,879

The Notes on pages 248 to 267 are an integral part of these financial statements.

Company statement of cash flows
For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Profit before tax		266	133
Fair value movements on equity securities, debt securities and derivatives	A	(5)	(2)
Gain on disposal of subsidiary	A	(47)	-
Dividend income from subsidiaries	A	(286)	(190)
Interest income on loans to subsidiaries	A	(80)	(89)
Distributions from equity instruments	A	(53)	(50)
Interest payable on subordinated liabilities		113	115
Net foreign exchange losses on investment activities	A	-	3
Movements in operating assets and liabilities		(32)	108
Net cash flows from operating activities		(124)	28
Cash flows from investing activities			
Loans repaid by subsidiaries		15	30
Loans to associates		-	(1)
Acquisition of subsidiaries		(25)	-
Disposal of subsidiaries		138	124
Capital injections into existing subsidiaries		(44)	(20)
Interest received on loans to subsidiaries		102	104
Distributions from equity instruments		53	50
Dividends received from subsidiaries		286	190
Sale of equity securities, debt securities and derivatives		12	31
Acquisition of investments in associates and joint ventures		(6)	(9)
Net cash flows from investing activities		531	499
Cash flows from financing activities			
Dividends paid		(186)	(158)
Interest paid		(111)	(112)
Funding of shares acquired by trusts		(35)	-
Net cash flows from financing activities		(332)	(270)
Net increase in cash and cash equivalents		75	257
Cash and cash equivalents at the beginning of the year	N	302	45
Cash and cash equivalents at the end of the year	N	377	302
Supplemental disclosures on cash flows from operating activities			
Interest received	A	2	3

The Notes on pages 248 to 267 are an integral part of these financial statements.

Accounting policies

(a) Basis of preparation

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

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

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

The Company has adopted the following amendments to IFRSs, International Accounting Standards (IASs) and interpretations which are effective from 1 January 2010 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Company's financial statements:

- IFRS 3 *Business Combinations* (revised)
- IAS 27 *Consolidated and Separate Financial Statements* (revised)
- *Improvements to IFRSs 2009*
- Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Transactions*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible hedged items*
- IFRIC 17 *Distributions of Non-Cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*

(a)(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 2011 or later periods. The Company has not early adopted the standards, amendments and interpretations described below:

IFRS 9 *Financial Instruments* on classification and measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in other comprehensive income. Financial liabilities that are neither held for trading nor elected to be held at FVTPL are measured at amortised cost. Financial liabilities that are held for trading are measured at FVTPL. The standard has not yet been endorsed by the EU.

Amendment to IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 February 2010)

The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities and the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

Amendment to IAS 24 *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011)

The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

Improvements to IFRSs published in May 2010

The publication amends six standards and one IFRIC.

Disclosures: Transfers of Financial Assets – Amendments to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 July 2011)

The aim of the amendment is to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks. The amendment has not yet been endorsed by the EU.

Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 *Income Taxes* (effective for annual periods beginning on or after 1 January 2012)

Currently IAS 12 requires that the measurement of the deferred tax relating to an asset is dependent upon whether it is expected that the carrying amount of the asset will be recovered through use or sale. This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 *Income taxes – recovery of revalued non-depreciable assets* would no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendment has not yet been endorsed by the EU.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective from the beginning of the earliest comparative period presented, for annual periods beginning on or after 1 July 2010)

The interpretation clarifies the accounting treatment in the situation where an entity renegotiates the terms of its debt resulting in the liability being extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the statement of comprehensive income based on the fair value of the equity instruments compared to the carrying amount of the debt.

(a)(iii) Interpretations to existing standards that are not yet effective and not relevant for the Company's operations
Amendment to IFRIC 14 *Prepayment of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011)

The amendment to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

(a)(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 year. 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 AA
- Impairment testing – refer to (e), (g) and Note W

(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 assessing 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 acquisition method of accounting for the acquisition of subsidiaries. The consideration transferred in a business combination is measured at fair value at the acquisition date and is calculated as the sum of the acquisition date fair values of the assets transferred, the liabilities incurred and the equity interests issued. Acquisition-related costs are expensed when incurred.

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. Investment subsidiaries are held at FVTPL since they are managed on a fair value basis.

Investments in subsidiaries include 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 statement of comprehensive income.

Translation differences on non-monetary items, such as equity securities held at FVTPL, are reported as part of the fair value gain or loss in the statement of comprehensive income. Translation differences on financial assets and liabilities held at amortised cost are included in foreign exchange gains or losses in the statement of comprehensive income.

(d) Revenue recognition

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as at FVTPL, including investment income received (such as dividends and interest payments), are recognised in the statement of comprehensive income 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 statement of comprehensive income.

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

Dividend income and distributions from securities that are classified by the issuer as equity instruments are recognised in the statement of comprehensive income 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 reporting date. An impairment loss is recognised in the statement of comprehensive income 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 income 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 statement of comprehensive income or equity as appropriate.

Deferred tax is provided using the statement of financial position liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 profit for the period except when it relates to items recognised in other comprehensive income, in which case it is credited or charged directly to equity through the statement of comprehensive income.

The income tax expense is determined using rates enacted or substantively enacted at the reporting date.

(g) Loans

Loans 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 at FVTPL. Financial assets classified as loans include deposits with credit institutions and loans to subsidiaries when the loan is classified as a financial liability by the subsidiary.

Loans are initially measured at fair value plus 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 is recognised in the statement of comprehensive income 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 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 statement of comprehensive income. Subsequent recoveries are credited to the statement of comprehensive income.

(h) Equity securities, debt securities and derivatives

Management determines the classification of equity securities, debt securities and derivatives at initial recognition. The Company has designated its equity securities and debt securities as at FVTPL. Equity securities and debt securities are designated as at FVTPL where the asset or liability is part of a group of assets that are evaluated and managed on a fair value basis.

The Company 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 equity securities, debt 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 statement of comprehensive income.

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, determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(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. Cash and cash equivalents are categorised for measurement purposes as loans and receivables and are therefore measured at amortised cost. For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in borrowings on the statement of financial position.

(l) Equity

(l)(i) Share capital and shares held by trusts

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 excluded from the consideration transferred.

If the Company purchases any of its equity instruments, the instruments are recognised at cost in the statement of financial position and 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.

(l)(ii) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under section 612 of the UK Companies Act 2006 are met, a sum equal to the difference between the issue value and 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 statement of comprehensive income 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 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. 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 annual performance shares to all eligible employees when the Group's profit targets are met. Further details of the schemes are set out in Note 47 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. Market vesting conditions are included in the calculation of the fair value of the instruments at the date of grant, while non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. 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 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 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 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.

(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, cancelled or expires.

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

Notes to the Company financial statements**A. Net investment return**

	2010 £m	2009 £m
Interest and similar income		
Cash and cash equivalents	2	3
Loans to subsidiaries	80	89
Other	1	1
	83	93
Income from subsidiary undertakings		
Dividend income	286	190
Distributions from equity instruments	53	50
	339	240
Gain on disposal of subsidiary	47	-
Foreign exchange losses on instruments other than at fair value through profit or loss	-	(3)
Gains/(losses) on financial instruments		
Equity securities and interests in pooled investment funds	4	(3)
Debt securities	-	(3)
Derivative financial instruments	1	8
	5	2
Net investment return	474	332

B. Administrative expenses

	Notes	2010 £m	2009 £m
Staff costs and other employee-related costs	C	68	68
Other administrative expenses		27	16
Total administrative expenses		95	84

C. Staff costs and other employee-related costs

	Notes	2010 £m	2009 £m
The aggregate remuneration payable in respect of employees was:			
Wages and salaries		57	58
Social security costs		5	5
Pension costs	D	6	5
Total staff costs and other employee-related costs		68	68

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.

Information in respect of Directors' remuneration is provided in Note 48 of the consolidated financial statements and the audited section of the Directors' remuneration report on pages 72 to 85.

Details of the employee share-based payment schemes operated by the Group are given in Note 47 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 2010 were £6m (2009: £5m).

Further information on the Group's pension schemes is given in Note 38 of the consolidated financial statements.

E. Auditors' remuneration

In 2010, auditors' remuneration amounted to £0.4m (2009: £0.4m) 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. Tax credit

(a) Current year tax credit

	2010 £m	2009 £m
Income tax credit – UK	19	19
Deferred tax expense arising from the current period	(1)	(2)
Total income tax credit	18	17

From 1 April 2011, the UK corporation tax rate will be reduced from 28% to 27%. This rate change has been included in the calculation of deferred tax. The 2010 Budget statement also announced the government's intention to make further reductions to corporation tax. These reductions have not been included in the calculation of deferred tax as they are subject to legislation being enacted in future years.

The Company has surrendered some of its tax losses to a subsidiary undertaking for no payment, resulting in an effective increase in tax of £5m (2009: £nil).

The aggregate tax effect of items charged directly to equity is £nil (2009: £nil).

(b) Reconciliation of tax credit

	2010 £m	2009 £m
Profit before tax	266	133
Tax at UK corporation tax rate of 28% (2009: 28%)	(74)	(37)
Dividends not subject to UK corporation tax	80	53
Non-taxable profit on sale of subsidiary	13	-
Permanent differences	(1)	1
Total income tax credit	18	17

G. Investments in subsidiaries

	2010 £m	2009 £m
Investments in subsidiaries:		
Measured at cost	4,948	4,964
Total Investments in subsidiaries	4,948	4,964

Details of the Company's principal subsidiaries are given in Note 50 of the consolidated financial statements.

On 12 March 2010, the Company purchased, for £25m in cash, a further 74% stake in the intermediary support services business, threesixty LLP, having held a 25% stake in the firm since May 2007. The remaining 1% was acquired by SLESL on 12 March 2010. It is considered that this agreement will further strengthen the Group's understanding of advisers and what the Group can do to further meet their needs and requirements in the future. The factors giving rise to the goodwill recognised from the acquisition include acquired customer relationships expected to arise as a result of the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

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 2010		
Tenet Group Limited	England	25.3
At 31 December 2009		
Tenet Group Limited	England	23.0
Threesixty Services LLP	England	25.0
RSM BJ FM Group Limited	England	20.0

The Company disposed of its interest in RSM BJ FM Group Limited on 9 September 2010.

(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 2010		
Heng An Standard Life Insurance Company Limited	China	50.0
At 31 December 2009		
Heng An Standard Life Insurance Company Limited	China	50.0

I. Tax assets and liabilities

	2010 £m	2009 £m
Deferred tax liabilities	4	3
Total tax liabilities	4	3

There are no tax assets or current tax liabilities.

The Company has surrendered the benefit of some of its tax losses to underlying subsidiaries for a consideration of £19m (2009: £17m) which will be receivable within one year. The remaining losses have been surrendered for no consideration. Accordingly, no tax losses are available for carry forward. The Company has provided deferred tax amounting to £4m (2009: £3m) in respect of unrealised gains on equity securities.

Recognised deferred tax

	2010 £m	2009 £m
Deferred tax liabilities comprise:		
Unrealised gains on investments	(4)	(3)
Net deferred tax liabilities	(4)	(3)
Movements in deferred tax liabilities comprise:		
At 1 January	(3)	(1)
Amounts charged to net profit	(1)	(2)
At 31 December	(4)	(3)

J. Financial investments

	Notes	2010 £m	2009 £m
Financial investments at fair value through profit or loss:			
Classified as held for trading:			
Derivative financial instruments designated as held for trading	K	25	3
Total financial investments classified as held for trading		25	3
Designated upon recognition:			
Equity securities and interests in pooled investment funds		28	25
Debt securities		1	12
Total financial investments designated upon initial recognition		29	37
Total financial investments at fair value through profit or loss		54	40
Loans and receivables:			
Loans to subsidiaries		1,297	1,370
Receivables and other financial assets	L	57	53
Cash and cash equivalents	N	377	302
Total loans and receivables		1,731	1,725
Total financial investments		1,785	1,765

The amount of debt securities expected to be recovered or settled after more than 12 months is £1m (2009: £2m). Due to the nature of the equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

K. 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's 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 refer to Note 22 of the consolidated financial statements.

	2010			2009		
	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	1,314	25	(25)	470	3	(4)
	1,314	25	(25)	470	3	(4)

The derivative liabilities of £25m (2009: £4m) are expected to be settled within 12 months. The derivative assets of £25m (2009: £3m) are expected to be recovered within 12 months.

L. Receivables and other financial assets

	2010 £m	2009 £m
Due from related parties	24	41
Collateral pledged in respect of derivative contracts	21	-
Other	12	12
Total receivables and other financial assets	57	53

The amount of receivables and other financial assets expected to be recovered after more than 12 months is £nil (2009: £11m).

M. Other assets

	2010 £m	2009 £m
Due from related parties	19	7
Total other assets	19	7

The carrying amounts disclosed above reasonably approximate the fair values at the year end.

The amount of other assets expected to be recovered after more than 12 months is £nil (2009: £nil).

N. Cash and cash equivalents

	2010 £m	2009 £m
Demand and term deposits with original maturity of less than three months	17	223
Debt investments with less than three months to maturity from date of acquisition	-	79
Other short-term investments	360	-
Total cash and cash equivalents	377	302

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 money market funds, which are subject to a mixture of fixed and variable interest rates.

O. Share capital

Details of the Company's share capital are given in Note 26 of the consolidated financial statements.

P. Shares held by trusts

Shares held by trusts represents the Company's funding of the Employee Share Trust (EST) in relation to the acquisition of shares of the Company for delivery to employees under various employee share schemes.

Further details of the shares acquired and distributed by the EST are given in Note 27 of the consolidated financial statements.

Q. Share premium reserve

Details of the premium arising on the shares issued by the Company are given in Note 28 of the consolidated financial statements.

R. Retained earnings

	Notes	2010 £m	2009 £m
At 1 January		274	376
Profit for the year attributable to equity holders		284	150
Dividends and appropriations		(273)	(260)
Transfer from equity compensation reserve for vested employee share-based payments	S	5	8
Transfer between reserves on disposal of subsidiary	S	86	-
At 31 December		376	274

Details of the dividends paid during the year by the Company are provided in Note 13 of the consolidated financial statements. Note 13 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2010.

S. Reconciliation of movements in other reserves

	Notes	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Total £m
At 1 January 2010		3,194	33	266	3,493
Reserves credit for employee share-based payment schemes		-	18	-	18
Vested employee share-based payments – shares issued	R	-	(5)	-	(5)
Vested employee share-based payments – shares purchased		-	(10)	-	(10)
Transfer between reserves on disposal of subsidiary	R	(86)	-	-	(86)
Dividends and appropriations		-	-	(5)	(5)
At 31 December 2010		3,108	36	261	3,405
At 1 January 2009		3,194	17	266	3,477
Reserves credit for employee share-based payment schemes		-	24	-	24
Vested employee share-based payments – shares issued	R	-	(8)	-	(8)
At 31 December 2009		3,194	33	266	3,493

Dividends and appropriations of £5m paid during 2010 were treated as a deduction from the special reserve. The remaining dividends and appropriations of £273m paid during 2010 were treated as a deduction from retained earnings. In total, dividends and appropriations amounted to £278m in 2010. Dividends of £260m paid during 2009 were treated as a deduction from retained earnings.

Further information on these reserves is given in Note 30 of the consolidated financial statements.

T. Financial liabilities

	Notes	2010 £m	2009 £m
Financial liabilities at fair value through profit or loss:			
Classified as held for trading:			
Derivative financial instruments designated as held for trading	K	25	4
Total financial liabilities classified as held for trading		25	4
Total financial liabilities at fair value through profit or loss		25	4
Financial liabilities measured at amortised cost:			
Subordinated liabilities	U	1,799	1,832
Other financial liabilities	V	32	87
Total financial liabilities recognised at amortised cost		1,831	1,919
Total financial liabilities		1,856	1,923

U. Subordinated liabilities

	2010 £m	2009 £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	660	682
Mutual Assurance Capital Securities:		
6.546% £300,000,000 fixed rate perpetual	315	315
5.314% €360,000,000 fixed/floating rate perpetual	322	333
Total subordinated liabilities	1,799	1,832

The principal amount of subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £71m (2009: £72m) is expected to be settled within 12 months.

Further information on the terms and conditions of the subordinated liabilities is given in Note 37 of the consolidated financial statements.

V. Other financial liabilities

	2010 £m	2009 £m
Due to related parties	15	68
Other	17	19
Total other financial liabilities	32	87

All other financial liabilities are expected to be settled within 12 months.

W. Risk management

(a) Overview

An overview of the Group risk management framework and policies is provided in Note 42 of the consolidated financial statements.

The Company is exposed to market, credit and liquidity risks.

(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 the value of income, or 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 money market, foreign exchange, 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.

Market risk is managed through the Group market risk 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. The Company has no significant exposure to foreign exchange fluctuations.

Derivative instruments may also be 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 analysis of market risk exposure presented can be reconciled to the Company's total assets as follows:

	2010 £m	2009 £m
Financial investments	1,785	1,765
Investments in subsidiaries	4,948	4,964
Investments in associates and joint ventures	68	69
Other assets	19	7
Total assets	6,820	6,805

The Group manages 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 table provides information regarding the market risk exposure of the Company at 31 December 2010 and 31 December 2009, showing diversification by asset type and geographic region.

The geographic classification for loans and cash and cash equivalents is determined by the currency of the underlying financial instruments.

	Geography							
	UK		Continental Europe		Canada		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Debt securities	1	11	-	1	-	-	1	12
Equity securities	28	25	-	-	-	-	28	25
Loans	315	330	982	1,040	-	-	1,297	1,370
Cash and cash equivalents	373	300	3	2	1	-	377	302
Derivative financial assets	25	3	-	-	-	-	25	3
	742	669	985	1,043	1	-	1,728	1,712
Receivables and other financial assets							57	53
Financial Investments							1,785	1,765

The market risk exposure to foreign currency assets is either matched by liabilities held in the same currency or managed using derivative financial instruments.

W. Risk management *continued***(b) Market risk *continued*****(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 reporting date, assuming other assumptions remain unchanged. When illustrating the impact of equity risk, the expectations of corporate earnings remain unchanged. 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.

	Equity								Interest			
	+20%		-20%		+10%		-10%		+1%		-1%	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Impact on profit after tax and equity	6	5	(6)	(5)	3	3	(3)	(3)	3	2	(3)	(2)

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 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. 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 reporting date.

(c) 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 those obligations in a timely manner. It also includes the risk of a reduction in the value of corporate bonds due to widening of mortgage, bond and swap spreads.

Credit risk is managed through the Group credit risk 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.

In managing credit risk, maximum counterparty exposure limits are used for financial instruments where the Company has significant credit risk.

For cash and cash equivalents, the Company maintains exposures within limits that are set with reference to internal credit assessments. For derivative financial instruments, maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented. No credit limits are set in respect of loans to subsidiaries, where the main exposure is to Standard Life Assurance Limited, a wholly owned subsidiary undertaking, with long-term ratings of A+ from Standard & Pooors' and A1 from Moody's. Any loans to subsidiaries require approval from the Group Enterprise Risk Management Committee prior to being transacted.

(c)(i) Credit exposure of financial assets

The following table provides an analysis of the quality of financial assets exposed to credit risk, 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 generally 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 investments (excluding equity securities) at the year end without taking into account any collateral held.

	Debt securities		Loans to subsidiaries and associates		Cash and cash equivalents		Derivative financial assets		Receivables and other financial assets		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
AAA	-	1	-	-	360	49	-	-	-	-	360	50
AA	-	-	-	-	2	106	-	-	-	-	2	106
A	-	10	-	-	15	147	-	-	-	-	15	157
Not rated	1	1	1,297	1,370	-	-	25	3	57	53	1,380	1,427
Total	1	12	1,297	1,370	377	302	25	3	57	53	1,757	1,740

Cash and cash equivalents classified as AAA include the Company's investments in money market funds. These funds are not rated by an external agency but are internally rated as AAA investments.

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due. 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. At the reporting date, all financial assets were neither past due nor impaired.

At 31 December 2010, the Company had pledged £21m cash as collateral for derivative financial liabilities (2009: £nil).

(d) Liquidity risk

The Group defines liquidity risk as the risk that the business units 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 cost.

Liquidity risk is managed through the Group liquidity and capital management 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 (none of which are currently drawn).

Liquidity risk is managed by the Company in consultation with the central Group capital management function, which incorporates treasury management. The Company is also responsible for the definition and management of the contingency funding plan which operates on a continuous basis and is fully documented.

(d)(i) Maturity analysis

The cash flows payable by the Company under its financial liabilities are analysed in the table that follows by remaining contractual maturities at the reporting date.

The amounts shown are the contractual undiscounted cash flows. In respect of derivative financial instruments, the analysis presents the net effect of all cash flows of derivative financial instruments expected to be settled on a gross basis and the cash flows of derivative financial liabilities that are expected to be settled on a net basis.

W. Risk management *continued***(d) Liquidity risk *continued*****(d)(i) Maturity analysis *continued***

	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
2010								
Subordinated liabilities	111	1,271	567	169	568	-	-	2,686
Derivative financial instruments	-	-	-	-	-	-	-	-
Other liabilities	32	-	-	-	-	-	-	32
Total	143	1,271	567	169	568	-	-	2,718
2009								
Subordinated liabilities	113	1,033	604	488	601	-	-	2,839
Derivative financial instruments	-	-	-	-	-	-	-	-
Other liabilities	87	-	-	-	-	-	-	87
Total	200	1,033	604	488	601	-	-	2,926

The Company ensures that it can meet its financial obligations as they fall due by maintaining suitable levels of liquid assets. The obligations arising from subordinated liabilities are offset by receipts arising from loans to subsidiaries and investments in subsidiaries.

X. Contingent liabilities, indemnities and guarantees**(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, the Directors do not believe that such proceedings (including litigation) will have a material effect on the results and financial position of the Company.

(b) Issued share capital

The Scheme of Demutualisation of The Standard Life Assurance Company (SLAC) sets a 10-year time limit, ending in 2016, 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.

(c) Guarantees

During 2009, the Company provided an indemnity to the Standard Life Unclaimed Asset Trust (UAT) to cover any expenses, damages, losses and costs that cannot be recovered from the assets held within the UAT. The indemnity is for a maximum of £30m and gave rise to a liability of £nil at 31 December 2010 (2009: £nil).

Y. 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.

Z. 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. The year end balances arising from such transactions are as follows:

	Notes	2010 £m	2009 £m
Due from related parties:			
Subsidiaries	L,M	43	48
Loans to subsidiaries		1,297	1,370
		1,340	1,418
Due to related parties:			
Subsidiaries		15	10
Loans from subsidiaries		-	58
	V	15	68

Transactions with related parties carried out by the Company during the year were as follows:

	2010 £m	2009 £m
Revenues from related parties:		
Subsidiaries	419	329
	419	329
Expenses to related parties:		
Subsidiaries	94	66
	94	66

Where financial instruments arising from transactions with related parties are offset in the statement of financial position, the net position is presented in the tables above.

(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 48 of the consolidated financial statements. Information on transactions with/balances from/(to) key management personnel can also be found in Note 48 of the consolidated financial statements.

AA. Fair value of financial assets and liabilities**(a) Financial investments and financial liabilities**

An analysis of the Company's financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes J and T and includes those financial assets and liabilities held at fair value.

(b) Fair value hierarchy**(b)(i) Determination of fair value hierarchy**

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
This category includes listed equity securities and government bonds.

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

This category includes listed corporate bonds, commercial paper, certificates of deposit and derivative instruments that are not exchange traded. Corporate bonds have generally been classified as level 2 instruments as the composite price provided by external pricing providers may include, as an input, quotes provided by some banks that are not based on actual transaction prices.

Level 3 Inputs for the asset or liability that are not based on observable market data.

Level 3 financial instruments principally include unlisted equity securities and corporate bonds for which prices are not available from external pricing providers (see Note AA(b)(iii) for further details).

(b)(ii) Fair value hierarchy for financial instruments measured at fair value in the statement of financial position

The following tables set out an analysis of financial assets and liabilities measured at fair value by level of the fair value hierarchy.

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2010 £m	2009 £m
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m		
Assets								
Derivative financial assets	-	-	25	3	-	-	25	3
Equity securities	24	20	-	-	4	5	28	25
Debt securities	-	-	-	11	1	1	1	12
Total	24	20	25	14	5	6	54	40
Liabilities								
Derivative financial liabilities	-	-	25	4	-	-	25	4
Total	-	-	25	4	-	-	25	4

There were no significant transfers between level 1 and level 2 in the year.

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

Level 3 equity instruments principally comprise unlisted equity securities. Debt securities include corporate bonds for which prices are not available from third party pricing providers, and unquoted bonds where credit spreads, being a significant input to the valuation technique, are obtained from a broker or estimated internally.

	At 1 January 2010 £m	Total losses recognised in the statement of comprehensive income £m	Transfers into/ (out of) level 3 £m	At 31 December 2010 £m	Total losses recognised in the statement of comprehensive income for assets or liabilities held at 31 December 2010 £m
2010					
Equity securities	5	(1)	-	4	(1)
Debt securities	1	-	-	1	-

There were no movements in level 3 financial assets and liabilities held at fair value in 2009.

The Company does not intend to dispose of these financial instruments.

(b)(iv) Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

There is no significant sensitivity of level 3 financial instruments measured at fair value in relation to changes in key assumptions. The sensitivity of the value of assets to changes in key market movements is shown in the market risk sensitivity tables in Note W(b)(ii).

(c) 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 observable market inputs where available, or are estimated using other valuation techniques.

	Notes	2010 Carrying value £m	2010 Fair value £m
Financial assets			
Loans to subsidiaries		1,297	1,224
Financial liabilities			
Subordinated guaranteed bonds	U	1,162	1,119
Mutual Assurance Capital Securities	U	637	563
	Notes	2009 Carrying value £m	2009 Fair value £m
Financial assets			
Loans to subsidiaries		1,370	1,253
Financial liabilities			
Subordinated guaranteed bonds	U	1,184	1,135
Mutual Assurance Capital Securities	U	648	547

The estimated fair values of loans to subsidiaries are determined with reference to quoted market prices determined using observable market inputs. The fair values of subordinated liabilities are based on the quoted market offer price.

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

BB. Events after the reporting period

Details of events after the reporting period affecting the Company are given in Note 51 of the consolidated financial statements.

Glossary

Acquisition costs

Expenses related to the procurement and processing of new business written including a share of overheads.

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.

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 statement of financial position.

Assumptions

Variables applied to data used to project expected outcomes.

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.

Burnthrough costs

Burnthrough costs are an estimate of the value of the potential shareholder support that could be required to meet policyholder benefits in a participating fund. It is usually the case that shareholders participate in the profits or surpluses generated within a participating fund only to a limited extent. However, there could be unfavourable outcomes in the future when the assets of the participating fund are no longer sufficient to pay the benefits of the policyholders of that fund. This would be described as a 'burnthrough event' and could require some level of financial support from the shareholder. The burnthrough cost is normally calculated by projecting a large number of possible future economic outcomes, taking an average over all of these outcomes.

Capital resources (CR)

Capital resources include the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital.

Capital resources requirement (CRR)

A company must hold capital resources in excess of the capital resources requirement. The CRR represents the total of the individual capital resources requirements (ICRR) of each regulated company in the Group.

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.

Constant currency

Eliminates the effects of exchange rate fluctuations and is used when calculating financial performance on a range of measures.

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 operating profit excluding specific costs attributable to back book management.

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. For covered business within the Standard Life Group please refer to the EEV methodology within the EEV supplementary information.

Deferred acquisition costs (DAC)

The method of accounting whereby acquisition costs on long-term business are deferred in the statement of financial position 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 statement of financial position 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.

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.

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 period.

Earnings before interest and tax (EBIT)

EBIT is defined as earnings before interest, taxation, foreign exchange gains and losses, profit on partial disposal of investments in associates, divergence on financial guarantee costs, movement on contract for differences and restructuring costs.

EBIT margin

This is an industry measure of performance for investment management companies. It is calculated as EBIT divided by total revenue.

Earnings per share (EPS)

EPS is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, for example share awards and share options awarded to employees.

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 EEV operating profit represents profit generated from new business sales and the in-force book of business, based on closing non-economic and opening economic assumptions. Covered business is defined above.

Non-covered business EEV operating profit represents IFRS operating profit. Non-covered business is defined below.

EEV operating profit capital and cash generation

This is a measure of the underlying shareholder capital and cash flow of the Group.

Covered business EEV operating capital and cash generation represents the EEV operating profit net worth (free surplus and required capital) on an after-tax basis.

Non-covered business EEV operating capital and cash generation represents EEV operating profit after tax (as defined above).

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.

Fee based business

Fee business is a component of IFRS operating profit and is made up of products where we generate income primarily from asset management charges (AMCs), premium based charges and transactional charges. AMCs are earned on products such as SIPP, corporate pensions and mutual funds, and are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with the major indirect Group exposure to rising or falling markets coming from higher or lower AMCs.

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 capital surplus

This is a regulatory measure of our financial strength and compares the Group's capital resources to its capital resources requirements in accordance with the Insurance 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.

Growth investment spend

Costs we incur investing in the future of our business, including product development, marketing and technology to support our growth.

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.

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.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are required to be prepared in accordance with IFRS.

IFRS operating profit

IFRS operating profit is calculated by adjusting profit attributable to equity holders before tax for the impact of short-term economic changes to asset and liability values. The Directors believe that by removing this volatility from operating profit, they are presenting a more meaningful indication of the long-term performance of the Group.

IFRS tangible equity per share

Total IFRS equity, less non-controlling interests and intangible assets, divided by the diluted number of issued shares at the end of the period.

IFRS underlying profit

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.

Key performance indicators (KPI)

This is a measure 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).

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

Net flows represent gross inflows less redemptions. For long-term savings business, 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 shareholders' 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).

Non-covered business

Mainly includes third party global investment management, banking, healthcare and other businesses not associated with the life assurance and pensions business. Non-covered business excludes the global investment management look through profits and the return on mutual funds which are recognised in covered business. Non-covered business is excluded from the EEV methodology and is included within the Group EEV on an IFRS basis.

Non-economic assumptions

Assumptions in relation to future levels of mortality, morbidity, persistency and expenses. These assumptions, and variances in relation to these assumptions, are included as operating profits/(losses) under EEV.

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.

Proprietary Business Fund

The Proprietary Business Fund in Standard Life Assurance Limited (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.

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.

SICAV

A SICAV (société d'investissement à capital variable) is an open-ended collective investment scheme common in Western Europe. SICAVs can be cross-border marketed in the EU under the Undertakings for collective investment in transferable securities (UCITS) directive.

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).

Spread based business

Spread based business is a component of IFRS operating profit and comprises products where we provide a guaranteed level of income for our customers in return for an investment. A good example of this product line is annuities. The 'spread' referred to in the title primarily relates to the difference between the guaranteed amount we pay to customers and the actual return on the assets over the period of the contract.

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.

Undiscounted payback period

A measure of capital efficiency that measures the time at which the value of expected undiscounted cash flows (after tax) is sufficient to recover the capital invested to support the writing of new business.

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
Phone: **0800 634 7474** or **0131 225 2552**

For shareholder services call **0845 113 0045**

Registrar:

Capita Registrars Limited

Auditors:

PricewaterhouseCoopers LLP

Solicitors:

Slaughter and May

Brokers:

JP Morgan Cazenove
Deutsche Bank

Shareholder 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, Capita, on **0845 113 0045** if calling from the UK. International numbers for Capita can be found on the last page of this report.
- Visit our share portal at www.standardlifeshareportal.com

Sign up for ecommunications

You can choose to receive your shareholder communications electronically – registering is easy and free. Just go to www.standardlifeshareportal.com 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 money, and conserve natural resources.

Preventing unsolicited mail

By law, the Company has to make certain details from its share register publicly available. Because of this, it is possible that some registered shareholders could 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.org.uk

If you are a certificated shareholder, your name and address may 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 Capita, 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:

Mailing Preference Service (MPS)
DMA House
70 Margaret Street
London
W1W 8SS

You can also register online at www.mpsonline.org.uk

Analysis of registered shareholdings as at 31 December 2010

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	65,771	54.83%	31,349,865	1.37%
1,001-5,000	47,679	39.75%	100,506,028	4.40%
5,001-10,000	3,753	3.13%	25,830,638	1.13%
10,001-100,000	2,256	1.88%	49,185,589	2.16%
*100,001+	496	0.41%	2,076,147,721	90.94%
Totals	119,955	100.00%	2,283,019,841	100.00%

*These figures include the Company-sponsored nominee – the Standard Life Share Account – which had 1,296,769 participants holding 1,048,702,236 shares, and the Unclaimed Asset Trust, which had 77,057 participants holding 29,178,524 shares.

Financial calendar for 2011

2010 preliminary results	10 March 2011
Ex-dividend date for 2010 final dividend	16 March 2011
Record date for 2010 final dividend	18 March 2011
Scrip reference price announced for 2010 final dividend	23 March 2011
2011 Q1 trading results and interim management statement	28 April 2011
Annual General Meeting	17 May 2011
Dividend payment date (2010 final dividend)	27 May 2011
2011 half year results*	3 August 2011
Ex-dividend date for 2011 interim dividend*	10 August 2011
Record date for 2011 interim dividend*	12 August 2011
Scrip reference price announced for 2011 interim dividend*	17 August 2011
2011 Q3 trading results and interim management statement	2 November 2011
Interim dividend payment date*	18 November 2011

*These plans and dates are anticipated at this stage and may be subject to change.

Contact details

We want to make sure you have answers to all your questions.

	Visit	Mail	Phone
UK and Ireland If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar:	www.standardlifeshareportal.com	questions@standardlifeshares.com Address: Standard Life Shareholder Services 34 Beckenham Road Beckenham Kent BR3 4TU	0845 113 0045 +44 (0)20 3367 8224 (01) 431 9829
Germany and Austria If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar:	www.standardlifeshareportal.com/de	fragen@standardlifeshares.de Address: Standard Life Aktionärservice Postfach 20 01 43 60605 Frankfurt am Main Germany	+49 (0)6196 7693 130
Canada If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar:	www.standardlifeshareportal.com (English) www.standardlifeshareportal.com/fr (French Canadian)	questions@standardlifeshares.ca Address: Standard Life Shareholder Services PO Box 4636 Station A Toronto M5W 7A4	1-866-982-9939

Please note, you may not use any electronic address provided in this document or any related document – including in the Summary Financial Report 2010, Shareholder News, AGM guide 2011 (including the Notice of Annual General Meeting), your voting form or the letter or email from the Chairman about the 2011 AGM to communicate with the Company for any purposes other than those expressly stated.

Secretary, registered office and head office:

Malcolm J Wood
 Standard Life plc
 Standard Life House
 30 Lothian Road
 Edinburgh
 EH1 2DH
 Scotland

www.standardlife.com

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 2010 (unless otherwise indicated).

This document has been published by Standard Life for information only. It is based on our understanding as at March 2011 and does not provide financial or legal advice.

Standard Life plc is registered in Scotland (SC286832) at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

Calls may be monitored and/or recorded to protect both us and you and help with our training. Call charges may vary.

UKARA10 0411 © 2011 Standard Life, images reproduced under licence

