

Annual Report and Accounts 2011

Standard Life plc

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Standard Life

Group financial highlights

£544m

Group operating profit before tax from continuing operations - 28% increase

£198.4bn

Group assets under administration
1% increase

£989m

Group EEV operating profit before tax from continuing operations
26% increase

£438m

Group EEV operating profit capital and cash generation - 53% increase

£71.8bn

Standard Life Investments third party assets under management - remained stable

£298m

Group profit after tax attributable to equity holders - 31% decrease

£3.1bn

Group capital surplus
18% decrease

£5.4bn

Group net inflows - 25% decrease

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Chairman's statement

Driving sustainable business

2011 was a significant year for Standard Life. Across the Group, we grew profitably in our chosen markets, despite some very tough economic conditions. Robust management of our assets and capital, which is so important in these uncertain times, continued to give us a strong foundation from which to operate.

I am pleased to confirm a final dividend payment of 9.20p per share, giving a total dividend of 13.80p per share for 2011. This is an increase of 6.2% on the 2010 payment and, if approved, will be paid to shareholders on 31 May 2012.

Ensuring the long term sustainability of Standard Life runs through everything that we do. Last year, we improved our ranking once again in the Dow Jones Sustainability Indexes, and we were delighted to be placed for the first time in the DJSI World. This is a great achievement, one that signifies our commitment to managing and maintaining the business for the long term. It's vital to our future success that we continue to innovate and that we find new and better ways to operate our businesses efficiently.

The background against which we operate is constantly changing with some major regulatory milestones ahead. The introduction of Solvency 2, and its emphasis on a deep understanding of the economic capital requirements of a business, should reinforce our strengths and bring more clarity to how businesses like ours hold, use and release capital. In the UK, the Retail Distribution Review will help strengthen the value of professional financial advice and allow customers better and more informed choice in planning their futures. We expect the exercise of this choice will cause more people to want to buy our products. Lastly, the auto enrolment of people into company pension schemes is a huge opportunity for us in an area where we provide first-class customer service and constantly innovate. We will work closely together with government and the wider industry to help ensure that auto enrolment is successful in helping many more people save for their retirement.

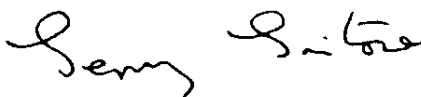
Preparing for these changes has been a major focus of ours over the last two years. We are strongly managed and I believe we have the right products and services for our customers, which together help us run our business effectively and profitably.

Our strategy focuses on offering customers long term savings and investment propositions; and benefits from having a successful, dynamic partnership between our savings and investment businesses. MyFolio – a family of carefully constructed risk-based portfolios managed by Standard Life Investments – has grown in popularity as customers demand more flexibility and control of where they invest their money. One of our biggest successes in fund innovation – the Global Absolute Return Strategies Fund (GARS) – continues to grow via new distribution channels in Europe and the USA as well as gaining wider distribution in the UK.

It's important that we closely monitor all developments that might affect our company, and the future of Scotland as part of the United Kingdom is a subject where debate has accelerated in recent months. As a company headquartered in Edinburgh we are closely monitoring developments and we won't hesitate to make our voice heard as necessary.

There has never been such interest in how financial services companies govern themselves and how they exercise their stewardship responsibilities. We take our responsibilities in this area very seriously both in relation to how we conduct our own affairs and how we exercise our considerable influence in the wider marketplace. I believe that a strong, challenging, unitary Board constantly alert to the interests of customers, shareholders and wider stakeholders is the absolute prerequisite to good corporate governance. A good Board must evolve over time with excellent people sometimes leaving and others joining. Three departures and three arrivals amongst our non-executives have put us in a strong position to take Standard Life through the next phase of its development both in the UK and internationally.

Standard Life is confidently carrying on the journey that we started with our demutualisation six years ago. I'm looking forward with a real sense of excitement and confidence. I'd like to thank you again for your continued support and to our people across the Group for their hard work and commitment to the future success of Standard Life.



Gerry Grimstone, Chairman

Business review

1.1 Chief Executive's overview

"Our results in 2011 again demonstrate that we are well on track to transform the operational and financial performance of Standard Life. We have delivered increased operating profits and cash flow while investing to strengthen our market positions. We have developed innovative propositions to respond to the changing needs of our customers and their advisers, ensuring we are well positioned to benefit from market changes and the new regulatory environment."

David Nish, Chief Executive

(Image Removed)

Driving a sustainable business

We made significant progress in building a strong platform for sustainable, profitable growth and are seeing the benefits of the investment we have made in our business. We have launched a number of innovative propositions to respond to the changing needs of our customers and their advisers. I'm very grateful to our employees for their hard work, against challenging conditions, to deliver in the past year.

Growing our business

We've increased the pace and agility with which we are delivering on our strategy. There is more to do but we are in a good place to make that happen.

We set our key strategic priorities in March 2010 with the aim of transforming the business over the three years to 2012. This required an increased level of investment in order to grow our business. As we move into the final year of our transformation we are well on track to achieve an ongoing improvement in profitability and performance. Some highlights are:

Delivering performance across the Group

- In the UK, there has been continued momentum in our fee based propositions with technology and scalability of platforms driving efficiency
- Global investment management continued its excellent record of strong and profitable growth in 2011
- In Canada, our fee based propositions are growing and we continue to drive value from our existing spread/risk business
- In International, we are rapidly growing the Hong Kong and offshore businesses and will expand into new markets

Building on our market-leading propositions that benefit advisers, customers and Standard Life

- Transformed our Adviserzone service in February 2011, introducing new market-leading features
- Launched a new online stocks and shares ISA which has helped simplify investment options for our customers
- Increased use of guided architecture which provides simple and easy investment choices to meet the needs of customers and advisers
- UK corporate sales momentum continued with 167 new schemes (2010: 182 new schemes), while 66,000 new employees joined schemes implemented in 2011 (2010: 46,000 employees)
- Standard Life Wealth continues to build a strong presence in the IFA market with the launch of the Managed Portfolio Service, and now has over £1bn of assets under administration (AUA)
- Enhanced our distribution in Canada through an agreement with Qtrade Financial Group, an online brokerage and investment dealer

Expanding the global reach of our investment management business

- Assets in our Global Absolute Returns Strategies (GARS) fund now total over £13bn and it has outperformed its LIBOR benchmark over all key time periods since inception
- Our agreement with John Hancock Financial gives the GARS fund access to the United States market and allows us to work with a leading distributor
- Our strategic alliance with Chuo Mitsui Asset Trust and Banking Company, one of the largest trust banks in Japan, provides our customers with direct access to expertise in the management of Japanese equity funds

Maximising the value from our joint venture relationships in Asia

- Performance across our joint venture businesses in Asia has been strong in 2011, with net flows increasing by 8%
- HDFC Life performed well, increasing market share and securing second place in the Indian private sector overall
- HDFC Asset Management, in which we have a 40% share, is the largest mutual fund company in India
- In China, Heng An has a new management team in place and a revamped strategy focused on driving business performance

Transforming our business

The second year of our transformation in 2011 saw us deliver more of the changes required to prepare our business for 2012 and beyond. These changes are already delivering benefits, making our business more agile, adaptable and efficient. We remain focused on maximising the generation of cash profit to support our progressive dividend policy and to create the capacity to reinvest in growing our business.

1.1 Chief Executive's 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 1.5 – 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 investments propositions we have provided.



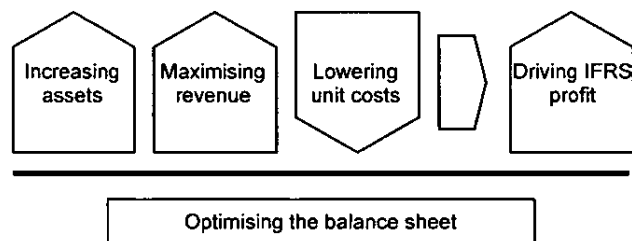
Our goal

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



Our business model

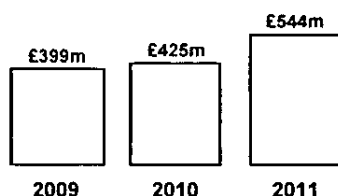
Our strategy is underpinned by a simple business model. Find out more about the strategy of our individual businesses and how they contribute to our business model in Section 1.4 – Business segment performance.



Group profitability

Operating profit before tax is a key performance indicator for the Group and has increased in 2011 to £544m due to continued growth in fee revenue and improving cost efficiency.

Group operating profit

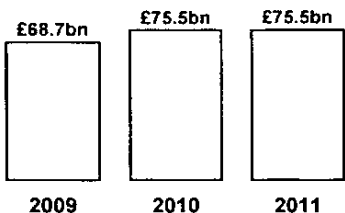
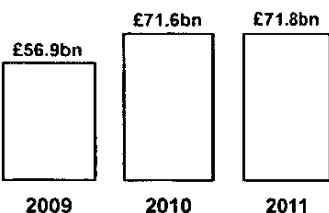
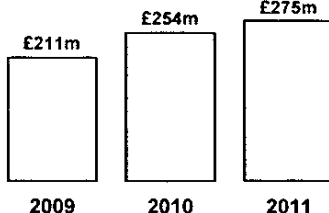


IFRS profit for the year has fallen to £346m (2010: £493m) due to the impact of short-term fluctuations in investment return.

Find out more about our financial performance in Section 1.3 – Chief Financial Officer's overview

Our strategic objectives	Building on our strengths in our pension savings and corporate benefits markets								
	We are a leading corporate pensions provider in the UK and Canada, with a strong brand and competitive positioning in these markets. We remain confident that these markets provide a significant growth opportunity for us.								
Our performance in 2011	<p>UK corporate AUA</p> <table border="1"> <thead> <tr> <th>Year</th> <th>AUA (£bn)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>£29.9bn</td> </tr> <tr> <td>2010</td> <td>£36.8bn</td> </tr> <tr> <td>2011</td> <td>£39.5bn</td> </tr> </tbody> </table> <ul style="list-style-type: none"> In the UK, we grew our share of the corporate benefits market to 19.1% (2010: 17.0%) Our UK business also won 167 new corporate schemes (2010: 182 new schemes) and enquiries more than doubled during 2011 In Canada, group savings and retirement product enhancements enabled us to win 204 new defined contribution accounts, increasing members to 561,000 (2010: 537,000 members) 	Year	AUA (£bn)	2009	£29.9bn	2010	£36.8bn	2011	£39.5bn
Year	AUA (£bn)								
2009	£29.9bn								
2010	£36.8bn								
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Competitive advantages Where we will create and leverage distinctive capabilities	<table border="1"> <tr> <td data-bbox="1035 1697 1505 1798"> Brand </td> </tr> <tr> <td data-bbox="1035 1798 1505 1899"> Technology </td> </tr> <tr> <td data-bbox="1035 1899 1505 2000"> Customer and distributor insight </td> </tr> <tr> <td data-bbox="1035 2000 1505 2092"> Investment performance </td> </tr> </table>	Brand	Technology	Customer and distributor insight	Investment performance
Brand					
Technology					
Customer and distributor insight					
Investment performance					

Focusing on the savings and investments 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 investments 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 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>2009</td> <td>68.7</td> </tr> <tr> <td>2010</td> <td>75.5</td> </tr> <tr> <td>2011</td> <td>75.5</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We continued to build on the success of our Wrap platform with approximately 1,000 firms using our platform. We delivered enhanced functionality which focused on reducing risk and costs in adviser businesses. We launched new propositions such as an online stocks and shares ISA and online mutual funds Our retail IFA market share in 2011 was 14.9% (2010: 14.6%) 	Year	AUA (£bn)	2009	68.7	2010	75.5	2011	75.5	<p>Global investment management third party AUM</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>AUM (£bn)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>56.9</td> </tr> <tr> <td>2010</td> <td>71.6</td> </tr> <tr> <td>2011</td> <td>71.8</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Our global investment management business continued its excellent record of strong and profitable growth Our GARS fund has outperformed its LIBOR benchmark over all key time periods since inception and assets in the fund now exceed £13bn We have entered into an agreement with John Hancock Financial giving the GARS fund access to the United States market and allowing us to work with a leading distributor to help deliver potential for our global clients 	Year	AUM (£bn)	2009	56.9	2010	71.6	2011	71.8	<p>Joint venture net flows</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Net flows (£m)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>211</td> </tr> <tr> <td>2010</td> <td>254</td> </tr> <tr> <td>2011</td> <td>275</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The Indian joint venture has improved its market positioning and grown market share In China, we have a new management team in place under the leadership of a new general manager. A revamped strategic plan is currently being implemented and we will continue to extend our distribution network and enhance business quality and effectiveness. 	Year	Net flows (£m)	2009	211	2010	254	2011	275
Year	AUA (£bn)																									
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Our new repositioned brand was launched across the Group in 2011. The brand is more than just a new look – it's about the way we work and the experiences we create for our customers. It's also about the unique combination of capabilities we have, including the strong distributor relationships that differentiates us strongly from competitors.

Investment in technology is delivering improved digital experiences and service for our customers. We will continue to leverage technology to deliver efficient, scalable and robust operations.

Putting customers at the heart of our business means we need to keep listening to them, developing our understanding of their needs and challenges. We also continue to ensure that we maintain high levels of customer service and distributor support.

We continue to deliver robust long-term investment performance. Standard Life Investments is well positioned across a diversified range of asset classes.

1.1 Chief Executive's overview continued

Market overview

Market conditions have been tough during 2011, however we remain confident that our future growth will be driven by our customers' demand for our propositions and the underlying demographic and regulatory trends in our key markets. In the short term, volatile conditions in global financial markets and economic uncertainty mean that operating conditions will continue to be challenging.

Continued volatility in global financial markets

The financial markets in which we operate are being impacted by factors including:

- The risk of sovereign debt default within the European Union member states
- The downgrade of the credit ratings of a number of countries as a result of the European sovereign debt crisis
- Stagnated global growth and the downward revisions to growth forecasts in a number of major economies
- A shift towards lower-risk assets as investors try to reduce their exposure to volatile equity markets both in the UK and abroad. To illustrate this volatility, the FTSE All-Share Index closed at a high of 3,161 points and a low of 2,558 points during 2011, a significant trading range.

An uncertain economic backdrop

Other economic factors are also impacting the markets in which we operate.

Some of the factors impacting our markets include:

- High inflation in the UK, fuelled by increases in both the standard rate of VAT to 20% and energy prices, is putting a squeeze on households' real incomes
- Wage inflation remains subdued and the low level of global economic growth has led to stagnation in employment markets
- Sustained levels of low interest rates and the potential for further quantitative easing
- Austerity measures to reduce high levels of government borrowing raise the possibility of further erosion of pension tax breaks

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 the rich and poor; and lower long-term birth rates.

In the UK market, the structure of the population is changing as life expectancy rapidly increases. In 2011, 17% of the population were aged 65 and over and this is expected to increase to 23% by 2033. This emphasises the need for individuals to ensure that they have adequate pension provision to fund their retirement.

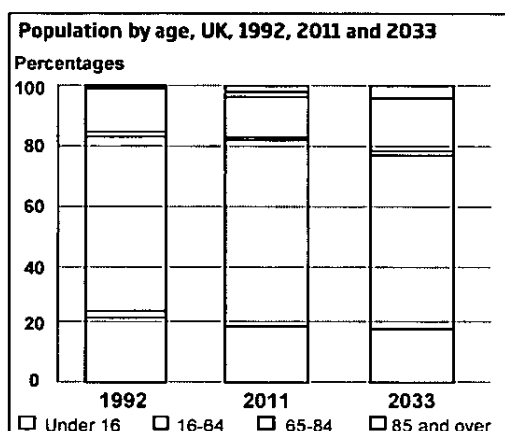
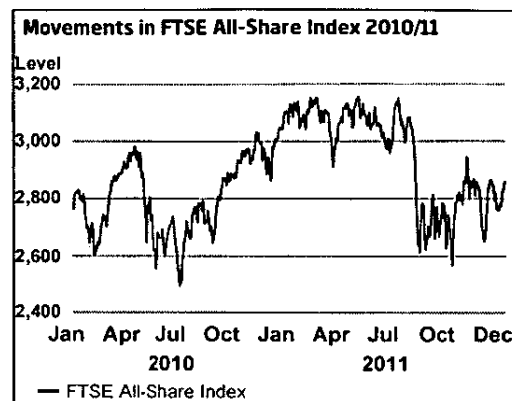
The UK Government is making changes to increase the proportion of the population saving for retirement, including auto enrolment and the introduction of the National Employment Savings Trust (NEST). We believe that these steps will increase contributions to private pensions and that we are well placed to benefit from these changes.

The Canadian Government is expected to introduce the Pooled Registered Pension Plans, opening a new market to pension providers. We are one of the largest defined contribution pension providers in Canada and are developing our plans for this new market.

Contributing to market insight

We regularly publish new insight and support to policy makers and industry stakeholders to help stimulate long-term savings. In October 2011, we published the results of a research project undertaken with the assistance of experts in behavioural economics. The aim of *Keep on nudging – making the most of auto enrolment* was to identify how we can maximise the potential of workplace savings to help those on low-to-moderate incomes save for retirement.

The current economic climate presents many challenges. Yet our research found that the majority of people are still keen to prioritise saving, particularly when they are helped to understand what it means to them, both now and in the future. We believe that, working together, employers, the long-term savings industry and the government can realise the full potential of auto enrolment.



Adapted from data from the Office for National Statistics licensed under the Open Government Licence v.1.0.

Government legislation and industry regulation

There are currently a number of legislative and regulatory changes that will affect financial services companies. The key initiatives and their potential impact on Standard Life are set out below:

	Description	Potential impact on Standard Life
Retail Distribution Review	The Retail Distribution Review (RDR) is designed to increase transparency in retail financial services and to raise professional standards in the UK. The regulations from the RDR come into effect at the start of 2013. This affects distribution of both retail investment products and corporate pensions, in areas such as advice provision, professionalism, adviser charging and platform rules.	Our strategy is specifically focused on the post-RDR world, both in ensuring that we comply with the regulation and more so in capturing the long-term strategic advantage. We provide high value fee based propositions and investment solutions for our customers and intermediaries and therefore we do not rely on paying commission to promote our propositions. The ban on commission that will come as part of the RDR will significantly increase the size of our accessible corporate market in the UK.
Auto enrolment and National Employment Savings Trust	Auto enrolment will become mandatory from October 2012 and will require all eligible workers to be automatically enrolled into a qualifying pension scheme. At the same time, the UK Government is putting in place the National Employment Savings Trust (NEST). This is an entry-level company sponsored defined contribution pension scheme and will require a minimum level of contributions. These combined changes are expected to bring an extra seven million adults into pension savings for the first time, with an estimated £6bn of additional annual contributions.	As a provider of quality corporate pension schemes, we welcome the introduction of auto enrolment in 2012. 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. 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 pension business.
Pooled Registered Pension Plans	The Canadian Government is expected to introduce Pooled Registered Pension Plans (PRPP), since only around 40% of Canadians have a private corporate pension arrangement. The PRPP is the Canadian version of a government-sponsored auto enrolment plan.	We are one of the largest defined contribution (DC) pension providers in Canada and are already developing our plans for this new and potentially very large market.
Solvency 2	Solvency 2 is a major European regulatory change initiative that brings consistency to how EU insurers manage capital and risk with the aim of protecting consumers. We expect the new rules to 'go live' on 1 January 2014 for firms, although this is still subject to some uncertainty. All firms will have to calculate their capital requirements based on the risks they manage and disclose this to regulators and the market. Taking on risk enables insurance companies to offer valuable customer propositions and deliver good shareholder returns.	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. We set up our Solvency 2 Programme in January 2010 to help us manage the transition. The Programme is making good progress and we are well prepared for the implementation of Solvency 2.
UK life insurance tax regime	The 2011 Budget announced significant changes to the UK life insurance tax regime. From 1 January 2013, the basis of the regime will move from the FSA regulatory return to the statutory accounts. The draft Finance Bill 2012 was issued by HMRC on 6 December 2011 for consultation and is expected to be enacted during the summer of 2012.	We are actively engaged in the ongoing consultation process with HMRC. There is still uncertainty regarding the final detail of the new regime provisions, including the impact of the transition to the new tax regime. Therefore, we consider that it is too early in the consultation process to be certain about the impact.
Gender differentiation	From 21 December 2012, a European Court of Justice ruling will take effect that prevents using gender as a factor in determining premiums and benefits in insurance contracts.	We currently use gender as a risk factor in calculating premiums and benefits for a number of our products. We are working to ensure that we implement the appropriate changes so that our business complies with the ruling. We do not currently anticipate a significant impact on our results.

1.1 Chief Executive's overview *continued*

Serving our customers

Our customers are at the very core of everything we do, so we'll continue to concentrate on bringing our transformation to life for them and giving them the services and support they need to make it easier to deal with us.

New technologies play an increasingly important role in the way we operate and grow our business. We're continuing to invest in our technology to ensure we deliver a competitive advantage through a scalable model that lowers the cost of attracting and serving customers. We have recently developed a new online ISA and re-launched our Adviserzone platform to give our customers more control over their finances.

Our repositioned brand and visual identity will continue to enhance the way that we communicate with our customers. They are also a major part of delivering even clearer communications to our customers so that they can plan for their financial future with confidence and optimism. The feedback from our customers and the industry has been very positive.

Developing our people

A number of key appointments have been made to further strengthen our senior management team. This includes the promotion of Paul Matthews to Chief Executive of the UK business in June 2011 and Charles Guay joined us in February 2012 as the new Chief Executive of our business in Canada.

We can achieve our goals more efficiently by making sure we keep attracting new talent and developing our own people. Our investment in developing talent, in particular in leadership development, is key to our continued success. The next phase of our talent management programme will continue to develop our current leaders and help tomorrow's leaders grow.

Investing in our people helps guarantee our continued success. We encourage and reward high performance right across the Group. We are expanding this further, strengthening the link between individual performance and reward, so our people become more accountable for the contribution they make to our success.

Better and more efficient communication has helped us increase our understanding of what we can do to help our people develop themselves. Our staff engagement survey, InterAction, provided a huge amount of insight and from it we have identified areas to focus our attention. These areas of focus are centred around our people, to help them grow and further their careers at Standard Life.

Looking forward

Our confidence in our ability to deliver sustainable growth is underpinned by the results we have delivered in 2011. We also remain confident that the underlying demographic and regulatory trends in our key markets, and our customers' demand for our propositions, will drive our future growth.

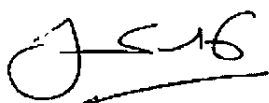
We continue to drive down unit costs having delivered £79m of efficiency savings towards our £100m margin improvement target which we are on track to achieve in the first half of 2012.

In the UK, we are entering a period of unprecedented change and potential for growth of our business. With the RDR less than a year away, our retail business has scale and momentum and is ideally positioned to continue to drive asset growth through our leading platform propositions. The quality of our corporate pension offerings together with the opportunities created by the RDR and pensions reform for increased individual savings will provide us with an increased flow of new business over the medium to long term.

Our business in Canada is well positioned to benefit from the ongoing shift from defined benefit to defined contribution pension provision. Our International business will continue to benefit from the strength of our offshore bond proposition and ongoing progress in our joint ventures but may continue to be affected by the impact of economic uncertainty in Europe.

The prospects for Standard Life Investments remain strong. The business is well positioned across a diversified range of asset classes and provides the investment solutions expertise which continues to allow the Group to capture a greater proportion of the platform value chain and third party assets.

The uncertain economic backdrop and its effect on consumer confidence have impacted new business volumes since the start of 2012 against a strong start to 2011. However, we see significant opportunities in all our chosen markets and are confident that the investments we are making will lead to continued strong growth in assets together with further improvements in efficiency and we expect to continue to drive an ongoing improvement in financial performance.

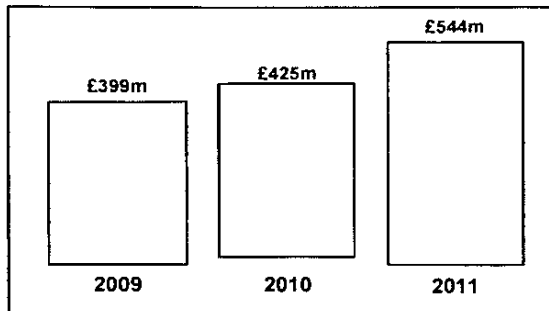


David Nish, Chief Executive

1.2 Group performance

Key financial performance indicators

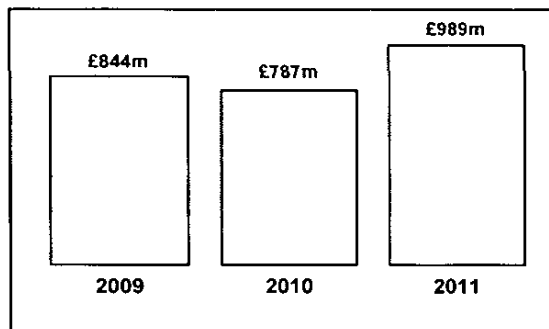
Group operating profit before tax



Group operating profit demonstrates our ability to deliver returns for our shareholders and provides an indication of our long-term dividend paying capability.

- Group operating profit before tax increased by 28% to £544m
- Fee based revenue increased by 8% to £1,223m
- Operating profit in 2011 included the remaining £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme. The initial benefit recognised in 2010 was £59m.
- Acquisition expenses expressed as a proportion of sales and maintenance expenses as a proportion of average AUA improved to 140bps and 41bps respectively, demonstrating the scalability of our business

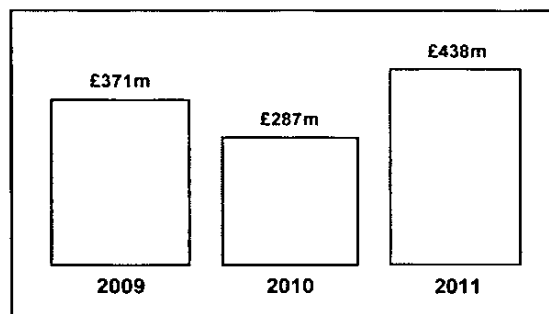
EEV operating profit before tax



EEV operating profitability measures our ability to effectively manage our existing book of business and to write profitable new business.

- EEV operating profit before tax rose by 26% to £989m
- This included a 16% increase in core EEV operating profit, which was due to increased new business profitability and expected returns on existing business. There was also higher profits from global investment management.
- New business contribution up 9% to £335m due to higher sales volumes in the UK and increased margins in our businesses in the UK and Canada

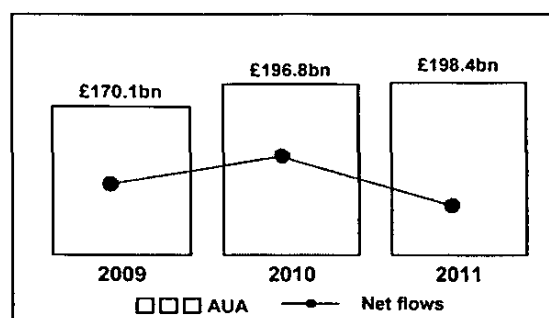
EEV operating capital and cash generation



EEV operating capital and cash generation reflects our ability to generate capital and cash from our business. This enables further investment in the business and the payment of dividends to our shareholders.

- EEV operating capital and cash generation increased by 53% to £438m
- This increase in 2011 was mainly due to higher capital and cash from increased non-covered profits and activities to manage our existing book, particularly in Canada

Assets under administration and net flows



As a long-term savings and investments business, AUA and net flows 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 1% to £198.4bn driven by good, although lower, flows into our newer fee based products. This was partially offset by the external transfer of our UK money market funds of approximately £4bn.
- Net flows reduced to £5.4bn, impacted by difficult market conditions across the Group and higher outflows in older style propositions in the UK
- Launched in October 2010, our MyFolio fund range is growing rapidly and now has assets of approximately £1bn

Find out more about these measures in Section 1.3 – Chief Financial Officer's overview and also Section 1.8 – Basis of preparation

1.3 Chief Financial Officer's overview

"We operate a simple business model which focuses on increasing assets, maximising revenue, lowering unit costs and optimising the balance sheet. In 2011, we continued to invest in the future, increase the quantity and quality of the assets we administer on behalf of our customers as well as managing down our costs. This will help us to meet our strategic objectives of driving sustainable, high quality returns for our shareholders. I believe we are well placed to deliver increased profits and cash flow in the future."

Jackie Hunt, Chief Financial Officer

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IFRS - Group

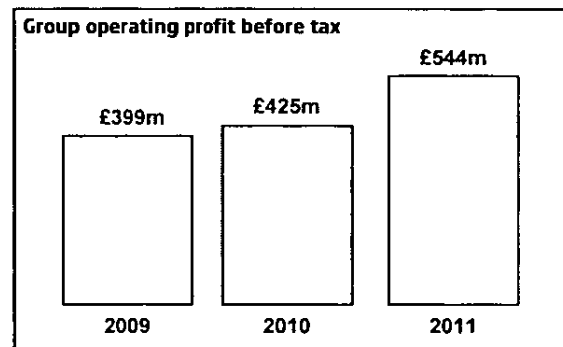
	2011	2010	Movement
Group operating profit before tax from continuing operations ^{1,2}	£544m	£425m	28%
IFRS profit after tax attributable to equity holders of Standard Life plc	£298m	£432m	(31%)
Group operating return on equity	11.9%	10.0%	1.9% points

IFRS profit

IFRS profit for the year was £346m (2010: £493m). This comprised profit after tax attributable to equity holders of £298m (2010: £432m) and profit attributable to non-controlling interests of £48m (2010: £61m). The IFRS result included a 28% increase in operating profit before tax from continuing operations from £425m to £544m. Non-operating losses were £214m (2010: profit £85m).

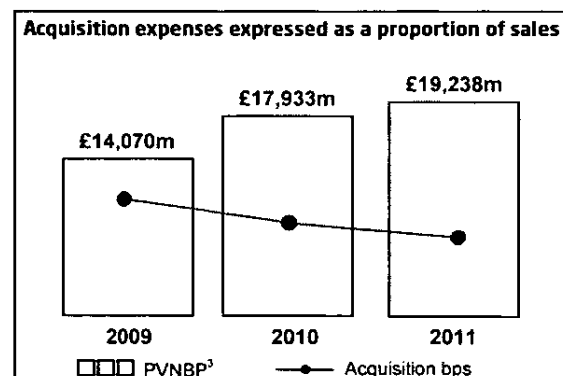
Group operating profit before tax from continuing operations

	2011 £m	2010 £m
Fee based revenue	1,223	1,131
Spread/risk margin	356	370
Total income	1,579	1,501
Acquisition expenses	(270)	(267)
Maintenance expenses	(723)	(673)
Investment for transformation and growth	(137)	(149)
Group corporate centre costs	(45)	(50)
Capital management	74	27
India and China JV businesses	2	(23)
Other	64	59
Group operating profit before tax from continuing operations	544	425



Group operating profit before tax increased to £544m. The key highlights are:

- **Fee based revenue**, which mainly relates to asset management charges, increased by 8% to £1,223m. This was due to the strong level of net inflows, higher average asset values and the shift to higher margin products in our global investment management business.
- **Spread/risk margin** mainly relates to the margin on our UK annuity business and the annuity and universal life business in Canada. Overall spread/risk margin reduced by £14m, impacted by losses from operating assumptions and one-off reserving changes of £70m (2010: profit £17m). This was partially offset by management actions in Canada of £88m (2010: £32m).
- **Acquisition expenses** are the costs we incur in writing new business. Acquisition expenses were broadly maintained at £270m despite the strong growth in sales volumes. Acquisition expenses expressed as a proportion of sales improved to 140bps (2010: 149bps).

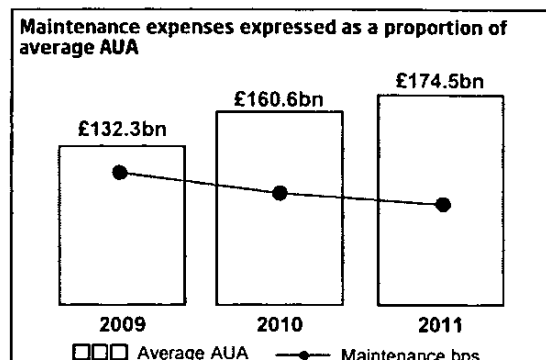


¹ Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.

² Operating profit is IFRS profit before tax adjusted to remove the impact of short-term market driven fluctuations in investment return and economic assumptions, restructuring costs (including the Solvency 2 programme), impairment of intangible assets, amortisation of intangible assets acquired in business combinations, profit or loss on the disposal of a subsidiary, joint venture or associate and other significant one-off items outside the control of management.

³ PVNBP excludes India and China joint venture businesses.

- **Maintenance expenses** mainly relate to the ongoing costs that we incur to service and administer customer policies. Maintenance expenses increased to £723m in 2011 due to further development of the business and expressed as a proportion of average AUA improved to 41bps (2010: 42bps).
- **Investment for transformation and growth** costs included in operating profit before tax decreased in 2011 to £137m. We have continued to invest for future growth in the business with a number of customer propositions launched during the year.
- **Total group corporate centre costs** including investment for transformation and growth decreased to £50m (2010: £54m). Investment for transformation and growth was £5m (2010: £4m).
- **Capital management** increased to £74m due to the investment of shareholders' funds in higher yielding assets and the improved funding position of our UK staff pension scheme
- The **joint ventures** in Asia contributed an operating profit before tax of £2m (2010: loss £23m) to the Group, which reflects their positive progression and our ongoing investment to support their development
- **Other** relates to the remaining £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme. The initial benefit recognised in 2010 was £59m.



The improvement in both acquisition and maintenance expense trends demonstrates the scalability of our business. We continue to lower unit costs both by growing assets and improving existing propositions and processes to make better use of automation and self servicing.

We previously said that we were targeting £100m of annual margin improvement by 2012 to be achieved through greater efficiency, improved asset mix and increasing flows to our global investment management business. In 2011, we achieved further cost efficiencies of £45m. We have now achieved total efficiency savings of £79m in relation to this 2012 target and also increased revenues from our fee based products resulting from strong flows into higher margin propositions in global investment management. Further efforts to reduce costs continue to be implemented and we expect additional efficiency savings to be delivered in 2012.

Investment for transformation and growth

We have continued to invest to transform and grow the business:

- Investment spend included in Group operating profit before tax decreased to £137m in 2011
- A number of customer propositions were launched or enhanced during the period and continued investment was made to improve operational effectiveness
- The total amount invested in 2011 was £196m (2010: £201m). This includes additional investment in the India and China joint venture businesses and also capitalised investment spend that does not impact profitability in 2011.

Investment for transformation and growth	2011 £m	2010 £m
Investment in operating cost base	137	149
Investment capitalised	36	36
Additional investment in joint venture businesses	23	16
Total investment for transformation and growth	196	201

Group operating return on equity

A key component of our business model is to optimise the use of our balance sheet. We are now including return on equity as a financial metric that measures our success in generating profitability relative to our shareholder capital. Group operating return on equity increased to 11.9% (2010: 10.0%) benefiting from the growth in operating profit. This measures Group operating profit after tax expressed as a percentage of the opening IFRS equity, adjusted for cash dividends paid. We will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders.

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

Group non-operating loss was £214m compared with a profit of £85m in 2010. Short-term fluctuations in investment return and economic assumptions produced non-operating losses of £139m in 2011 compared with gains of £157m in 2010. Losses in 2011 of £139m were mainly due to the widening of credit spreads which impacted the annuity business in the UK and losses in Canada due to adverse movements in the Canadian Government bond yield curve. This was partially offset by investment returns on shareholder assets in the UK and Canada. Non-operating restructuring and corporate transaction expenses of £70m (2010: £71m) relate to a number of restructuring programmes including Solvency 2.

Group non-operating (loss)/profit before tax from continuing operations	2011 £m	2010 £m
Short-term fluctuations in investment return and economic assumption changes	(139)	157
Restructuring and corporate transaction expenses	(70)	(71)
Other operating profit adjustments	(5)	(1)
Group non-operating (loss)/profit before tax from continuing operations	(214)	85

Find out more about the IFRS results in Section 1.4 – Business segment performance and Section 1.8 – Basis of preparation

1.3 Chief Financial Officer's overview continued

Assets under administration and new business - Group

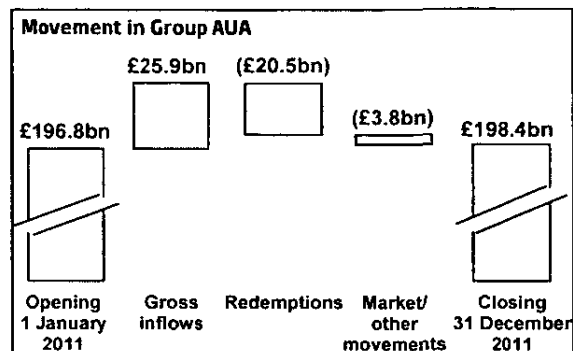
	2011	2010	Movement
Assets under administration	£198.4bn	£196.8bn	1%
Net flows	£5.4bn	£7.2bn	(25%)
Present value of new business premiums	£19,738m	£18,483m	7%
New business contribution	£335m	£308m	9%

Assets under administration and net flows

There was a good level of demand for our innovative products and services. However, market conditions were volatile and net inflows decreased to £5.4bn. Our relatively resilient asset mix partly mitigated the impact of volatile market conditions on assets under administration (AUA).

There was a 1% increase in AUA to £198.4bn:

- The increase in AUA was driven by continuing strong flows, particularly into our newer fee based propositions and our third party investment management business. This was offset by the external transfer of approximately £4bn of our UK money market funds following our decision to exit this sector of the industry.
- Of the total AUA, 82% (2010: 83%) related to fee business
- Fee business AUA was maintained at £163.3bn (2010: £163.4bn¹) with net flows of £6.1bn (2010: £7.9bn) partially offset by the UK money funds transfer
- Spread/risk business AUA increased by 5% to £24.7bn due to positive market movements, offsetting the £1.0bn (2010: £1.0bn) of net outflows



¹ Opening Fee AUA includes an adjustment to include all Standard Life Wealth AUA for the first time.

New business

	PVNBP £m		New business contribution £m		PVNBP margin %		IRR %		Undiscounted payback (years)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
UK	14,035	12,956	204	173	1.5	1.3	18	18	6	6
Canada	2,928	3,048	73	68	2.5	2.2	16	24	7	6
International	2,775	2,479	58	67	2.1	2.7	11	14	8	6
Total	19,738	18,483	335	308	1.7	1.7	15	17	7	6

- Improved new business profitability was due to higher sales volumes in the UK and increased margins in our UK and Canada businesses
- Present value of new business premiums (PVNBP) for the Group totalled £19,738m and was 7% higher than in 2010
- Total internal rate of return (IRR) for the Group of 15% (2010: 17%) was adversely impacted by capital and legislative changes in Canada and reduced margins in International

Find out more about AUA and new business for each of our businesses in Section 1.4 – Business segment performance

EEV - Group

	2011	2010	Movement
EEV per share	317p	322p	(2%)
EEV operating profit before tax from continuing operations	£989m	£787m ¹	26%
EEV profit before tax	£526m	£1,152m	(54%)
Return on embedded value from continuing operations	10.4%	8.7% ¹	1.7% points

¹ Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.

Group embedded value

Group embedded value increased to £7,428m (2010: £7,321m) representing an EEV per share of 317p. EEV per share has increased by 8p before dividend distributions, including EEV operating profit from continuing operations after tax of £724m (31p per share). This resulted in a return on embedded value (RoEV) of 10.4%. EEV non-operating loss from continuing operations after tax was £355m (loss of 15p per share). The next page provides more detail on the EEV operating and non-operating results on a before tax basis. The 8p reduction in EEV per share from other and non-trading items is mainly due to negative foreign exchange movements of £69m and £61m of after tax actuarial losses on the Group's pension schemes.

The closing EEV of £7,428m consists of:

- £3,588m of net worth or shareholder net assets
- £3,840m from the present value of in-force business (PVIF) net of the cost of required capital

The increase in total EEV of £107m consists of:

- Movement in net worth of positive £105m
- Movement in the PVIF of positive £2m

The 1% increase in EEV was more than offset by a 3% increase in the diluted closing number of ordinary shares, resulting in the overall EEV per share falling by 5p.

EEV profit

EEV profit before tax of £526m (2010: £1,152m) includes:

- EEV operating profit from continuing operations of £989m (2010: £787m)
- EEV non-operating loss from continuing operations of £463m (2010: profit £348m). EEV profit from discontinued operations was £nil before tax (2010: profit £17m).

EEV operating profit before tax from continuing operations

EEV operating profit from continuing operations increased by 26%:

- Core profits increased by 16% to £731m due to the new business we sold, an improved expected return from our existing business and higher profits from global investment management. This also drove an increase in our core RoEV from 7.2% to 7.6%. New business contribution increased by 9% to £335m (2010: £308m). Expected return on our existing business increased by 4% to £440m (2010: £422m).
- Core non-covered business produced an EEV operating profit of £13m (2010: loss £37m). This increase was mainly due to higher profit from global investment management.
- Profit from efficiency gains primarily related to £40m in positive expense assumption changes in Canada and £50m from management actions to reduce current and future investment expenses in the UK. The positive expense assumptions reflect the reduction in the ongoing expenses of managing our covered business and the growth in business volumes.
- EEV operating profit from back book management of £170m included the remaining operating profit gain of £64m from the change in the UK pension scheme, in addition to the initial £59m benefit recognised in 2010. Tax variances and management actions in Canada to enhance investment yields on assets have also increased back book EEV operating profits in 2011.

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

Total EEV non-operating loss before tax from continuing operations of £463m (2010: profit £348m) included losses caused by increased burnthrough costs totalling £272m in the HWPF and the new German with profits funds. Other losses arose from lower than expected investment returns earned in 2011 for UK utilised business which generated a loss of £237m. Reductions in risk free rates led to losses from lower projected investment returns, partly offset by gains from lower discount rates.

Restructuring costs of £73m (2010: £71m) primarily represent costs incurred relating to a number of restructuring programmes including Solvency 2. Volatility arising from adjustments for different accounting bases resulted in a gain of £58m (2010: £51m).

Opening EEV per share 1 January 2011		
EEV operating profit ¹ 31p	New business ¹	11p
	Other operating profit ¹	20p
	Non-operating profit ¹	(15p)
	Other and non-trading	(8p)
Closing EEV per share before dividends		
Dividend to equity holders		(13p)
Closing EEV per share 31 December 2011		

¹ Profits are shown net of tax.

	EEV operating profit before tax		RoEV	
	2011 £m	2010 £m	2011 %	2010 %
Core	731	629	7.6	7.2
Efficiency	88	132	1.0	1.6
Back book management	170	26	1.8	(0.1)
Total	989	787	10.4	8.7

Capital and cash generation - Group

	2011	2010	Movement
EEV operating capital and cash generation from continuing operations	£438m	£287m ¹	53%
Group capital surplus ²	£3.1bn	£3.8bn	(18%)
EEV	£7,428m	£7,321m	1%
IFRS equity attributable to equity holders of Standard Life plc	£3,961m	£3,903m	1%

¹ Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.

² 2011 based on estimated regulatory returns. 2010 based on final regulatory returns.

1.3 Chief Financial Officer's overview continued

Group EEV capital and cash generation

Capital and cash generation enables the Group to invest in new business and profitable growth opportunities. Gross EEV operating capital and cash generation before investment in new business and investment for transformation and growth spend was £749m (2010: £596m).

	2011 £m	2010 £m
UK	364	372
Canada	188	128
International	114	97
Non-covered	83	(1)
Gross EEV operating capital and cash generation from continuing operations	749	596
New business strain	(226)	(220)
Investment for transformation and growth	(85)	(89)
EEV operating capital and cash generation from continuing operations	438	287
Dividend declared (£m)	323	295
Coverage of gross EEV operating capital and cash to new business strain	3.3	2.7
Coverage of EEV operating capital and cash to dividend declared	1.4	1.0

Coverage of EEV operating capital and cash to dividend was 1.4 compared to 1.0 for 2010.

	Free surplus movement £m	2011 Required capital movement £m	Net worth movement £m	Free surplus movement £m	2010 Required capital movement £m	Net worth movement £m
Capital and cash generation from existing business	688	(45)	643	626	(22)	604
New business strain	(290)	64	(226)	(265)	45	(220)
Covered business capital and cash generation from new business and expected return	398	19	417	361	23	384
Covered business development expenses	(50)	-	(50)	(48)	-	(48)
Non-covered business core capital and cash generation	(5)	-	(5)	(47)	-	(47)
Core	343	19	362	266	23	289
Efficiency	(6)	-	(6)	(12)	-	(12)
Back book management	78	4	82	66	(56)	10
EEV operating capital and cash generation from continuing operations	415	23	438	320	(33)	287
Capital and cash generation from non-operating items	(372)	258	(114)	93	41	134
Total EEV capital and cash generation from continuing operations	43	281	324	413	8	421
EEV capital and cash generation from discontinued operations	-	-	-	20	-	20
Total EEV capital and cash generation	43	281	324	433	8	441

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.

Total capital and cash generation was £324m (2010: £441m). The reduction mainly reflects negative non-operating items in 2011. In overall terms, our EEV operating capital and cash generation from continuing operations has increased to £438m:

- Capital and cash generation from existing business increased by £39m reflecting the higher opening in-force business values
- Non-covered business core capital and cash generation was £42m higher compared to 2010 mainly due to increased profit from our global investment management business
- Back book management contributed an additional £72m in 2011, including the benefits from post tax profits on the UK pension scheme and tax variances and management actions to enhance investment yields in Canada

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

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

- £7m negative impact from the difference in the treatment of assets and actuarial reserves
- £12m negative impact from the difference in the treatment of deferred acquisition costs (DAC)/deferred income recognition (DIR), intangibles, tax and other. Other includes the impact of different methodologies in respect of expected income. In EEV operating profit this income is included on an expected return basis but the actual fees are included in Group operating profit.

Reconciliation of Group operating profit to EEV operating capital and cash generation for the year ended 31 December 2011

Group operating profit after tax from continuing operations	£457m
Impact of different treatment of assets and actuarial reserves	(£7m)
DAC/DIR, intangibles, tax and other	(£12m)
EEV operating capital and cash generation from continuing operations	£438m

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.

Dividends

During the year, we paid the final dividend for 2010 of 8.65p per share, amounting to £197m and the 2011 interim dividend amounting to £106m. The Scrip dividend scheme reduced the cash required to pay the 2010 final dividend from £197m to £105m and the 2011 interim dividend from £106m to £57m. We propose a final dividend of 9.20p per share, making a total of 13.80p (2010: 13.00p). This represents an increase of 6.2%, reflecting the solid progress made during the year. Following the removal of the scrip dividend option, a dividend reinvestment plan (DRIP) scheme has been made available for the final 2011 dividend. We will continue to apply our existing progressive dividend policy taking account of market conditions and our financial performance.

Holding company capital and cash flows	2011 £m	2010 £m
Opening capital 1 January	665	602
Dividends received from subsidiaries	498	286
Additional investments in subsidiaries	(91)	(75)
Group corporate centre costs	(50)	(54)
Cash dividends paid to shareholders	(162)	(186)
Other	12	92
Closing capital 31 December	872	665

Capital management

Capital management is the ongoing process of determining and maintaining the quantity and quality of capital appropriate for the Group and ensuring capital is deployed so that the risk/return is optimised in a manner consistent with the expectations of our stakeholders. This requires a clear understanding of the drivers of capital requirements and therefore capital management is a critical component in the strategic planning process and the ongoing running of the business.

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 therefore provide an appropriate degree of security to our key 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.

Capital is measured and managed on both regulatory capital metrics and on internal economic capital metrics. Risk appetites are set on an economic basis and the potential impact of business decisions on positions versus these appetites forms a key part of the decision making process.

Credit ratings

External credit rating 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. There were no changes to these ratings in 2011. The Standard Life Assurance Company of Canada has a separate rating from Standard & Poor's and was upgraded in June 2011 from A/Stable to A+/Stable.

1.3 Chief Financial Officer's overview continued

Group capital surplus

The Group capital surplus decreased by £0.7bn to £3.1bn. This is mainly due to the successful tender undertaken in September 2011 in respect of £0.6bn of Euro denominated lower tier 2 subordinated debt. Our capital surplus has remained robust despite the volatility in equity and debt markets. The quality of our capital resources remains strong with £7.0bn (2010: £6.4bn) of core tier 1 capital.

Group capital resources include the capital resources within the long-term business funds but the Insurance Groups Directive (IGD) limits the amount that can be recognised to the level of the capital resources requirement for that fund. This resulted in a restriction of £1.0bn (2010: £1.4bn) and a net zero contribution to the Group capital surplus from the long-term business funds.

The IGD surplus remains largely insensitive to a further 30% fall in equities from the 31 December 2011 position, with the surplus estimated to reduce by approximately £0.2bn. A 100bps rise in yields is estimated to reduce the surplus by approximately £0.2bn.

Liquidity management

Liquidity management is the ongoing process of determining the correct asset mix for each business through balancing the interconnected needs of matching the liability profile with appropriate assets, maintaining sufficient cash resources to meet unexpected demands and achieving an appropriate yield on assets.

The Group's liquidity and capital management policy governs the level of liquidity that each business unit holds and the objective is to ensure that sufficient liquidity exists across the business to withstand extreme stresses.

In addition to the substantial cash and readily realisable resources held within each business unit, the ultimate holding company, Standard Life plc, held £0.6bn of cash and short-term debt securities as at 31 December 2011, an increase of £0.2bn from the 2010 year end. The stress testing undertaken during 2011 shows that Standard Life maintains a strong liquidity position.

We undertake specific liquidity stress testing to ensure that we can withstand a scenario of significant falls in asset values combined with unprecedented levels of surrenders and claims. The stress testing methodology has been updated for recent events in the Eurozone.

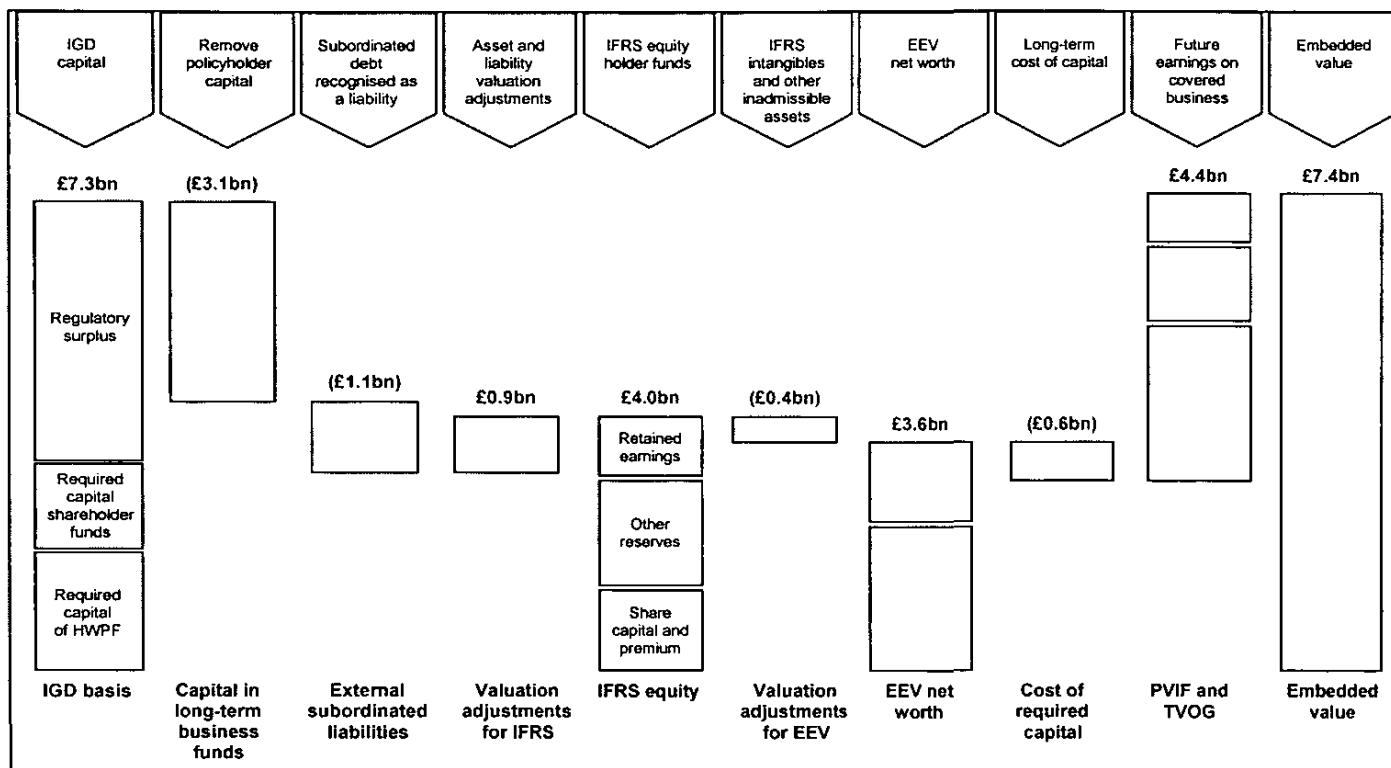
We also maintain contingency funding plans across the business to ensure that each business unit is prepared for a liquidity issue. As part of this contingency planning, Standard Life plc has a £0.5bn revolving credit facility with a maturity date of 31 December 2013 and this was undrawn as at 31 December 2011.

Group capital surplus and solvency cover	2011 £bn	2010 £bn
Shareholders' capital resources	3.1	3.0
Capital resources arising from subordinated debt	1.1	1.8
SLAL long-term business funds	3.1	2.6
Group capital resources	7.3	7.4
Group capital resource requirement	(4.2)	(3.6)
Group capital surplus	3.1	3.8
Group solvency cover	173%	205%

2011 figures above based on estimated regulatory returns. 2010 based on final regulatory returns.

Reconciliation of key capital measures

The following diagram illustrates the key differences between regulatory, IFRS and EEV capital measures at 31 December 2011:



Looking forward

We delivered increased operating profitability and cash in 2011. Our investment programme and transformation are on track and the successful implementation of our strategy is starting to show in an improved financial performance. We are well placed for a post-RDR, auto enrolment and Solvency 2 environment, and we expect to continue to drive an ongoing improvement in financial performance.

Jackie Hunt, Chief Financial Officer

1.4 Business segment performance

Business segment overview

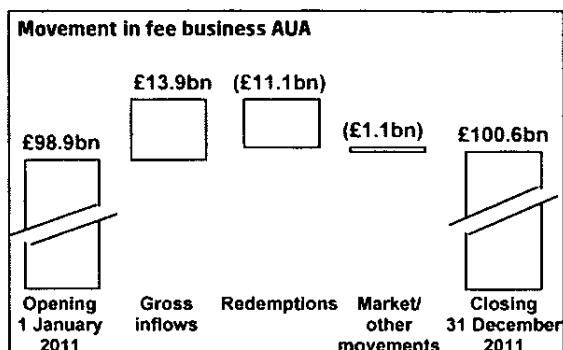
Our performance across the Group demonstrates our commitment to meeting our objectives and delivering on our strategy highlighted in Section 1.1 – Chief Executive's overview.

Strategy

UK

We believe that the UK is an exciting market with great potential for our business. Our strong market position provides significant opportunities for us to drive profitable growth within long-term savings and investments.

AUA and flows



- Total AUA grew by £2.8bn to £122.0bn in 2011
- Core retail fee business net inflows grew by 19% to £839m
- Core corporate pension net inflows increased by 46% to £2,024m reflecting strong growth
- MyFolio is growing rapidly and now has assets of approximately £1bn
- Standard Life Wealth continues to grow with assets of approximately £1bn

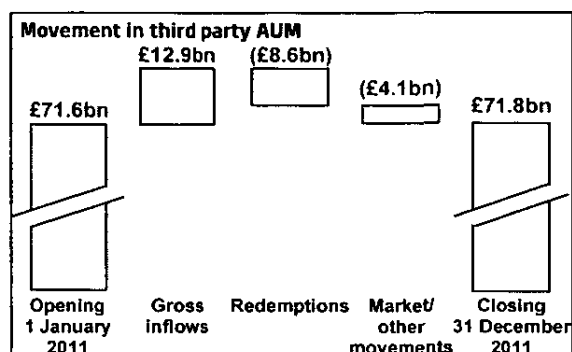
Operating profit

	2011 £m	2010 £m
Fee based revenue	625	593
Spread/risk margin	75	148
Total income	700	741
Acquisition expenses	(169)	(172)
Maintenance expenses	(332)	(312)
Investment for transformation and growth	(53)	(61)
Capital management	10	(21)
Other	64	59
Operating profit before tax	220	234

- Fee based revenue increased by 5% due to strong growth in AUA
- Spread/risk margin fell in 2011 to £75m with 2010 benefiting from a reserve release of £30m
- Maintenance expenses increased mainly due to the impact of recently acquired businesses, but as a percentage of AUA improved to 33bps
- Other comprises the remaining £64m (2010: £59m) benefit following the change in the basis of future pension increases in the UK staff pension scheme

Global investment management

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 will continue to provide many new opportunities.



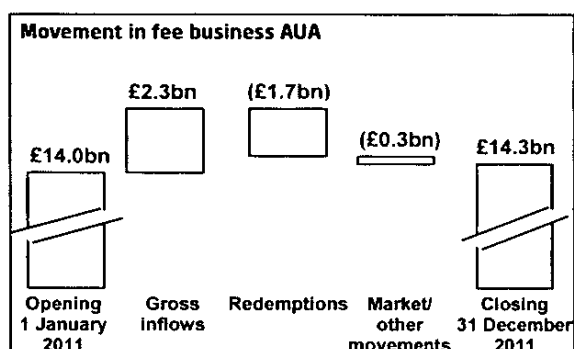
- We achieved third party net inflows of £4.3bn, continuing our unbroken record of positive inflows over the last eight years
- A notable number of new institutional clients were won in the UK and Europe during the year
- The external transfer of the money market funds of approximately £4bn is included within market/other movements
- Third party AUM increased to a year end record of £71.8bn

	2011 £m	2010 £m
Fee based revenue	383	331
Maintenance expenses	(227)	(194)
Investment for transformation and growth	(31)	(34)
Operating profit before tax	125	103
Interest and exchange rate movements	1	3
Earnings before interest and tax (EBIT)	126	106

- Operating profit before tax up to £125m
- Revenue rose by 16% driven by strong third party new business flows mainly into higher margin products, such as GARS and UK mutual funds
- Average fee revenue yield from third party business increased to 37bps from 35bps
- Maintenance expenses increased mainly due to higher employee numbers to support growth. Compared to total average AUM maintenance expenses were controlled at 15bps (2010: 13bps).

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.



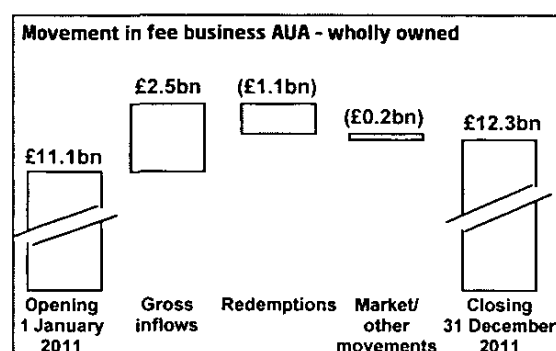
- Fee based AUA increased by £0.3bn due to strong net flows despite negative market movements
- Fee business accounts for 55% of total AUA
- Group savings and retirement net inflows improved to £0.3bn
- Spread/risk net outflows improved from £0.4bn to £0.3bn due to higher annuity sales and lower redemptions

	2011 £m	2010 £m
Fee based revenue	166	150
Spread/risk margin	281	222
Total income	447	372
Acquisition expenses	(61)	(64)
Maintenance expenses	(201)	(193)
Investment for transformation and growth	(36)	(35)
Capital management	38	30
Operating profit before tax	187	110

- Fee based revenue benefited from an increase in management charge income from higher AUA
- Spread/risk margin increased to £281m due to the impact of specific management actions designed to enhance the investment yields on assets
- Decrease in acquisition costs primarily due to lower commission charges
- Increase in maintenance expenses to £201m mainly due to the rise in AUA

International

Our strategy is to deliver profitable growth by expanding our operations in attractive international and offshore wealth management markets. We will also continue to maximise the value in our existing wholly owned businesses and to develop the joint venture businesses.



- AUA in the wholly owned businesses grew by £1.2bn driven by high net inflows despite weak markets
- In the offshore business in Ireland, net flows were up 26% due to high retail inflows
- Hong Kong net flows were up 87% in constant currency
- Strong net flows in the Ireland domestic business and Germany but lower than prior year due to difficult economic conditions

	2011 £m	2010 £m
Fee based revenue	221	212
Acquisition expenses	(40)	(31)
Maintenance expenses	(132)	(129)
Investment for transformation and growth	(12)	(15)
Capital management	1	1
Total wholly owned	38	38
India and China JV businesses	2	(23)
Operating profit before tax	40	15

- Operating profit before tax increased from £15m to £40m driven by the progress of the JV businesses
- Operating profit before tax of the wholly owned businesses was maintained at £38m
- Fee based revenue increased by 4% to £221m from the growing asset base
- Acquisition expenses increased to £40m in line with new business growth and market initiatives

1.4 Business segment performance continued

1.4.1 UK

"We are a major provider of long-term savings and investment solutions in the UK market. Our 2011 performance shows continued momentum in all our market segments. The enhancements to our market-leading platforms, propositions and investment solutions allied to the forthcoming pensions reform and Retail Distribution Review brings unprecedented opportunities for us to grow our business, strengthening our relationships with customers and advisers whilst also driving efficiency."

Paul Matthews, UK Chief Executive

(Image Removed)

Financial highlights

	2011	2010	Movement
Operating profit before tax from continuing operations	£220m	£234m ¹	(6%)
Operating return on equity	15.5%	17.4%	(1.9% points)
Assets under administration	£122.0bn	£119.2bn	2%
Net flows	£2,125m	£2,997m	(29%)
EEV covered business operating profit before tax	£461m	£428m	8%
EEV non-covered business operating profit before tax from continuing operations	£67m	£28m ¹	139%

¹ Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.

Market update

The UK market is in a period of unprecedented change, driven by customer demand as well as economic, regulatory and technological trends which are creating exciting opportunities and challenges for both change and growth.

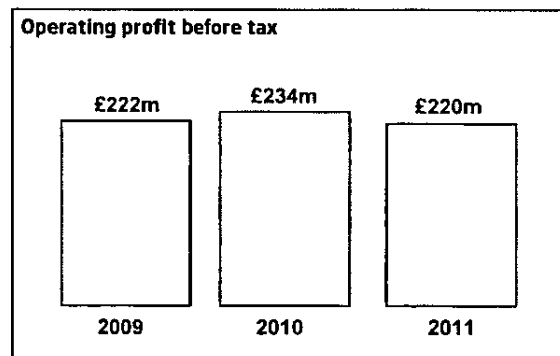
2011 saw economic uncertainty and volatility return to the forefront of UK financial markets, resulting in a more cautious sentiment amongst our customers and the industry. We demonstrated our continued momentum and resilience by retaining our number one position in both our retail and corporate markets as customers, advisers and employers continued to rely on a brand that they can trust.

Our regulatory environment is changing. The RDR and pensions reform will completely transform the nature, scale and profitability of our marketplace. These changes will significantly increase the market available to Standard Life by stopping payment of commission on new sales and by increasing the number of employees investing in pensions through auto enrolment. These changes are causing customers, financial advisers and employers to seek holistic solutions to manage their risk whilst reducing their administrative burden. Our suite of investment solutions and market-leading platform propositions means we are well placed to support our retail and corporate customers, advisers and intermediaries through this industry transition.

Our customer campaigns, including our retirement roadshows and customer mailings, together with government and media focus on pensions and saving for retirement, is driving increased consumer awareness. The growth and usage of the internet and technology has increased usage of our sites by consumers, driving engagement and efficiency. The UK has an ageing population with people now seeking more flexible retirement solutions. We are well placed to benefit from these changes through the continued development of our investment solutions and platform innovations.

Profitability

	2011 £m	2010 £m
Operating profit before tax		
Fee based revenue	625	593
Spread/risk margin	75	148
Total income	700	741
Acquisition expenses	(169)	(172)
Maintenance expenses	(332)	(312)
Investment for transformation and growth	(53)	(61)
Capital management	10	(21)
Other	64	59
UK operating profit before tax from continuing operations	220	234



UK operating profit before tax was £220m. The key movements from 2010 are:

- **Fee based revenue** increased by 5% due mainly to higher AUA, with Wrap assets alone up 36% since 2010 as a result of strong growth in net inflows and the impact of recently acquired companies. The average revenue yield on fee business decreased to 73bps (2010: 77bps) mainly due to business mix.

- **Spread/risk margin** reduced by £73m as a result of annuity reserve strengthening in 2011. 2010 benefited from investment strategy changes, partially offset by a mortality assumption change which together contributed £30m to the result. 2010 annuity volumes also benefited from a change in retirement age legislation.
- **Acquisition expenses** of £169m are 2% lower than 2010, despite new business levels increasing by 8%. As a percentage of PVNBP, acquisition expenses improved significantly to 120bps (2010: 133bps).
- **Maintenance expenses** increased mainly because of the impact of recently acquired businesses including Focus Solutions. We are continuing to see the benefits of our scalable business model, with maintenance expenses expressed as a proportion of average AUA falling to 33bps (2010: 34bps).
- **Investment for transformation and growth** decreased to £53m as a number of key customer propositions launched during the year including our direct channel's online stocks and shares ISA and our corporate Wrap portal, Lifelens
- **Capital management** improved from a loss of £21m in 2010 to a profit of £10m due to the investment of shareholders' funds in higher yielding assets and the improved funding position of our UK staff pension scheme
- **Other** reflects the remaining £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme. The initial benefit recognised in 2010 was £59m.

UK EEV operating profit, including HWPF time value of options and guarantees and non-covered business, increased by 16% to £528m (2010: £456m).

Operating return on equity

UK operating return on equity reduced to 15.5%. Although operating profit after tax of £204m was 3% higher than 2010, return on equity fell by 1.9% points as a result of the combined effects of the asset position of our UK staff pension scheme and the impact of higher market values of investments at the start of 2011.

Assets under administration and net flows

AUA grew by £2.8bn to £122.0bn in 2011. Fee based business, which accounts for 82% of AUA, increased by 2% to £100.6bn due to strong net inflows, offset by negative market movements. As at 31 December 2011, 61% of total fee based AUA related to retail business (2010: 63%) and 39% to corporate business (2010: 37%). Spread/risk business AUA increased by 7% to £14.4bn with net outflows being offset by positive market and other movements.

Total UK net inflows for the year were £2,125m. Core retail and corporate fee based business net inflows which drive UK profits, increased 37% to £2,863m.

The growth in our core business was offset by net outflows of £87m, reflecting institutional pensions net inflows of £1,414m (2010: £2,440m) and conventional with profits (CWP) net outflows of £1,501m (2010: £923m). CWP does not contribute to UK profits.

Core retail net inflows (excluding CWP) increased by 19% to £839m. This reflects a 7% increase in mutual funds net inflows which was driven by new business sales demonstrating our success in this market.

Core corporate net inflows (excluding institutional pensions and CWP) increased by 46% to £2,024m. This reflects very strong growth in our corporate pensions, driven by new scheme wins.

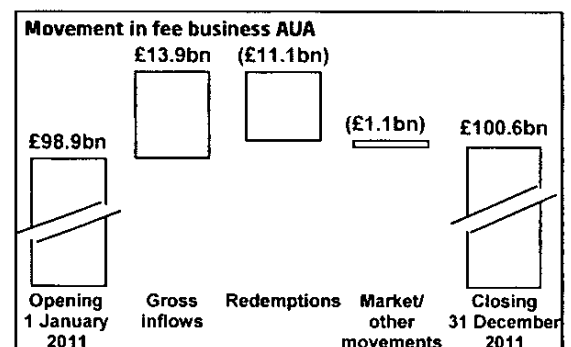
Spread/risk net outflows have increased by 6% due to lower new business sales compared to 2010 as a result of the legislative change in retirement age.

New business performance

Despite the challenging trading environment, our PVNBP sales increased by 8% to £14,035m (2010: £12,956m).

In our retail business, sales increased by 3% to £6,400m (2010: £6,197m). Individual pensions, which includes individual SIPP, rose by 2% to £3,936m (2010: £3,858m). Sales of savings and investments products increased by 8% to £2,151m (2010: £1,997m). This includes a 10% increase in mutual fund sales to £1,972m (2010: £1,795m) reflecting the significant growth in sales through our Wrap platform. Our savings and investments sales have performed strongly in 2011, with our net flows growing by 7% within the overall mutual fund market that saw a decline of 39% on 2010 levels according to the Institute of Money Advisers figures.

In our corporate business, we have grown new business volumes strongly while maintaining stable margins. Corporate pension sales have increased by 40% driven by our success in winning new schemes. In addition, our enhanced trust-based pension proposition has been successful in attracting both new and existing schemes and contributed over £725m to sales in 2011.



Net flows	2011 £m	2010 £m
Retail – core	839	704
Corporate – core	2,024	1,390
Fee based business – core	2,863	2,094
Fee based business – institutional pensions and CWP	(87)	1,517
Total UK fee based net inflows	2,776	3,611
Spread/risk business net inflows	(651)	(614)
Total UK net inflows	2,125	2,997

1.4 Business segment performance *continued*

1.4.1 UK *continued*

Delivering on our strategy

Our ambition is to be the leading long-term savings and investments business, delivering competitive retail and corporate propositions. This is underpinned by our brand values of being an easy, predictable, responsible and beneficial organisation to do business with.

In each of our core markets we ended the year in a strong position, with our 2011 retail IFA market share improving to 14.9% (2010: 14.6%) and our equivalent corporate market share improving to 19.1% (2010: 17.0%). Our market-leading positions in each market have been achieved through the introduction of our investment solutions and our focus on managing our underlying cost base through technology advances increasing our scalability.

We have put in significant work and investment over the last year, positioning ourselves more fully across the value chain to provide market-leading solutions that benefit our advisers and customers. This places us in a unique position to support retail and corporate markets, for both advised and non-advised customers, from the start of their investment journey to the end.

Our business model

Increasing assets

In the retail market our focus continues to be on embedding our wealth management platform into progressive RDR-ready advisory firms. We grow our assets by deepening and broadening our relationships with our target advisers through embedding our solutions, helping to remove complexity and risk from their businesses, allowing them time to focus on their clients. The RDR is causing significant change to many advisers' business models. Through adopting our wealth management platform, we have partnered with a significant proportion of new model advisers who have moved to fee charging ahead of the new regulations.

We continued to build on the success of our Wrap platform in 2011 and now have approximately 1,000 firms using our platform. We delivered enhanced functionality which focused on reducing risk and costs in adviser businesses. These enhancements include improved client reporting, upgraded back office integration and the introduction of the Managed Portfolio Services – delivering a leading retail proposition and contributing to the increase of 37% in assets and 47% in customer numbers. Sales of tax wrappers remained resilient despite the tough economic conditions.

Through refreshing our adviser and customer digital propositions, including launching an online stocks and shares ISA and online mutual funds, we have seen Adviserzone user sessions increase by 14% and the number of page hits double from 4 million to 8 million.

In the corporate market our focus has been to attract large scheme employers to adopt our workplace solutions and leverage our existing employer relationships. In 2011, we added 167 new schemes (2010: 182 new schemes) and we have seen enquiries more than double over this period. The number of new members joining our existing schemes has increased by 12% over 2010 – a total of 25,067 new customers.

We will continue to support our intermediary advisers through the regulatory changes in the market. The RDR will remove commission from product selection and will force advisers to set charges in agreement with their clients. Post-RDR we are well positioned to capitalise on these changes as we are already the leading provider in the nil commission market and have an established model for those advisers who are already operating a charging model. From the end of 2012 employers will have to automatically enrol all qualifying employees into a pension scheme, presenting a significant opportunity for Standard Life as we help our corporate clients to comply with their new duties.

Our Lifelens proposition is key to our success in this corporate market for a selected number of schemes and we believe that the combined strengths of this and our Vebnet propositions will enable us to take full advantage of current and future market opportunities.

Maximising revenue

We have strategically positioned ourselves across the value chain to maximise revenues from fees, platform and tax wrapper charges and overall investment charges.

During 2011, we made significant progress with our high margin investment propositions. Our three most popular solutions, Standard Life Wealth, MyFolio Managed Funds and MyFolio Multi-Manager Funds, secured total new assets in excess of £1bn in 2011.

The RDR and pensions reform have driven demand for risk based packaged investment solutions that fit the financial advice process, whilst uncertain markets have also encouraged more investors to look for managed solutions offering lower volatility.

Our current investment solutions range comprises a full private client discretionary service from Standard Life Wealth, the Managed Portfolio Service, and the MyFolio fund range – the most comprehensive range of risk based funds available in the market.

Our success is underpinned by our understanding of the UK corporate and retail markets and the end-to-end investment process. Our propositions benefited from the in-house investment expertise of Standard Life Investments and have demonstrated their ability to deliver for our customers. Standard Life Wealth, our flagship discretionary investment service, demonstrated the strength of its investment process by delivering positive returns in its core portfolio strategy for 2011, when all of the key Private Client Indices provided by Asset Risk Consultants for competitor benchmark indices were negative.

In January 2011 we acquired Focus Solutions. Combining their leading point of sale and back office expertise with the leading compliance services provided by threesixty allows us the capability to support our target advisers across the value chain.

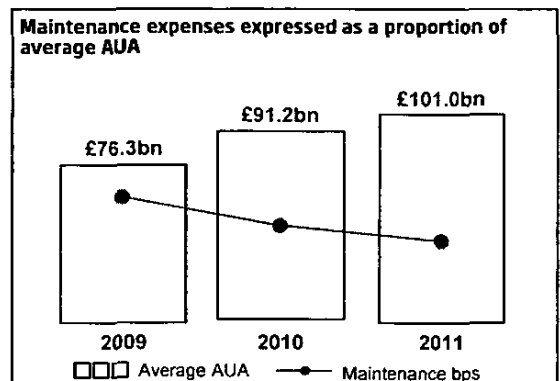
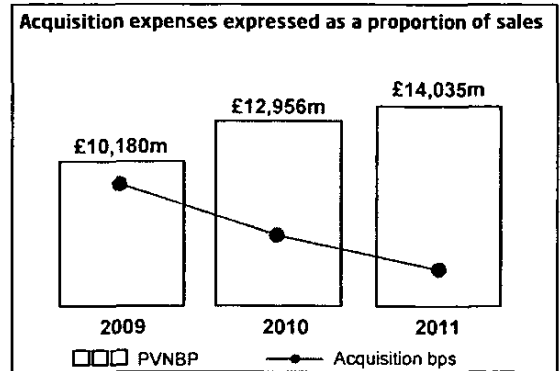
Lowering costs

We are continuing to see the benefits of our scalable business model with maintenance expenses bps compared to average AUA falling to 33bps (2010: 34bps). Acquisition expenses as a percentage of PVNBP reduced significantly to 120bps (2010: 133bps).

Our overall strategy seeks to lower costs through technology advances, increased scalability and reduced commissions. We have in place a flexible and efficient IT change model, leveraging our investment in technology to deliver exceptional digital experience and service. We are also re-using core components across various channels creating scalable and low-cost operations.

We are meeting the changing shape of demand and improving our customers' experience through active promotion of our online technology – making us easy to do business with. At the same time, and demonstrating the scalability of our operating model, we have significantly improved customer service efficiency, with a reduction in full-time equivalent employees of 15% since the end of 2009 despite an increase in our AUA of 16% over the same period.

We will continue to develop our IT and change infrastructure through improving our enterprise architecture and re-engineering our IT change processes. We will also look for strategic sourcing agreements to lower cost, improve capability and provide increased flexibility in a rapidly changing environment.



1.4 Business segment performance continued

1.4.2 Global investment management

"Standard Life Investments is a premier asset manager with an expanding global reach. Our wide range of investment solutions is backed by our distinctive 'focus on change' investment philosophy, disciplined risk management and shared commitment to a culture of investment excellence. This has proved itself to be robust and repeatable in both good and bad market conditions. We have an unbroken record of positive annual net flows over the last eight years and have delivered a strong track record of profitable organic growth. Earnings before interest and tax have a compound annual growth rate over the last five years of 14%."

Keith Skeoch, Standard Life Investments Chief Executive Officer

(Image Removed)

Financial highlights

	2011	2010	Movement
Operating profit before tax	£125m	£103m	21%
Operating return on equity	42.7%	41.0%	1.7% points
Earnings before interest and tax (EBIT) ¹	£126m	£106m	19%
EBIT margin ¹	34%	33%	1% point
Third party assets under management (AUM)	£71.8bn	£71.6bn	-
Total assets under management	£154.9bn	£156.9bn	(1%)
Third party net inflows	£4,280m	£6,200m	(31%)

¹ EBIT and EBIT margin are key performance metrics for the investment management industry.

Standard Life Investments continued to deliver robust long-term investment performance in 2011, despite volatile markets. Third party AUM increased to a year end record of £71.8bn (2010: £71.6bn). Third party net inflows of institutional and wholesale business were £4.3bn (2010: £6.2bn) in what have been very challenging market conditions. These underlying new business flows underpinned strong revenue growth of 16%, driving EBIT up 19% to £126m and delivering EBIT margin of 34%. We continue to focus on serving existing clients and winning new clients through strong investment performance, product innovation, global distribution and high levels of customer service.

Standard Life Investments takes our responsibility as a long-term investor seriously. A cornerstone of our investment process is our belief that stewardship and environmental, social and governance (ESG) factors have a fundamental impact on long-term investment returns. Systematic consideration of stewardship and ESG factors at company level is firmly integrated into our investment process using proprietary indicators in the analysis. In addition, as responsible long-term investors, we engage regularly with investee companies to hold them to account and to promote high standards.

Market update

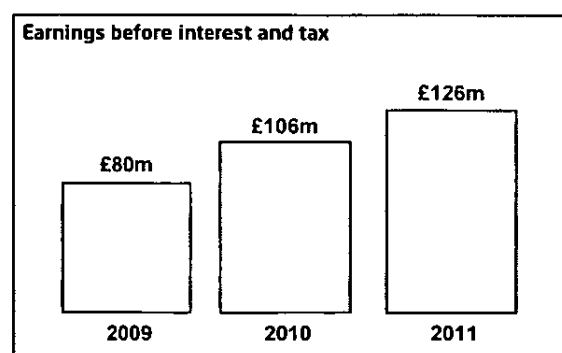
2011 was a difficult year for both financial markets and the fund management industry. The effects of the European sovereign debt crisis, downgrade of the United States debt ratings by Standard & Poor's and historic low returns in the safe haven sovereign bond market were further compounded by downward revisions to growth forecasts in a number of major economies. Market sentiment deteriorated during the second half of the year resulting in increased volatility across a range of markets. Equity markets in the UK and abroad fell sharply as investors tried to reduce their exposure to higher risk assets. The volatile markets had a significant impact on investor sentiment and resulted in a significant reduction in demand for mutual funds and a substantial fall in the turnover of institutional mandates. Average market values were slightly higher than in 2010, despite increased volatility in global financial markets. The average daily FTSE All-Share Index rose by 5% between 2010 and 2011.

Profitability

	2011 £m	2010 £m
Operating profit before tax		
Fee based revenue	383	331
Maintenance expenses	(227)	(194)
Investment for transformation and growth	(31)	(34)
Global investment management operating profit before tax	125	103
Interest and exchange rate movements	1	3
Earnings before interest and tax (EBIT)	126	106

Operating profit before tax increased by 21% to £125m (2010: £103m). Revenue rose by 16% as a result of third party new business flows into higher margin products, such as GARS and UK mutual funds, and the fee received following the external transfer of the money market funds. This raised the average revenue yield on third party AUM to 37bps² (2010: 35bps).

² Excludes the fee received following the external transfer of the money market funds.



Cost growth is the result of utilising opportunities in the market to accelerate the expansion of our business in our chosen markets. Lower interest expense, coupled with foreign exchange gains also contributed to the increased operating profit. A £15m subordinated loan was repaid at the end of 2010, leaving the business with no gearing. EBIT increased by 19% to £126m (2010: £106m) and resulted in an EBIT margin of 34% (2010: 33%).

Operating return on equity

Operating return on equity has increased to 42.7% (2010: 41.0%) reflecting the shift in sales towards higher margin products.

Investment performance

We continued to deliver a robust investment performance over the longer term with 49% of funds over one year, and 82% of funds over three year time periods outperforming their benchmark. Our GARS fund has outperformed its LIBOR benchmark over all key time periods since inception and our mutual fund strength is shown by the proportion of eligible and actively managed funds (22 out of 29) rated A or above by Standard & Poor's in the UK. The pipeline for institutional business is strong with fixed income and GARS products attracting a lot of interest, increasingly from outside the UK. There is also positive demand for our mutual funds in the UK and for our SICAV funds in continental Europe.

Assets under management and net flows

We achieved third party net inflows of £4,280m (2010: £6,200m). This represents 6% of opening third party AUM, excluding money market funds. This continued Standard Life Investments' unbroken record of positive annual net flows over the last eight years. UK mutual funds net inflows of £1,643m (2010: £2,221m) were robust despite volatile market conditions. A significant number of new institutional clients were won in the UK and Europe during the period, increasing the institutional client base in these markets by 13% despite a substantial slow down in the number of institutional mandates across the market as a whole. Our high overall retention rates are reflected in redemptions being only 14% of opening AUM, which is in the top quartile in the industry. Inflows throughout 2011 have reflected the increasingly diverse nature of our product offering and the increasingly international character of our clients and distribution channels.

Third party AUM increased to a year end record of £71.8bn (2010: £71.6bn). The transfer of approximately £4bn of money market fund assets was offset by underlying new business flows. Third party AUM continues to represent 46% of total AUM (2010: 46%). In-house AUM decreased to £83.1bn (2010: £85.3bn) with favourable market movements offsetting outflows from the with profits business. As a result, total assets managed by Standard Life Investments stood at £154.9bn (2010: £156.9bn).

Delivering on our strategy

During 2011, Standard Life Investments successfully launched its refreshed visual identity and brand positioning. This builds on our commitment to increase the international nature of our business, as well as broaden the asset classes in which we excel, and helps to ensure that we present ourselves in a way that reflects our ambition, strengths and increasingly diversified business.

The refreshed brand identity will ensure communications are more consistent, with greater clarity in information provided to our clients, resulting in increased investor confidence. The refresh is supported by a major advertising campaign under the theme of 'Potential. Delivered'. This reflects our ongoing commitment to exceed our clients' expectations.

We have entered into an agreement with John Hancock Financial giving the GARS fund access to the United States market and allowing us to work with a leading distributor to help deliver potential for our global clients. We also continue to develop our 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 are also able to market each other's investment strategies through our respective distribution networks.

Our business model

Increasing assets

We have achieved third party net flows of £4,280m, increasing third party assets under management to £71.8bn. We continue to grow our share of the wholesale market in the UK, with UK mutual funds AUM now exceeding £10bn. We also continue to develop our GARS product range, with assets now over £13bn, and are strengthening our alternative capabilities in areas such as private equity and real estate. We also continue to enhance our multi-manager offerings. MyFolio has proved successful since its launch, providing new business flows into Standard Life Investments' actively managed funds and now has assets of approximately £1bn. Our pipeline of new investment initiatives is strong and we are confident that we will continue to meet the ever-changing demands of our clients through new and innovative solutions.

Maximising revenue

The majority of 2011 sales were into high margin products including UK wholesale and the GARS asset class. We continue to diversify our sources of revenue both geographically and by asset class. Geographically, we received net flows from Europe, US and Canada in 2011. The diversity of our asset class offering is evidenced by net flows in GARS, fixed income, real estate and overseas equities. EBIT has grown strongly with a compound annual growth rate over the last five years of 14%.

Lowering costs

The increasing volume of business in 2011 resulted in a rise in maintenance expenses from £194m to £227m. Opportunities in the market were utilised to accelerate the expansion of our business in our chosen markets. Maintenance expenses compared to total average AUM were controlled at 15bps (2010: 13bps).

1.4 Business segment performance *continued*

1.4.3 Canada

"We have delivered many new propositions to our corporate and retail customers, addressing their retirement needs. We are poised to take advantage of market opportunities in the group pensions space and have a fast-growing retail segregated fund offering. Our business model focused on cost and capital efficiency has enabled us to generate continued growth and increased operating profit levels, despite the challenging economic conditions. We are excited about the growth prospects in our key markets."

Charles Guay, Canada Chief Executive

(Image Removed)

Financial highlights

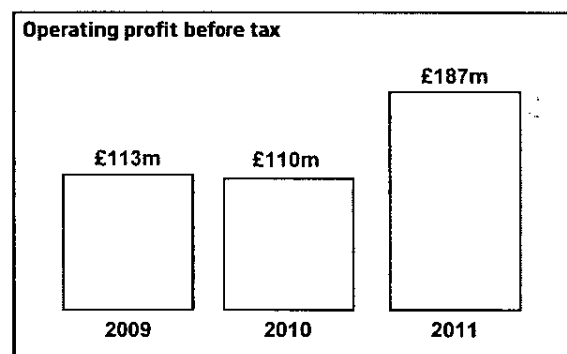
	2011	2010	Movement
Operating profit before tax	£187m	£110m	70%
Operating return on equity	14.6%	8.9%	5.7% points
Assets under administration	£26.1bn	£25.3bn	3%
Net flows	£253m	£63m	302%
EEV operating profit before tax	£324m	£250m	30%

Market update

Changing demographics including an ageing population, extensive personal debt and falling birth rates, emphasises the need for individuals to ensure that they have adequate pension provision. The Canadian Government is expected to introduce Pooled Registered Pension Plans, opening a new market to pension providers. We are one of the largest defined contribution (DC) pension providers in Canada and are developing our plans for this new market. We are also seeing acceleration in the conversion of defined benefit plans (DB) to DC plans, which will generate a significant opportunity for us to grow our AUA over the next few years.

Profitability

Operating profit before tax	2011 £m	2010 £m
Fee based revenue	166	150
Spread/risk margin	281	222
Total income	447	372
Acquisition expenses	(61)	(64)
Maintenance expenses	(201)	(193)
Investment for transformation and growth	(36)	(35)
Capital management	38	30
Canada operating profit before tax from continuing operations	187	110



Operating profit before tax increased to £187m (2010: £110m). The key highlights are:

- **Fee based revenue** benefited from an increase in management charge income from higher AUA
- **Spread/risk margin** increased mainly due to the impact of specific management actions which led to a gain of £88m in 2011 (2010: £32m). Specific management actions in 2011 included the sale of a property which realised a significant gain of £42m and were designed to enhance the investment yields on assets. One-off reserving changes increased policyholder liabilities by £57m (2010: increase £13m). In 2011, one-off reserving changes were adversely impacted by strengthened mortality assumptions which were partly offset by revised investment allocations in line with the long-term asset strategy.
- The decrease in **acquisition expenses** of £3m was primarily due to lower commission charges
- The increase in **maintenance expenses** of £8m was mainly due to the rise in AUA and the associated costs incurred to service and administer these assets
- We continued to **invest in growing** our business and delivering enhancements to our client propositions with expenditure during the period of £36m
- The increase in **capital management** of £8m was mainly due to an increased investment return on shareholder assets

EEV operating profit before tax increased by 28% in constant currency to £324m (2010: £250m). Back book results increased from management actions designed to enhance the investment yields on assets and higher investment returns, but this was offset by adverse changes in mortality assumptions.

Operating return on equity

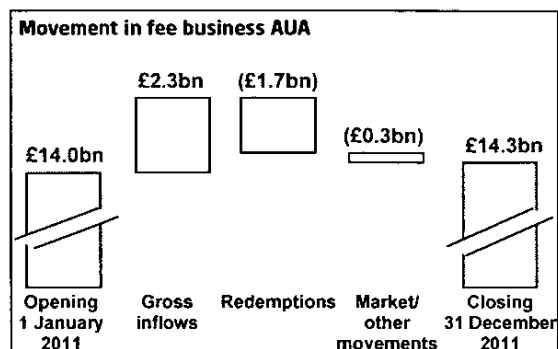
Operating return on equity increased to 14.6% (2010: 8.9%) benefiting from the growth in operating profitability. We will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders.

Assets under administration and net flows

AUA increased by £0.8bn during the year. Our fee business accounts for 55% (2010: 55%) of total AUA and has increased by 3% in constant currency to £14.3bn. The rise in fee business AUA has been driven by net inflows, partly offset by negative market movements. Spread/risk AUA increased to £10.3bn (2010: £10.1bn).

Net inflows increased by 305% in constant currency to £253m (2010: £63m). Gross inflows in our fee business were ahead of 2010. Strong sales in retail segregated funds and renewal premiums in group segregated funds were partly offset by a fall in mutual funds sales.

Mutual funds net outflows of £111m (2010: £39m) were impacted by lower sales levels. This was partially offset by lower redemptions.



In our spread/risk business, retail net outflows improved from £328m to £245m, mainly due to higher sales of annuities and lower annuities and term funds redemptions. Group savings and retirement net outflows slightly improved to £206m (2010: £227m). A large part of group insurance sales consisted of future renewal premiums which had a marginal impact on this year's inflows, which increased by 6% in constant currency to £442m (2010: £411m).

New business performance

PVNB sales decreased by 5% in constant currency to £2,928m (2010: £3,048m). Excluding large wins in 2010 for group savings and retirement, total sales increased by 12% in constant currency.

Strong sales in our retail segregated funds, which increased by 22% in constant currency, led to an increased market share and drove our retail line sales. Individual insurance, savings and retirement increased by 17% in constant currency. Mutual funds sales decreased to £218m (2010: £313m).

Group savings and retirement sales decreased by 26% in constant currency. Excluding large wins in 2010, sales in this product line increased by 8% in constant currency and our core defined contribution sales increased by 16%. Group insurance and disability management business was successful, with strong growth in market share.

Delivering on our strategy

Our strategy is to differentiate our business by providing innovative retirement and investment solutions combined with a world-class customer experience.

Our business model

Increasing assets

In our group savings and retirement line, we delivered the second phase of the member statement project that allows for significant member customisation. The trust application addition to our SLX platform enabled us to secure key accounts. We added several investment managers and new funds to our Quality and Choice Investment Programme and we have launched our simplified Ideal Term Funds and new Socially Responsible Investment option. In our retail line, we expanded our successful segregated funds range with the launch of the Ideal Income Series. We launched new Socially Responsible Investment segregated funds and introduced four new mutual funds. We enhanced our distribution through an agreement with Qtrade Financial Group, an online brokerage and investment dealer.

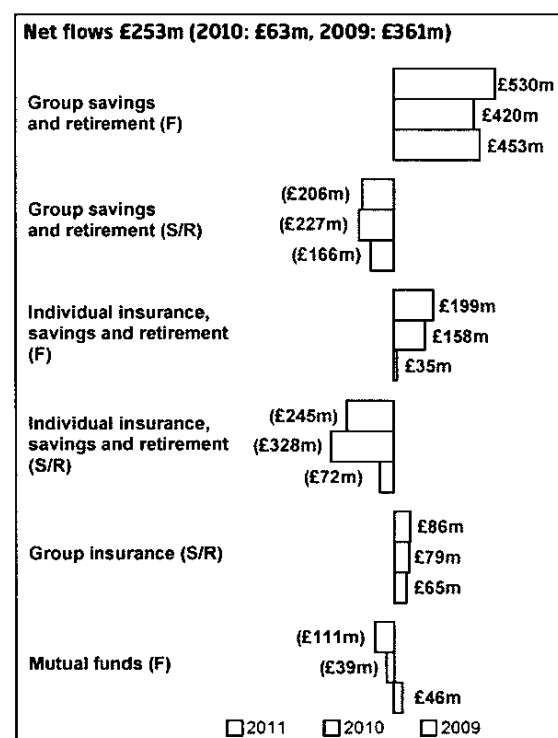
In our group savings and retirement line, product enhancements enabled us to win 204 new defined contribution accounts, increasing members to 561,000 (2010: 537,000), with defined contribution AUA increasing by 3% in constant currency to £9.4bn. The strength of our retail sales force and investment fund offering led to strong sales and increased asset share in our retail segregated funds, where we were one of the fastest growing companies in 2011¹.

Maximising revenue

The average revenue yield on our fee business decreased slightly to 117bps (2010: 118bps), reflecting pricing conditions prevailing in our markets. Our spread/risk margin reflects several actions taken during the year to maximise cash flows on assets and enhance investment yields. On 1 January 2012 we ceased selling individual life insurance products in order to sharpen our focus on long-term savings and investments.

Lowering costs

We continue to see the benefits of our scalable business model with maintenance expenses compared to average AUA falling to 85bps (2010: 86ps).



¹ As measured by net flows as a percentage of opening AUA.

1.4 Business segment performance continued

1.4.4 International

"Our International business operates in markets and market segments which offer significant growth potential. The propositions we offer are centred on flexible investment solutions, innovative life assurance wrappers and digital capabilities. This approach proved successful in 2011, delivering growth despite difficult market conditions."

Nathan Pamaby, International Chief Executive

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Financial highlights - wholly owned

	2011	2010	Movement
Operating profit before tax	£38m	£38m	-
Operating return on equity	9.9%	10.2%	(0.3% points)
Assets under administration	£12.3bn	£11.1bn	11%
Net flows	£1,448m	£1,412m	3%
EEV covered business operating profit before tax	£99m	£90m	10%
EEV non-covered business operating loss before tax	(£8m)	(£7m)	(14%)

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

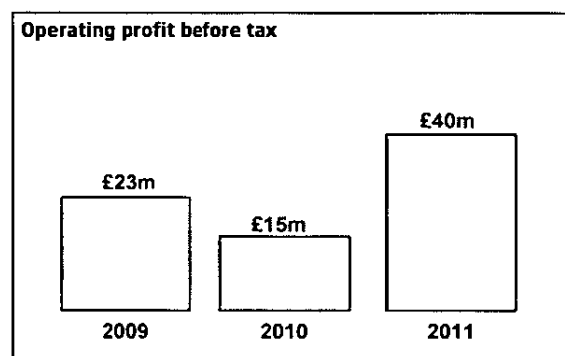
	2011	2010	Movement
Operating profit/(loss) before tax	£2m	(£23m)	109%
Operating return on equity	2.8%	(24.5%)	27.3% points
Assets under administration	£1.2bn	£1.2bn	-
Net flows	£275m	£254m	8%
EEV covered business operating profit before tax	£5m	£3m	67%

Market update

Overall customer sentiment was impacted by market uncertainties caused by the Eurozone crisis and volatile investment markets. International operates in a number of territories and these are subject to different market dynamics. In Germany, the economy continued to grow in 2011 and our successful repositioning saw us increasing our market share, particularly in the second half of 2011. The domestic market in Ireland was dominated by customers' reactions to the economy and austerity measures. Our businesses in Ireland performed well in these difficult conditions and increased our market share to all time high levels in our chosen market segments. Economies in Asia continued to grow strongly and we are well placed to expand our operations in our chosen markets. Changes to product regulation in India impacted sales levels in this market in the short term. However, the India joint venture has performed well despite the challenging regulatory environment and has improved both positioning in the market and market share.

Profitability

Operating profit before tax	2011 £m	2010 £m
Fee based revenue	221	212
Acquisition expenses	(40)	(31)
Maintenance expenses	(132)	(129)
Investment for transformation and growth	(12)	(15)
Capital management	1	1
Total wholly owned	38	38
India and China JV businesses	2	(23)
International operating profit before tax	40	15



Operating profit before tax increased to £40m from £15m. The key highlights are:

- **Fee based revenue** increased by 4% to £221m (2010: £212m) driven by the increase in AUA
- **Acquisition expenses** increased to £40m (2010: £31m) in line with the higher new business and market initiatives
- **Maintenance expenses** were broadly stable reflecting the scalable business model. The increase to £132m (2010: £129m) was driven by commission paid on existing business and higher investment fees in line with the growing AUA and back book
- **Operating profit before tax** of the wholly owned businesses was maintained at £38m, despite difficult market conditions
- **The joint ventures** contributed an operating profit before tax of £2m (2010: loss £23m) to the Group, which reflects their positive progression and our ongoing investment to support their development

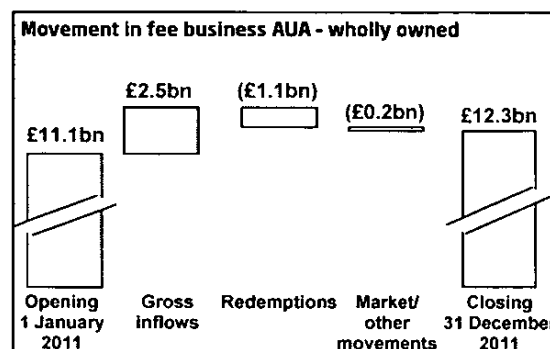
Total EEV operating profit increased to £96m from £86m. EEV operating profit before tax of the wholly owned businesses, including non-covered business, increased to £91m (2010: £83m) predominantly from improved back book profitability in Ireland and Germany. EEV covered business operating profit before tax for the joint ventures was up to £5m (2010: £3m) with improved back book profitability partially offset by lower new business contribution.

Operating return on equity

Operating return on equity for total International increased to 8.2% (2010: 1.7%) driven by the strong improvement in operating profits, predominantly from the joint ventures. The total International operating return on equity consists of 9.9% for the wholly owned businesses and 2.8% for the joint ventures.

Assets under administration and net flows

AUA in the wholly owned businesses grew by £1.2bn to £12.3bn (2010: £11.1bn) due to high net inflows in the year. Net flows of the wholly owned businesses increased by 3% to £1,448m (2010: £1,412m). This was mainly due to strong retail business inflows into our offshore bonds where net flows increased to £627m (2010: £496m). Net flows in Hong Kong rose to £63m (2010: £35m) due to new business sales and regular premium flows. In Ireland domestic business, net inflows fell to £194m (2010: £215m) with outflows driven by the economic situation and austerity measures. Net flows in the joint ventures increased by 8% to £275m (2010: £254m) with AUA of £1.2bn at the year end.



New business performance

PVNB sales in the wholly owned businesses increased by 18% in constant currency to £2,275m (2010: £1,929m). Ireland offshore bonds sales were 26% higher due to an improved proposition and better positioning in the wealth market. In Ireland domestic business, sales increased by 7% in constant currency. This was due to our strong investment proposition and high sales in the first half of the year as a reaction to legislative changes. In Germany, sales of £424m (2010: £337m) were 25% higher in constant currency driven by the launch of new propositions to revitalise our market presence. Hong Kong performed very well with sales of £320m (2010: £294m), up 13% in constant currency and leading to an increased market share. In India, sales were £414m (2010: £444m), down 1% in constant currency due to regulatory changes which have impacted the whole industry. Effective management of the recent market changes in India helped to increase our market share in the private market to 15% (2010: 12%). In China, sales decreased by 20% in constant currency to £86m (2010: £106m) due to refocusing the business on more profitable market segments and distribution channels.

Delivering on our strategy

Our strategy is to deliver profitable growth, expanding our businesses in attractive international and offshore wealth management markets (offshore bonds, Hong Kong and new markets), developing the joint venture businesses whilst maximising the value of our existing domestic businesses. 2011 saw us making good progress with strong growth in offshore bonds and Hong Kong from new proposition launches together with the development of our international offshore business. In Germany, we have introduced new propositions and are developing new product lines to reduce the reliance on with profits products. In China, we have a new management team in place under the leadership of a new general manager. We have produced a strategic plan to develop the business and are working closely with our joint venture partner to implement this.

Our business model

Increasing assets

We have undertaken significant proposition development work in both our domestic and international offshore businesses to generate higher inflows.

Market share in Hong Kong grew with targeted sales and marketing activity and market-leading propositions, like Harvest Supreme and the launch of new propositions such as Aspire. In Germany, a series of propositions were launched to refresh our market presence and emphasise our expertise in the unit linked market. We are actively targeting to diversify away from with profits business and emphasise our investment expertise. Ireland saw a focus on our digital propositions and the offshore business launched a recurring single premium variant of the offshore bond which was rated 'Best Regular Premium Investment Product' by the monthly publication, International Adviser.

These market initiatives and our strong customer relationship model contributed to the 14% increase of wholly owned gross inflows in 2011 leading to an 11% increase in wholly owned AUA to £12.3bn.

Maximising revenue

The average revenue yield on fee based business decreased to 186bps (2010: 212bps) reflecting the change in asset mix across the International territories and also the charging structure of legacy business. Our market development activity remains focused on driving growth in attractive markets, offering high value propositions and promoting high value Standard Life Investment propositions such as GARS.

Lowering costs

Maintenance expenses expressed as a proportion of average AUA fell from 129bps to 111bps in 2011 with continued efforts to drive efficiencies across all territories.

1.5 Risk management

"We are focused on delivering a strong framework that enables the risks of the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically. This helps provide resilience and financial strength in the face of extreme conditions and a strong support for future growth and development."

Colin Ledlie, Chief Risk Officer

(Image Removed)

	Market risk	Credit 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.	The risk of exposure to loss if a counterparty fails to perform its financial obligation, 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 no appetite for market risk exposures except where they arise as a consequence of core strategic activity. Business units are expected to limit market risk exposures by matching the features of liabilities to features of assets. Exposures may be incurred where there is an overriding business need and specific appetites will be established as necessary.	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 maintains robust risk limits which Group companies must adhere to.
Main sources of risk	<p>Equity and property risk</p> <ul style="list-style-type: none"> Changes in the value of future profits earned on unit linked funds and collective investment schemes where the funds are invested in equities and property Burnthrough from the Heritage With Profits Fund (HWPF) and German With Profits Fund Guarantees on segregated fund business in Canada <p>Fixed interest risk</p> <ul style="list-style-type: none"> Changes in the value of future profits earned on unit linked funds and collective investment schemes where the underlying funds are invested in fixed interest assets Burnthrough from the HWPF and German With Profits Fund Insufficient long-dated fixed income assets to match the longest dated liabilities in Canada <p>Currency risk</p> <ul style="list-style-type: none"> Exchange rate movements that reduce the value of overseas operations and profits generated by them Changes in the value of future profits on unit linked funds and collective investment schemes where the underlying funds are invested in overseas assets 	<p>The Group is exposed to credit risk through:</p> <ul style="list-style-type: none"> Changes in the value of future profits earned on unit linked funds and collective investment schemes where the underlying funds are invested in corporate bonds Burnthrough from the HWPF <p>Credit risk also results from holding the following assets:</p> <ul style="list-style-type: none"> Corporate bonds held to back annuities written by SLAL post-demutualisation Assets held to back the subordinated debt in SLAL, a proportion of which are asset backed securities that are held for historical reasons Corporate bonds and commercial mortgages held in Canada to back annuities <p>Other holdings of cash and cash equivalents, debt securities and the reinsurance of certain insurance liabilities to reinsurance counterparties also results in credit risk.</p>
2011 summary	<p>The economic crisis in the Eurozone has resulted in increased volatility in the equity and bond markets with UK, German and Canadian fixed interest yields falling.</p> <p>In response to this we have:</p> <ul style="list-style-type: none"> Increased hedging to reduce the impact of falling Euro yields Implemented dynamic hedging of guarantees provided for Canadian Segregated Funds Maintained hedging arrangements in respect of the currency risk arising from our overseas operations Monitored the level of equity and property held within the HWPF <p>We have also reviewed our portfolios to consider both the direct and indirect consequences that could arise from one or more countries ceasing to use the Euro.</p>	<p>The economic crisis in the Eurozone has resulted in the value of debt securities issued by certain sovereign states and banking counterparties falling in value.</p> <p>We have responded to the Eurozone crisis by:</p> <ul style="list-style-type: none"> Proactively managing the benchmarks of our fixed interest portfolios, in particular to remove exposures to peripheral sovereign debt Restricting our holdings of cash and cash equivalents to banks that we assess to be of appropriate credit standing, taking into consideration both direct and indirect factors such as the potential impact of contagion risk on these banks <p>We have also reduced our securities lending activity during the year which has reduced our counterparty exposures.</p>

Demographic and expense risk	Liquidity risk	Operational and strategic risks
<p>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. This includes liabilities of insurance and investment contracts.</p>	<p>The risk that the Group is unable to realise investments and other assets in order to settle their financial obligations when they fall due, or can do so only at excessive cost.</p>	<p>Operational risk is the risk of adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or external events. Strategic risk is the risk associated with the robustness of the planning process and threats to achieving the strategy.</p>
<p>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.</p>	<p>The Group has no appetite to fail to meet its liabilities as they fall due.</p>	<p>The Group has an appetite for operational risks where exposures arise due to core strategic activity. However, 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.</p>
<p>Persistency</p> <ul style="list-style-type: none"> • Changes in the value of future profits earned on unit linked funds and collective investment schemes in the UK and future recourse cash flow payments from the HWPF • Changes in the value of future profits earned in respect of Standard Life Investment's third party AUM and segregated fund business <p>Longevity</p> <ul style="list-style-type: none"> • Annuity contracts written by the UK and Canada where the current experience differs from that expected, more volatility of experience than expected, or the rate of improvement in mortality is greater than anticipated <p>Expense</p> <ul style="list-style-type: none"> • Changes in the value of future expected expenses • Shareholder is directly exposed to risk of expenses being above expectation 	<p>The Group is exposed to liquidity risk from the following sources:</p> <ul style="list-style-type: none"> • The type of business that is written, the assets and liabilities arising from that business and how the assets are managed to meet those liabilities • Operational aspects of the business, for example the management of cash as it flows into our business as premiums and out of our business as claims and the payment of corporate cash flows including dividends, coupons and debt repayment • Potential liquidity issues in unit linked funds due to the underlying asset classes • The collateralisation of derivatives which results in cash volatility as the value of the derivative changes 	<p>The key operational and strategic themes affecting the Group are:</p> <ul style="list-style-type: none"> • Management of existing processes • Management of information security • Management of third party providers • Project and programmes – managing change and the execution of projects • People – succession planning, skilling and resource levels • Delivering the strategic plan
<p>We are actively engaging with advisers in the market to minimise the potential adverse impacts resulting from advisers seeking to move schemes in advance of the RDR being implemented in 2013.</p> <p>A key commercial focus over the year has been to develop propositions to increase the retention of funds when insurance and savings contracts reach maturity.</p> <p>We have continued to monitor emerging research into longevity, for example from the Office for National Statistics and the industry-wide Continuous Mortality Investigation, in order to inform our in-house view of likely future improvements in life expectancy.</p>	<p>The economic crisis in the Eurozone has reduced the liquidity for certain asset classes. Through our monitoring of market conditions we have sought to anticipate potential issues.</p> <p>During the year we have continued to:</p> <ul style="list-style-type: none"> ▪ Centrally co-ordinate strategic planning and funding requirements. This helped support our decision to repurchase some of our subordinated debt during the year. ▪ Maintain a portfolio of (currently undrawn) committed bank facilities <p>In 2011 we also established a Euro Medium Term Note Programme.</p> <p>The Group has not invoked any deferral terms on unit linked contracts during the year and there are no funds subject to deferral at 31 December 2011.</p>	<p>The final judgement of the European Court of Justice in the Test-Achats case requires insurance contracts to be gender neutral in terms of pricing and benefits from 2012. Our UK and International businesses are well placed to meet the requirements.</p> <p>We have continued to work on implementing appropriate processes and controls to prepare for regulatory changes.</p> <p>The Eurozone crisis has presented additional pressures on various operating processes and systems during the year however the controls embedded within the Group have ensured we have been able to avoid any serious losses or adverse consequences.</p>

1.6 Our customers

"We serve a wide variety of customers – individuals, financial advisers, corporate customers and large institutions. Our role is to help all of our customers look forward to their financial future with confidence and optimism. We continue to drive our transformation by putting customers at the heart of everything we do."

Bruce Kelsall, Group Marketing Director

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Listening to customers

Putting customers at the heart of our business means we need to keep listening to them and developing our understanding of their needs and challenges.

We do this in a number of ways. On a day-to-day basis there are numerous conversations between our customer service and relationship management teams. We collect more structured feedback from our customers on our performance through detailed customer questionnaires. These include the new deeper insight programmes to analyse client needs in Standard Life Investments and the real time customer feedback techniques used in our customer service operations. We undertake detailed research to understand how our customers are preparing for major events such as pensions reform and the RDR and how we develop areas of our propositions.

However, we also employ more innovative techniques. Our online customer community has now grown to almost 1,500 members with 390 active members providing regular feedback on a number of issues such as our literature, our use of social media, and the role of the adviser in advance of the RDR. Customer closeness events between our senior leaders and customers have continued during 2011, with 17 being held across the UK. These sessions allow the senior team to hear first hand customers' views and opinions.

Developing our Brand

In 2011, we took another important step on our transformation journey when we launched our new repositioned brand across the Group. The repositioning was accompanied by investing in new propositions and capability. In the UK we relaunched our brand via an enhanced Adviserzone platform for advisers, a new www.standardlife.co.uk website and through the corporate proposition of Lifelens. New customer propositions and digital services accompanied the rollout of the new brand in Germany, Ireland and Hong Kong. In May, the Standard Life Investments brand was re-launched with a new messaging platform for institutional and wholesale clients. The results of a recent Standard Life Investments client survey indicate sustained brand loyalty and high levels of pride in association with 78% of clients stating that they would like to still be doing business with Standard Life Investments in 10 years' time.

The new brand positioning was accompanied by a new visual identity but the brand is more than just a new look – it's about the way we work and the experiences we create for our customers. And it is about the unique combination of capabilities we have that differentiates us strongly from competitors. We are a long-term savings and investments business that helps customers look forward to their financial future with confidence and optimism. This is summed up in our new endline, The Way Forward.

Underpinning our brand are four pillars that recognise the core needs of customers:

- Working to ensure that we offer products that are easy to understand and access, and that Standard Life is easy to deal with
- Being consistent in the service experiences we offer and transparent about how our products work and how we charge
- Acting responsibly in terms of how we operate as a business, helping our customers make informed choices and recognising our broader role in the societies we serve
- Helping customers handle their finances effectively. Our core purpose is to help customers take better care of their money.

Technology now plays an important role in the lives of all our customers and is also an important component of our brand. The way that we help our customers think and plan for the future, purchase our products and manage their finances, has been evolving to meet these dramatic digital changes. Our business with advisers is increasingly written through our award-winning technology platforms. Consumers can now purchase an ISA and pension online and manage their products through our online servicing capability. In 2011, we launched Facebook, LinkedIn, YouTube and Twitter feeds across our consumer and adviser channels, which are enabling us to engage in a different form of dialogue around long-term savings and investments. In Hong Kong, over 5,000 customers have downloaded the Asian iPhone and iPad app that enables them to view and transact against their portfolio.

Treating Customers Fairly

We are committed to building a customer-centric organisation. We have embedded the Financial Service Authority's Treating Customers Fairly (TCF) principles across the business and continue to have a strong management focus on how we deliver against the six TCF outcomes. However, we seek to deliver over and above these principles and we have significantly enhanced our complaint management process to give customers a more consistent and fair experience. In addition, we continue to invest in and improve the customer experience.

Supporting consumers

A key theme from our customers is the importance of clear communication and helping them to better understand the issues and choices they have in planning for their financial future. Responding to this has been a major theme in 2011.

Our www.standardlife.co.uk website has been extensively redeveloped. 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
- Lets customers purchase ISAs and mutual funds online

Consumer-focused websites in our international markets have all been redeveloped in a similar manner and we have substantially rewritten many of our brochures and standard letters to try to ensure that we communicate in a straightforward and accessible manner.

We also piloted our programme of Customer Retirement Roadshows in 2011 and are rolling them out throughout the UK in 2012. The roadshows are designed to help our customers prepare for their retirement by informing them about their retirement options and helping our customers to understand those options.

Supporting financial advisers

In 2011, we continued broadening and deepening our relationship with advisers, offering hands-on support in the run up to the RDR 2013 deadline. We aligned our propositions and technology to support advisers with end-to-end client solutions covering tax and retirement planning and investments. In addition in the UK, threesixty has continued to provide independent consulting and business support services, plus specific help with regulatory compliance.

Another key focus for 2011 has been to enhance our technology offering. We've continued to invest in the development of our market-leading Wrap platform, which is now being used by approximately 1,000 adviser firms. Further support is provided through Focus Solutions with their unrivalled point-of-sale and integration capabilities. Standard Life Investments launched Learning Gateway, a free online training portal to support advisers through the RDR transition and beyond, with over 2,800 advisers registered.

Based on adviser feedback, we launched our new Adviserzone.com in February 2011 to deliver more efficient new business processing and client servicing, with enhanced functionality and upgraded online tools. The objective is to enable IFAs to offer better value to their clients whilst reducing time spent on processing and administration. Later in 2011, we launched our dedicated tax planning hub on Adviserzone which offers tax planning solutions built around advisers' clients whatever their need or income level.

In Hong Kong, we enhanced the online servicing proposition for IFAs enabling them to initiate bulk fund switching on behalf of their clients electronically. 7,500 transactions of this nature are processed every month.

Corporate customers

In early 2011, we launched the employee benefits platform, Lifelens. This cutting-edge technology allows employers to 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. Lifelens has been well received by the market and after successfully streamlining our approach to its implementation, we expect the next wave of clients to transition during 2012.

We have been designing a pensions reform solution to help companies to meet the requirements and also minimise the disruption and cost of complying with the new regulations in the market. An example of this is by helping fully automate the auto enrolment process.

We launched a new 'Master Trust' proposition for employers wishing to move away from defined benefit or own trust solutions but wanting the reassurance of governance and modern investment choices for their employees.

In line with our theme of better communication for consumers, we have also significantly improved the information companies use to explain their pension schemes to employees, designing new websites and joining guides.

Throughout 2011, we delivered a number of thought leadership white papers and events debating some of the issues facing employers and intermediaries in the corporate market. These have included the implications of regulation, pensions scheme restructures and the importance of the design of default funds.

Expanding our investment offering to customers

We continued to develop and improve our investment solutions throughout 2011. The MyFolio range of governed, risk-managed funds, has been extended with additional variations launched catering for customers with an income investment preference and for the corporate pension market. Standard Life Wealth also launched a Managed Portfolio Service which brings its unique investment approach to a wider range of potential customers.

Satisfied customers

UK

We keep close tabs on our customers' thoughts and views of the service we give, a key measure being 'real-time customer feedback' – gaining feedback on our service levels straight after a service interaction. Our average rating for 2011 for customer satisfaction is 4.85 out of 5 (2010: 4.83) and for intermediary satisfaction it's 4.74 out of 5 (2010: 4.70).

1.6 Our customers *continued*

In 2011 our UK business was recognised with awards, including:

- 'Life and pensions five star provider award' at the Financial Adviser Service Awards
- Five awards from the Finance and Technology Research Centre (FTRC). Our Group SIPP; Group Personal Pension; Group Contracted-in Money Purchase; and Wrap platform all received the top 'eee' rating. We were also awarded SIPP and SIPP specialist 'eee' rating for the third consecutive year.
- 'Best Website for IFAs' at the Professional Adviser Awards
- 'Bundled/Full Service Defined Contribution Provider of the Year' at the UK Pensions Awards
- 'SIPP and/or SSAS Provider of the Year' and 'Best Income Drawdown Provider' at the Financial Adviser Life & Pensions Awards
- At the Aberdeen UK Platform Awards we were awarded 'Wrap Platform of the Year'

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 2011 including:

- Standard Life Investments' UK Smaller Companies Trust won 'Best Shareholder Value' category at the Investment Trust of the Year Awards. The Trust also won, for the third year out of the past four years, the 'UK Smaller Companies' category.
- 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
- 'Most Innovative Asset Manager' at the Engaged Investor Trustee Awards
- Standard Life Investments' UK Equity Unconstrained Fund was 'Highly Commended' in the 'UK All Companies' category at the 2011 Moneywise Fund Awards
- 'Investment Manager of the Year' and 'DC Investment Only Provider of the Year' at the UK Pensions Awards 2011
- At the 2011 Eurofunds – Fund Class Awards, Standard Life Investments won a special award as 'Best Asset Manager in Europe over 7 years' in the asset managers category with between 26 and 40 funds rated, including both OEICs and SICAVs
- Five awards at the prestigious Lipper Fund Awards 2011. The funds recognised were the European Smaller Companies SICAV, the China Equities SICAV, the UK Smaller Companies Fund and the Managed Fund (two awards).
- Standard Life UK Smaller Companies Fund named 'Best UK Small-Cap Equity Fund' at the 2011 Morning Star UK Fund Awards
- Standard Life Investments' Global Absolute Return Strategies Fund won 'Best Absolute Return Fund' at the Professional Adviser Awards 2011

Canada

High quality customer service is the basis of our growth strategy. We focus on building retention and strong customer relationships. In 2011, our client retention level based on internal methodology was 93.2% (2010: 94.4%). We are 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:

- 'Outstanding Integrated Ad Campaign' award from the Web Marketing Association, recognising our multimedia campaign 'To make a long story short', promoting our revamped member statement
- Eight Insurance and Financial Communicators Association awards, recognising excellence in marketing and communications creativity, design and writing in the North American insurance and financial services industry
- Environics Adviser Perception Study ranked Standard Life Canada second in advisor perception of overall company and segregated funds division, and ranked first amongst top-selling advisers
- The Standard Life Corporate Bond Fund won a Lipper Fund Award in the Canadian Fixed Income category over a three-year period, recognising the talent, discipline and management style of our portfolio manager, Standard Life Investments

International

One of our core values is to deliver exceptional customer service and always put our customers at the heart of our thinking. In 2011, we actively managed our customer relationships which led to very good customer retention in our offshore bond business 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 2011 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' in 2011
- The offshore bond business also received 'Best Regular Premium Investment Contract' award for our recurrent single premium contract from the monthly publication, International Adviser
- In India, HDFC Life won the 'Best Product Innovation Award 2011 – Life Insurance' for the HDFC SL Crest product

1.7 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 2011, we focused on getting great employee insight and using this to help strengthen the relationship that each individual employee has with our business. During 2012 we will continue to focus on increasing leadership capability, ensuring our leaders are equipped to help our people grow and fulfil their potential."

Sandy Begbie, Group People and Operations Director

(Image Removed)

Employee engagement

In April 2011 we introduced a new approach to measuring employee satisfaction with the launch of the 'InterAction' survey. 'InterAction' measures how engaged employees are and how enabled employees feel to do their job to the best of their ability. 86% of our employees worldwide participated and we used this insight to develop clear action plans at both Group and business unit levels to address the key themes identified.

We have embarked on a group-wide programme of activity to bring to life what we stand for as an organisation. By June 2011 over 600 employees across Standard Life Group had come together at sessions in all locations to share their 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. We have used our understanding of what we stand for as an organisation to help define what underpins how we do things in Standard Life; 'We Care, We Do The Right Thing, We Come Together, We Get On With It and We Celebrate'.

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 2011 we made further progress in moving towards these objectives by including more people and more roles than ever before in our talent review. We have continued to increase the ratio of internal appointments into senior roles as a result of previous investment in building talent pipelines.

All our executives have completed 360 degree feedback against our leadership framework and have established individual development plans to 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.

In 2010, we invested in the development of our leaders with the introduction of three new leadership development programmes, tailored to the needs of team, area and senior leaders. By the end of 2011, nearly 700 leaders across the Group completed these programmes which focus on their development as leaders.

We continue to invest in building the strength and depth of our talent up through the organisation. During 2011 we completed a review of talent across the Group, increasing the breadth and depth of succession cover for key roles. We have selected our fourth intake into our award-winning Accelerated Development Support programme, our process to support the development of senior leaders with high potential, taking the total numbers involved to 72. In addition, we partnered with a leading business school to strengthen our equivalent programme for emerging leaders and selected a second intake of 31 participants to begin in 2012.

We are continuing to attract and recruit high calibre graduate entrants across the range of our programmes, with 19 new graduates and 10 interns joining us in 2011.

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.

Our overall approach to leadership diversity has, and continues to be, to appoint on the basis of talent to all our positions. We know, however, that we need to do more to attract a diversity of talent at all levels and support all of our talent to progress, with the outcome of ensuring we have strong talent pipelines growing through the organisation which reflect our desired workforce and customer demographic. We are therefore taking actions to further improve, extend and embed our talent management processes, to review talent data and processes through a diversity lens and to address any specific identified issues or barriers to progression.

Organisational capabilities

We have undertaken a group-wide review to identify the key strategic organisational capabilities we require now and in the future. This insight is being used to create development and resourcing plans which will ensure we have the right skills and knowledge to deliver our strategy.

1.8 Basis of preparation

Overview

Our Business review for the year to 31 December 2011 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 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 – Chief Executive's overview. Principal risks are detailed in Section 1.5 – 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, 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 operating profit, European Embedded Value (EEV) operating profit and EEV operating capital and cash generation. 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.

Going concern statement

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

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 IFRS financial statements section of this report have been prepared on the basis of the IFRS accounting policies in the 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 1.2 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 2011, and in the relevant EEV methodology notes included in the Annual Report and Accounts 2010 in respect of the comparative period.

Group operating profit and EEV operating profit

The 2011 reconciliation of consolidated operating profit to IFRS profit for the year, presented on page 91 of this report, presents profit before tax attributable to equity holders adjusted for non-operating items. Further details on the calculation of Group operating profit is presented in accounting policy (jj) – Operating profit. The 2011 EEV consolidated income statement on page 206, presents EEV profit showing both operating and non-operating items. By presenting our results in this way, the Directors believe they are presenting a more meaningful indication of the underlying business performance of the Group.

Forward-looking statements

This document may contain 'forward-looking statements' about certain of the Standard Life Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and objectives. Statements containing the words: 'believes', 'intends', 'targets', 'estimates', 'expects', 'plans', 'seeks' and 'anticipates' and any other words of similar meaning are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which may be beyond the Group's control. As a result, the Group's actual financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements, and persons receiving this document should not place undue reliance on forward-looking statements. The Standard Life Group undertakes no obligation to update any of the forward-looking statements in this document or any other forward-looking statements it may make.

Sustainability

We take our responsibility as a sustainable business very seriously. It's at the core of our overall business strategy and our long-term success. To be a sustainable business, we must consider our long-term economic, environmental and social impact, and ensure our organisation focuses on the needs and expectations of our customers, shareholders, employees and the communities in which we work.

Being a sustainable business

We listen to our key stakeholders to help us focus on what is important for them and to help us make a meaningful contribution to our society. And that's good for the long-term sustainability of our business.

Embedding our new strategy

In our report last year, we talked about how we developed our new approach to sustainability. It puts how we manage our economic, environmental and social impact firmly at the heart of our business. It builds on what we've already achieved and also ties our commitments to our customers, shareholders, people and communities more closely to our long-term business objectives.

Throughout 2011 we've continued to embed this new approach across the Group. Over the year, we've used a number of different ways to engage our people, including our 2010 Sustainability Report, internal communications and carrying out sustainability workshops with small groups of our employees.

In 2010 we agreed a new model that identified the key sustainability factors that support the delivery of our long-term business strategy, and measures and promotes them. The key factors are referred to as material themes.

Our material themes are:

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

These themes are underpinned by our brand values.

We review our material themes on a regular basis and identify new stakeholder research opportunities across the Group. Towards the end of 2011, we started work on the latest phase of this ongoing exercise. This will ensure that we update our existing research, to confirm what's important to our stakeholders and so to Standard Life. We will also use the research to ensure we have the correct key performance indicators in place to measure our progress as a business. Once completed, as well as providing us with updated research on what is important for our business, it will also help us to identify additional key performance indicators to measure how sustainability is being embedded across the business.

External recognition

When we published our 2010 Sustainability Report in April 2011 we used the Global Reporting Initiative (GRI) guidelines for the first time. The GRI is a voluntary framework to help companies report in a more consistent way. Our first self-assessed score was a level B in 2010.

We also had limited scope assurance procedures carried out on our 2010 Sustainability Report key performance indicators. This was undertaken by PricewaterhouseCoopers LLP. This external verification is valued by external assessors and analysts.

During 2011, we were recognised in a number of independent external sustainability indices. These are listings usually produced by investment research organisations. They analyse thousands of listed companies across the globe on their sustainable business practices. We are delighted to announce that we were included in the Dow Jones Sustainability Index (DJSI) World for the first time. This recognises our performance as one of the world's leading sustainability-driven listed companies. We were included in the DJSI Europe for the second successive year, putting us amongst the leading European listed companies in the area of sustainability. We have also been listed in the FTSE4Good every year since we became a listed company in 2006. This index measures the performance of companies that meet globally recognised corporate responsibility standards.

Improving financial capability

As a business we want to help our customers look forward to their financial future with confidence and optimism.

In June 2011, Standard Life sponsored 'Building Resilience', a financial capability conference. This was the first event of its kind for Standard Life. It was organised by the Scottish Government and supported by Learning and Teaching Scotland and The Money Advice Service. The conference was attended by around 150 financial capability practitioners from across a range of sectors, including government, charities and non-governmental organisations.

The conference included a dramatisation of 'Skint', a graphic novel which was funded by the Scottish Government and developed in partnership with Scottish Book Trust and Education Scotland. Standard Life was a member of the advisory group for this project. The project took the methodology we developed in creating 'On the Money' (our financial educational books for primary school children) and adapted it for a new target group, including vulnerable young people. It aims to educate young people who are faced with an increasingly complex financial world.

Towards the end of 2011, we ran our first Customer Retirement Roadshows in Edinburgh and London. These were designed to prepare our customers for their retirement and educate them about the different options available.

Standard Life Charitable Trust

Standard Life Charitable Trust (SLCT) supports the improvement of financial capability in society. It proactively selects charitable organisations who work with those most in need of support to develop the skills they need to manage their finances. SLCT is initially focusing on young people, lone parents, young offenders and the Armed Forces. SLCT has made donations during 2011 to:

- The Royal British Legion
- Shelter
- Grand Central Savings

More details on SLCT are available at www.standardlife.com/slct

Material Theme 1: Listening and responding to customers

At Standard Life, we put our customers at the heart of our business. This means we need to keep listening, responding to, and developing our understanding of their needs and challenges. We do this in a number of ways.

We have an online customer community with almost 1,500 members. Almost 400 of them actively give feedback on areas like our literature and websites, our use of social media and on the role of financial advisers in advance of the Retail Distribution Review. We also use this community to help research their views on what sustainability means to them.

In the UK we held 17 'Customer Closeness' sessions where our senior leaders had the chance to hear directly from small groups of customers on their experience of Standard Life.

We also launched our newly repositioned brand during 2011 which was accompanied by substantial investment in new propositions and capability. This included our new employee benefits platform, Lifelens, and an improved platform for financial advisers, Adviserzone.

Treating Customers Fairly

We are committed to ensuring the Financial Service Authority's principles of Treating Customers Fairly (TCF) are embedded in everything we do. We seek to deliver over and above TCF principles and we have significantly enhanced our complaint management process to give customers a more consistent and fair experience in the UK.

Supporting Consumers, Corporate Customers and Financial Advisers

Clear communication is an important theme for our customers. As a result, we have redeveloped our website www.standardlife.co.uk and much of our literature to ensure that we communicate in a straightforward and accessible manner. We have also significantly improved the information our corporate customers use to explain their pension schemes to employees - including by designing new websites and joining guides.

Our relationships with financial advisers are very important and we've supported them in a number of ways throughout the year, including providing hands-on support to help them prepare for the forthcoming Retail Distribution Review deadline.

More information on what we are doing for our customers is available in Section 1.6 of the Business review of this report. You can also read our full 2011 Sustainability Report online at www.standardlife.com/sustainability

Material Theme 2: Operating and growing responsibly

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

- Investing responsibly
- Sourcing responsibly
- Reducing and managing risk

Standard Life Investments continues to support 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 customers about how we engage with the companies in their portfolios. The feedback from our customers shapes our approach.

Investing responsibly

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

Where possible, we use our influence to encourage best practice standards in the way the companies we invest in address these issues. Our aim is to protect and enhance the value of our customers' investments. That's why we voted at 2,102 shareholder meetings during 2011 and had 655 formal communications and meetings with company directors, company secretaries and other senior managers.

Sourcing responsibly

In 2011, we spent £307 million on purchasing products and services including energy and IT. Making sure the products and services we buy are sustainable and responsibly sourced is something we take seriously. For example, we are accredited by the Forest Stewardship Council – meaning the paper we use is from responsibly harvested and verified forest sources.

Our due diligence questionnaire, which we ask suppliers to fill out, asks for open and honest information on their environmental, health and safety, diversity and social awareness policies.

Representatives from our Group Procurement and Sustainable Business teams sit on the Financial Services Purchasing Forum Corporate Social Responsibility Sub-Group, through which we develop knowledge and share best practice.

Reducing and managing risk

Risk management is fundamental to the Group's operating model. We have a Group risk strategy statement which links value and risk in a concise expression of our objectives. It's also aligned with our corporate purpose, which is to drive shareholder value through being a leading, customer-centric business focused on long-term savings and investments propositions in our chosen markets.

You can read more about our approach to risk management, including our Group Risk Strategy and Enterprise Risk Management framework in the Corporate governance section of this report.

Material Theme 3: Developing and engaging our people

Over the last year, we've been working on some key areas to further develop and engage our people.

In April 2011, we improved our approach to measuring employee satisfaction with the launch of the InterAction survey. 86% of our employees worldwide participated in InterAction and we used the survey insight to develop clear action plans at both Group and business unit levels to address the key themes identified.

We continued to invest significantly in the development of our leaders with nearly 700 leaders across the Group having completed our leadership development programmes by the end of 2011. We also worked to strengthen the depth and breadth of the talent across our organisation by extending our talent review process to include more roles, and more people than ever before. The talent review process assesses our current and future leadership capability across our organisation and through our leading-edge talent management programmes we are able to grow and strengthen our leadership. As a result we have been able to increase our ratio of internal hires into senior roles during 2011. We also sustained our focus on developing graduate talent with nearly 30 new graduates trainees and intern students joining us during 2011.

Material Theme 4: Protecting the environment

As a company, we aim to reduce our environmental impact by implementing good practice in our operations. From investing and sourcing responsibly to how we run our buildings and recycling more of our waste, we want to minimise our impact on the environment.

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 which are energy use, paper consumption, waste and emissions from business travel. Our environment policy strategy covers 100% of our wholly owned businesses.

We measure our carbon footprint based on total energy consumption and business air miles. In 2011, our Group carbon footprint was 25,132 tonnes, which was 3.3% less than last year, but short of our 5% reduction target for the year. It's 23% lower than our benchmark year of 2006 levels, when we set long-term targets to reduce our carbon footprint by 50% by 2020. These are very challenging targets and we realise they will be difficult to achieve. We've managed to reduce our Group energy consumption by 3% to 59,141 MWh, despite investing in our technology infrastructure. Some changes to the properties we occupy across the Group along with the installation of LED lighting in a number of areas in our head office estate have helped us achieve this.

Following the launch of our new brand, we've seen a 5% increase in paper consumption this year, but this remains 24% below 2006 levels. One of the major initiatives was the introduction of 'pulled printing' across the head office buildings. This means there are fewer printers on each floor. Employees have to swipe their ID card to print, meaning each person's documents are only printed on demand, when they are at the printer. And if they do not print the documents within a certain timeframe, the documents are deleted from the printer's memory. This reduces unnecessary printing.

Our green teams, policy owners and environmental champions all help to promote and run our environmental programmes around the Group, which have included Environment Week, WWF's Earth Hour and our travel awareness programme.

We were also:

- Listed again in the Carbon Disclosure Project FTSE350 Carbon Disclosure Leadership Index, increasing our score from 82% to 87%. Our performance was rated at level B.
- Received a Carbon Saver Gold award for our work in energy reduction, awarded by Carbon Saver
- Listed 260th for our owner-occupier properties and 1,259th for our investment properties in the first Carbon Reduction Commitment league table. This table is based on 2,100 companies. We took the decision to list our investment properties separately so as to provide a more meaningful benchmark.

Material Theme 5: Contributing to our communities

2011 has been a year of change for our community investment activities, to bring them into line with our focus on financial capability.

Employability – Part of Financial Capability

We try to make sure any new programmes can be sustained for years to come. We're still committed to supporting 'Building the Curriculum 4' by providing pre-employment development to young people. We've also started to review some of our programmes to find ways of offering them to an even wider audience.

One of our new community activities for 2011 was our involvement with icould (www.icould.com). It's a careers website for young people and we've provided the content, including videos with some of our staff, for the 'Focus on Finance' section of the site.

Throughout the year we ran:

- 245 Step up in Life workshops, which helped 5,797 young people with job applications and interviews
- 88 Skills for Life workshops, helping around 2,062 young people develop key communication, problem-solving and customer service skills
- 157 mock interviews for young people
- 112 work experience placements for young people

Sponsorships

In November 2011, we completed our sponsorship with Royal National Institute for the Blind to provide a welfare rights officer for four years. Over the period of the sponsorship over £3m of benefits have been identified for 1,010 blind and partially sighted people in Scotland, who were previously unaware of their entitlement.

Community investment

We want to support charities long-term to bring lasting benefits to communities. The Edinburgh Cyrenians are a good example of this where our people have been involved with secondments and volunteering with them over the past 12 years. We're not restricted to just one or two charities and give our people the opportunity to get involved with an array of different causes. We use the London Benchmarking Group, part of the Corporate Citizenship Company, who are a member-driven group of more than 100 leading companies. Their methodology helps us to manage, measure and report on the contributions we make to the wider community. In 2011, our people volunteered 8,760 hours to good causes and our total spend on community activities was £1.84m, which averages to £205 per employee.

Charitable fundraising is one of the ways we can help address important issues in wider society. In 2011 our people made a valuable contribution to projects ranging from cancer research and disaster relief to those supporting older people and their families who are affected by Alzheimers. Standard Life matched the funds they raised, and together we donated £453,310.

More details on what projects we've supported over the year can be found in our full 2011 Sustainability Report available online at www.standardlife.com/sustainability

Looking forward

We have a clear strategy. We will continue to drive shareholder value through being a leading, customer-centric business focused on long-term savings and investments propositions.

We believe that our sustainability strategy, which we can all contribute to delivering, is the best way of driving value in our business and supporting ongoing success.

In 2012 we will continue to review and embed our sustainability strategy across the Group. We'll develop our existing measures to ensure they are appropriate and continue to meet our requirements now and in the future. Our material themes, supporting the strategy, will continue to be embedded and have robust key performance indicators that can be tracked and measured at Group level.

We will also continue to identify new ways of bringing our corporate community investment programmes to wider audiences.

Board of Directors as at 13 March 2012

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. Gerry is also an Independent Non-Executive of Deloitte LLP and the Lead Non-Executive of the Ministry of Defence. Previously, he held senior positions within the Department of Health and Social Security and HM Treasury, and from 1986, spent 13 years with Schroders in London, Hong Kong and New York. He was Vice Chairman of Schroders' worldwide investment banking activities from 1998 to 1999.

(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 board member of Ofcom, a Non-Executive Director of Halma plc and 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. Lord Blackwell will retire on 25 May after completing nine years' service on the Board.

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Colin Buchan, Non-Executive Director

Appointed Director in January 2008. Colin is also a Non-Executive Director of Blackrock World Mining Trust plc and of the Scottish Chamber Orchestra. He was formerly Global Head of Equities at UBS Warburg and a member of the Group Management Board of UBS AG. Until 31 December 2011, Colin was Non-Executive Chairman of Standard Life Investments.

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Pierre Danon, Non-Executive Director

Appointed Director in October 2011. Pierre is also Chairman of Numericable-Comptel Group, Vice Chairman of TDC, Executive Chairman of Volia and Independent Director of CIEL Investment Limited. From 2000-2005, Pierre was Chief Executive Officer of BT Retail and, subsequently, Chief Operating Officer of Capgemini Group and Chairman of Eircom.

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Crawford Gillies, Non-Executive Director

Appointed Director in January 2007. He is also Chairman of Scottish Enterprise and Control Risks Group Holdings 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.

(Image Removed)

David Grigson, Non-Executive Director

Appointed Director in November 2009. He is also Chairman of Creston plc, a Non-Executive Director of Ocado Group plc and a Non-Executive Director of Trinity Mirror 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)

Board Committee members as at 13 March 2012

Audit Committee (previously Audit and Compliance Committee)

- ▶ David Grigson (Chairman)
- ▶ Lord Blackwell
- ▶ Colin Buchan
- ▶ Crawford Gillies
- ▶ Baroness McDonagh

Risk and Capital Committee

- ▶ Lord Blackwell (Chairman)
- ▶ Crawford Gillies
- ▶ David Grigson
- ▶ Sheelagh Whittaker

Remuneration Committee

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

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 then worked for PricewaterhouseCoopers and Royal & Sun Alliance before joining Aviva in 2003. She is also Chair of the Financial Regulation and Taxation Committee of the Association of British Insurers.

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Baroness McDonagh, Non-Executive Director

Appointed Director in March 2007. Baroness McDonagh is the Chair of The Standard Life Charitable Trust and a Non-Executive Director of TBI Limited. She is a business consultant, having previously been General Manager of Express Newspapers and, from 1998 to 2001, was the General Secretary of the Labour Party. She was appointed a Life Peer in 2004. Baroness McDonagh will retire on 25 May after completing 5 years' service on the Board.

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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. David was previously a partner with Price Waterhouse, and subsequently Group Finance Director and then Executive Director, Infrastructure Division at Scottish Power plc. He is also Deputy Chairman of the Board and Chairman of the Life Insurance Council Management Committee of the Association of British Insurers.

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John Paynter, Non-Executive Director

Appointed Director in January 2012. He is Non-Executive Chairman of Standard Life Investments. John is also a Non-Executive Director of Standard Chartered plc and Jardine Lloyd Thompson Group plc where he chairs the Remuneration Committee and is also a Senior Advisor to Greenhill & Co International. From 2001 to 2005, he was Deputy Chairman of Cazenove Group plc and then Vice-Chairman of JP Morgan Cazenove from 2005 to 2008.

(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 Limited 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 a Director of the Investment Management Association, and a member of the Advisory Board of Reform Scotland. In March 2012, he was appointed a Non-Executive Director of the Financial Reporting Council.

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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 Nominations and Corporate Governance 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.

(Image Removed)

Nomination and Governance Committee

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

Investment Committee

- ▶ Colin Buchan (Chairman)
- ▶ Pierre Danon
- ▶ Crawford Gillies

Corporate Responsibility Committee

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

You can read details of the membership of the Committees during 2011 in the Board Committees section of the Corporate governance report on pages 57-63

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) consolidated financial statements, European Embedded Value (EEV) financial information and Standard Life plc (the Company) financial statements, for the year ended 31 December 2011.

Reporting for the year ended 31 December 2011

The Company is the holding company of the Standard Life Group. The principal activities of the Group are to provide long-term savings and investments propositions. You can find out about the activities of the Company's principal subsidiary undertakings and their overseas branches in the Chief Financial Officer's 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 Chief Executive overview section of the Business review. Reviews of the operating and financial performance of the Group for the year ended 31 December 2011, and of likely future developments, are given in the Business review.

The Chairman's statement, the Chief Executive's overview, the Chief Financial Officer's overview, the Directors' responsibility statement, the Business segment performance sections, the Corporate governance statement and the Sustainability section all 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 financial statements. A detailed description of the basis of preparation for IFRS (including operating profit) and for EEV results is set out in the Accounting policies section of the consolidated financial statement and Note 1 of the EEV financial information. There is information about the Group's use of financial instruments and related financial risk management matters in Note 22 and Note 42 to the Group financial statements.

This report was prepared by the Company's Executive Team in conjunction with the Board and forms part of the Management Report.

Forward-looking statements

Various sections of this Annual Report and Accounts, including but not limited to the Chairman's statement, the Chief Executive's overview and the Chief Financial Officer's overview, may contain forward-looking statements. These statements are based on the Group's future plans, goals and expectations. These statements may be identified by words such as 'believes', 'intends', 'expects', 'plans', 'seeks', 'anticipates' or words of a similar meaning.

Forward-looking statements carry an element of risk and uncertainty. As such, the Group's actual future financial condition, performance and results may materially differ from the plans, goals and expectations set out in these statements.

The Company does not undertake to update any of these statements in this Annual Report and Accounts 2011.

Dividends

The Board recommends paying a final dividend for 2011 of 9.20p per ordinary share. This will be paid on 31 May 2012 to shareholders whose names are on the Register of Members at the close of business on 23 March 2012.

The total payment is estimated at £217m. Together with the interim dividend of 4.60p per share paid on 18 November 2011, this makes a total dividend of 13.80p per share for the year (2010: 13.0p).

Based on the overall financial performance of the Company, the Board made the decision to close the Scrip dividend scheme following payment of the interim dividend on 18 November 2011. A total of 70,138,459 shares were issued under this scheme in 2011.

The Company will be making available a new dividend reinvestment plan (DRIP) which will allow shareholders the option to reinvest their cash dividends in additional ordinary shares. Shareholders who wish to receive their cash dividends 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. An analysis of registered shareholdings by size, as at 31 December 2011, can also be found at the end of the Annual Report and Accounts 2011.

On 31 December 2011, there were 2,353,665,822 issued ordinary shares held by 117,598 registered members. The Standard Life Share Account (the Company-sponsored nominee) held 1,042,534,917 million of those shares on behalf of 1,263,123 participants. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

In January of last year, the Company received the following notification 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
24 January 2011	Acquisition	114,383,983	5.01%

There have been no further notifications of major shareholdings or voting rights arising from the holding of certain financial instruments as at the date of signing of this report.

During 2011:

- Shareholders supported the adoption of the Standard Life Sharesave Plan (Sharesave) at the AGM held in May 2011. An invitation to participate in the Sharesave was issued to all eligible employees in August 2011 and a total of 7,462,247 options over ordinary shares were subsequently granted. Further details on the Sharesave are given in the Employees section of this report.
- The total number of shares issued under the Scrip dividend scheme in 2011 amounted to 2.98% of the Company's total issued shares on 18 November 2011, when the Scrip dividend scheme was closed
- Under the terms of the Standard Life Employee Trust Deed, the Trustees have waived all entitlements to current or future dividend payments for shares they hold under option on behalf of participants in the Company's discretionary share plans between the grant and vest dates. Details of ordinary shares under option in respect of the Company's discretionary share plans are shown in Note 47 to the Group Financial statements.
- The Trustees of the Standard Life (Employee) Share Plan voted the appropriate shares in accordance with any instructions received from participants in the plan. You can find details of the Company's employee share plan in Note 47 to the Group's financial statements.

Restrictions on the transfer of shares and securities

Except as noted below, 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 fully paid
- A certificated share, unless the instrument of transfer is duly stamped or duly certified 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, in the case of a transfer to joint holders, 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.

Rights attached to shares

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.

Powers to purchase the Company's own shares

At the 2011 Annual General Meeting (AGM), shareholders granted the Directors limited power to:

- Allot the Company's ordinary shares up to a maximum aggregate amount of £76,102,583
- Disapply, up to a maximum total nominal amount of £11,415,387 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 228,307,750 or 10% of its issued ordinary shares

The Company did not make any market purchases of its ordinary shares during the year ended 31 December 2011, and has not done so since then and up to the date of this report.

Contractual arrangements

The Company is required to disclose any contractual arrangements which it considers are essential to the business of the Group. Details of this kind are as follows:

- Accenture (UK) Limited – provision of hardware and software services
- Capita Registrars Limited – provision of share registry services
- Citibank N.A. London Branch – provision of fund administration and fund accounting services
- FNZ (UK) Limited – provision of customised administration and custodial services for our WRAP platform
- IBM United Kingdom Limited – provision of hardware and software 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

Significant agreements

There are a number of agreements to which the Company is party that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. Details of this kind are as follows:

- 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. However, these agreements are not considered to be significant in terms of their likely impact on the business of the Group as a whole.

The Directors are not aware of any agreements with any employee that would provide compensation for loss of office or employment resulting from a takeover bid. The Company also has no agreement with any Director to provide compensation for loss of office or employment resulting from a takeover.

Directors and their interests

The Directors who served during the year were:

- Gerry Grimstone (Chairman)
- David Nish (Chief Executive)
- Jackie Hunt (Chief Financial Officer)
- Keith Skeoch
- Kent Atkinson (retired 31 December 2011)
- Lord Blackwell (Senior Independent Director)
- Colin Buchan
- Pierre Danon (appointed 20 October 2011)
- Crawford Gillies
- David Grigson
- Baroness McDonagh
- Sheelagh Whittaker

John Paynter was appointed as Director on 1 January 2012.

Biographies of the Directors can be found on pages 42 to 43.

Details of the Directors' beneficial interests in the Company's ordinary shares, the Standard Life (Employee Share) Plan, the Sharesave Plan and the share-based executive long-term incentive plans (LTIPs) are set out in the Directors' remuneration report together with details of the executive Directors' service contracts and non-executive Directors' appointment letters.

Appointment and retirement of Directors

The appointment and retirement of Directors is governed by the Company's articles of association, the Companies Act 2006, the UK Corporate Governance Code, and related legislation.

The UK Corporate Governance Code recommends that the Directors of FTSE 350 companies should stand for election every year. In line with this, all our Directors will retire at the forthcoming Annual General Meeting in May 2012. Pierre Danon and John Paynter will retire and stand for election and all remaining Directors wishing to continue in office will stand for re-election.

The powers of the Directors can also be found in the Company's articles of association.

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. 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 for the following:

- 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 the following 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 2012 AGM:

- The Directors' service contracts or letters of appointment
- The Directors' deeds of indemnity, entered into in connection with the indemnification of Directors provisions in the Company's articles of association
- The Company's articles of association

Directors' indemnities

The Company maintains directors' and officers' liability insurance on behalf of its Directors and officers which gives appropriate cover for any legal action brought against its directors. 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 our values, behaviours and organisational structure. Our Group People strategy was founded on the principle of developing an organisation that is fit for the future. We 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 April 2011 we introduced a refreshed approach to monitoring, measuring, and tracking employee engagement. We carried out an all employee survey which measured how engaged employees are and how enabled they feel they are to do their job to the best of their ability. We had an 86% response rate to this and have been using the results to develop clear action plans at both Group and business unit levels to address the key themes. In 2012 we will continue with the action plans and conduct another survey later in the year.

The Group remains committed to creating a high-performing, diverse, and healthy working environment which is fit for the future and 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 train and support staff who become disabled during their employment to enable them to continue and develop in their role. Diversity activities continue to support our talent, performance and leadership goals. For example, in 2011 we formally established a women's development network with a view to widening this from the UK to other Group locations in the future. For 2012, we have refocused our diversity approach to concentrate on a number of Group priorities in addition to strengthening foundations already in place. The forthcoming year will also see refreshed group-wide online and face-to-face training and links with the new Group induction process.

The health and safety of all employees is a priority and performance is reviewed through quarterly meetings of our Health and Safety Committee. Each business unit within the Group is responsible for ensuring that it complies with the Group's People and Health and Safety Policies.

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 separate staff representation arrangements across different jurisdictions in the Group. In the UK, most employees are represented through partnership agreements with the Group's staff associations, VIVO and Bridge. In Ireland, there is an established procedural agreement with Unite and a Works Council was established in Germany during 2008.

As part of the way we manage performance, each employee takes part in regular discussions with their manager. They agree performance outcomes and talk about their aspirations, strengths and limitations and how these can be developed and addressed at work. We use performance scorecards which clearly set out the measures for senior executives and the Group as a whole.

On 31 December 2011, 69% 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 market value of £125 per month, or an equivalent sum in a 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 2011, 67% of eligible employees in the UK were making a monthly average contribution of £40. 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 or Austria, more than 750 employees in these countries are buying shares each month.

The Sharesave Plan was launched in the UK in August 2011 and 2,565 employees took up the offer to save for a period of over three or five years in order to buy ordinary shares in Standard Life at a price of £1.57 at the end of their savings period. Employees are saving £102 per month on average and Sharesave options have been granted over 7,462,247 shares. A second UK offer together with the launch of the plan for employees in Ireland is planned for August 2012. We continue to look at rolling this plan out more widely, subject to local tax and regulatory constraints.

Environmental matters and social community issues

The Group recognises it has a responsibility to society in general and to the environment. Further details on how we support these responsibilities can be found in the Sustainability section.

Creditor payment policy

The Group's payment policies and practices are in line with the guidelines issued by the Chartered Institute of Purchasing and Supply.

For all trade creditors, it is the Group's policy to agree payment terms with each supplier at the start of our business relationship and to pay creditors in accordance with our contractual and other legal obligations.

Trade creditor days for the Group for the year ended 31 December 2011 were 33 days (2010: 29 days), based on the average daily amount invoiced by suppliers during the year.

Charitable donations

During the year, the Group made charitable donations of £194,768 (2010: £258,631) of which £182,036 (2010: £197,815) was given to the following UK registered charities: Cancer Research UK and Alzheimer Scotland – Action on Dementia.

The Standard Life Charitable Trust continues to support initiatives and programmes that make lasting changes and further details can be found in the Sustainability section.

Political donations

No political donations were made during the year ended 31 December 2011.

Auditor

The Audit Committee (previously Audit and Compliance Committee) is responsible for considering the Group's external audit arrangements. A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as auditor to the Company and giving authority to the Directors to determine their remuneration will be submitted at the forthcoming Annual General Meeting in May 2012.

Disclosure of information to the auditor

At the date of approving this report, so far as each Director is aware, there is no relevant audit information of which PricewaterhouseCoopers LLP are unaware.

Each Director confirms that they have taken all steps necessary, in their role as Director, to be made aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP are made aware of that information.

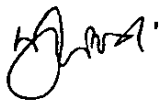
Events after the reporting period

A judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of Standard Life Assurance Limited in its claim of approximately £100m against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. The insurers are appealing the judgment, which is unlikely to be heard before autumn 2012. Further details can be found in Note 52 of the Group financial statements.

Annual General Meeting

The Company's AGM will be held at 2pm (UK time) on Friday, 25 May 2012 at the Edinburgh International Conference Centre, 150 Morrison Street, Edinburgh, EH3 8EE. Details of the business to be conducted can be found in our AGM guide 2012.

On behalf of the Board



Malcolm J Wood, Group Company Secretary and General Counsel
Standard Life plc (SC286832)
13 March 2012

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 from that of the auditors in relation to the financial statements for 2011.

The Directors are responsible for preparing the Annual Report and Accounts 2011 and the Summary Financial Report 2011. Under the Companies Act 2006, the Directors are required to prepare and approve financial statements for each financial year. 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 (EU)
- The Companies Act 2006
- The Disclosure and Transparency Rules (DTR) issued by the Financial Services Authority
- Article 4 of the International Accounting Standards (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 EU have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business

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 their 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

13 March 2012



Jackie Hunt, Chief Financial Officer

13 March 2012

Corporate governance

Chairman's report

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

In this section of the Annual Report and Accounts 2011 you can read about our corporate governance activities and developments since our last report to you. As well as recognising the formal disclosure requirements of the UK Corporate Governance Code, I hope that this report will evidence how seriously the Board takes its leadership role and the ongoing commitment of the Directors to ensure that they continue to perform as effectively as possible. I believe that the Directors view the Code not just as a compliance requirement, but as an opportunity to drive effective behaviours for themselves and throughout the Group.

As a highlight of our continuing work to maintain the leadership strength of the Board, I am very pleased to have welcomed Pierre Danon in October 2011 and John Paynter in January 2012 as non-executive Directors and I am looking forward to welcoming Lynne Peacock who will join the Board in April. You can read more about their experience and background in our AGM guide. In the AGM guide you can also read supporting details of why I support their election at this year's AGM. I hope that this information – both for them and the other Directors – will help your own voting decisions. As you will be aware, Kent Atkinson retired from the Board on 31 December 2011 and Lord Blackwell and Baroness McDonagh are preparing to retire from the Board at the conclusion of this year's AGM. I would like to thank all of them for their significant contribution.

As a Board, we also spent time this year debating diversity, and you will see later in this report that we have issued a formal Board diversity statement, which we believe will provide useful benchmarks as we move forward in our succession and development processes, both at Board level and throughout the Group.

As we do each year, we have once again completed a thorough Board Effectiveness review. This year, we engaged an external facilitator, Independent Audit Limited, to support our review, and this added an outside perspective and allowed us to position ourselves against the best-performing boards. Another development this year has been to introduce more structured individual interviews to help with my review of the performance of each individual Director. You can read more about the detailed process later in this report. As part of our close and continuous relationship with our regulatory supervisory team, the FSA also carried out a Board Effectiveness review during late 2011 and early 2012. We welcomed this and are looking forward to its conclusions.

During 2011, I undertook a programme of meetings with many of our key institutional shareholders. These meetings were very informative and I discussed the feedback with my Board colleagues. The Board had a very successful visit to our joint venture operation in Mumbai and our discussions on our operations in India have benefited from being able to get closer to our local operational teams and our local partner.

The report now goes on to show you how we have implemented our corporate governance framework and to give you more information on the Board's operations. My colleagues who chair Board Committees have also provided overviews of their activities this year, and you can read these later in this report. I hope that you will find it informative.



Gerry Grimstone, Chairman

Compliance

The Board considers that, throughout 2011, the Company complied with all relevant provisions set out in the UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council in June 2010 and available at www.frc.org.uk

As part of the process to review and evidence compliance with the Code, the Nomination and Governance Committee also reviewed the corporate governance framework against the 'Corporate Governance UK Guidelines', as issued by Standard Life Investments, and the Committee considers that the Company meets all the relevant global policies and guidelines.

Together with the Directors' remuneration report, which follows this section, this report explains how the Group's corporate governance framework supports the way the Company applies all the Code's main principles of good governance. The Code principles cover:

- Leadership
- Effectiveness
- Accountability
- Remuneration
- Relations with shareholders

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. During the year, the Charter was updated to reflect the progress on Board diversity and the developing relationship between the Audit Committee and the Risk and Capital Committee.

The Board Charter is complemented by the Group's Code of Business Conduct. This sets out our standards of behaviour in respect 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 the Enterprise Risk Management framework, risk strategy, risk 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.

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 discussion which leads to consensus decisions
- 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, composition and diversity

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 13 March 2012, the Board comprises the Chairman, eight independent non-executive Directors and three executive Directors. The Board comprises three women and nine men. The Board's recruitment processes aim to ensure that diversity is represented around the Board table. In response to the Davies review recommendations, the Chairman placed a supportive statement on the Company's website in September 2011 and, in November 2011, the Board approved the following Board Diversity statement:

The Board:

- Believes in equal opportunities and supports the principle that due regard should be had for the benefits of diversity, including gender, when undertaking a search for candidates, both executive and non-executive
- Recognises that diversity can bring insights and behaviours that may make a valuable contribution to its effectiveness
- Believes that it should have a blend of skills, experience, independence, knowledge and gender amongst its individual members that is appropriate to its needs
- Believes that it should be able to demonstrate with conviction that any new appointee can make a meaningful contribution to its deliberations
- Is committed to maintaining its diverse composition
- Supports the Chief Executive's firm commitment to achieve and maintain a diverse workforce, both throughout the Group, and within his Executive Team

Board changes during the period

Appointments

Pierre Danon was appointed on 20 October 2011. He brings extensive international, customer services and change experience. John Paynter was appointed on 1 January 2012. He brings significant investment management and banking experience. As announced, Lynne Peacock will join the Board on 1 April 2012. She has a wide-ranging background in UK financial services. They are also all accomplished non-executive directors with a track-record of being part of high-achieving boards.

Retirals

Kent Atkinson retired on 31 December 2011 after seven years on the Board and Baroness McDonagh and Lord Blackwell will retire at the conclusion of the 2012 AGM after five years' service and nine years' service respectively.

Board appointments, terms of service and role

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. The Board considers the recommendations of the Nomination and Governance Committee when making appointments, and with the support of the Committee, regularly reviews the skills and experience required and refreshes this through rotational retirement and broad recruitment searches.

Each non-executive Director serves for a fixed term not longer than three years and is subject to annual re-election at each Annual General Meeting (AGM). This term may then be renewed by mutual agreement. 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, although we recognise the Code provisions regarding length of service.

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. The letter confirms that the ongoing annual time commitment expectation, once a non-executive Director has met all of the approval and induction requirements, is 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.

Director election and re-election

Recognising the relevant principle of the Code, from 2011 we introduced the annual re-election of all Directors. Accordingly, at the 2012 AGM all of the current Directors except Pierre Danon, John Paynter and Lynne Peacock will retire and offer themselves for re-election; Pierre Danon, John Paynter and Lynne Peacock, having been appointed since the previous AGM, will retire and offer themselves for election. You can read more supporting background information about the proposed election and re-election of each Director, and the reasons why the Chairman believes you should support their election or re-election in the AGM guide 2012. Baroness McDonagh and Lord Blackwell will retire at the conclusion of the 2012 AGM and will not offer themselves for re-election.

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 stood down as chairman of Candover Investments plc in March 2011 and, following recommendations made by the Financial Reporting Council (FRC), was appointed an independent non-executive of Deloitte in January 2011. He has been the lead non-executive of the Ministry of Defence since September 2011. Following the formal review of his performance, and taking into account his other outside appointments, 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 announced, John Paynter will be appointed as Senior Independent Director following Lord Blackwell's retirement at the conclusion of the Annual General Meeting on 25 May 2012.

David Nish stood down from his role as a non-executive Director of Northern Foods plc in April 2011.

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 a new director, the Board considers and, where appropriate, authorises his or her potential or 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 2011, David Nish became the Deputy Chairman of the board of the Association of British Insurers ('ABI'), as well as the chair of its Insurance Committee and Jackie Hunt became chair of the ABI's financial, regulation and taxation committee. In March 2012, Keith Skeoch was appointed to the board of the Financial Reporting Council. These appointments were approved in accordance with the Outside Appointments and Conflicts of Interest policies. In January 2012, the Board reviewed all previously authorised potential and actual conflicts of interest of the Directors and their connected persons in a collective exercise. It concluded that it was appropriate for the non-conflicted Directors to approve these until December 2013. 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

Update on 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 and adding value to the Group. It also looks at how their performance could be improved. In 2011, the process continued to develop. After considering potential suppliers, the Board engaged Independent Audit Limited ('Independent Audit') as the external facilitator to support a confidential online questionnaire, the analysis of the responses and the development of the resulting action plan. Whilst Independent Audit has had the Standard Life Stakeholder Pension Scheme as its designated pension scheme since 2003, the Committee considered that this did not prevent Independent Audit supporting the review.

All of the survey questions were reviewed and refreshed by Independent Audit to focus on generating robust input from the Directors and to extend the breadth of the questions. 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 narrative comments on where the Board or Committee could improve. The Group Company Secretary and General Counsel, the secretaries of the Board Committees, and the other members of the Executive Team who interact frequently with the Directors and implement their recommendations and decisions, also completed questionnaires.

The questions covered how the Board goes about:

- Making sure that there is a clear consensus around strategic direction
- Assessing risks and the effectiveness of the risk identification approach
- Forming a view of the organisational culture
- Working together as a team
- Providing strategic and ethical leadership
- Holding management accountable
- Communicating internally and externally with stakeholders
- Meeting its legal and regulatory responsibilities
- Making sure it has the right mix and diversity of experience

and the role, responsibilities and effectiveness of Board Committees.

Reporting

The results were consolidated into a themed report by Independent Audit with support from Group Secretariat. They were then considered in detail by the Nomination and Governance Committee before being formally reported to the Board. Independent Audit took part in the Board's discussion of the report. The final report included an update on the progress in implementing the previous year's action plan, as well as a new action plan based on the agreed recommendations. The plan continues to be monitored by the Executive Team and reported to the Nomination and Governance Committee.

At the end of the exercise, the Board concluded that it had made good progress since the last review but that there were some areas where further improvement could be made including:

- Receiving more frequent focused updates on the implementation of the Group's individual and collective strategic priorities
- Encouraging the Executive Team and business unit managers to access the skills and experience of the non-executive Directors
- Enabling the Board to work with and support the Group's emerging leaders

Each Committee followed a similar reporting and feedback process. The Board concluded that the Committees had performed effectively; in particular it recognised that the Risk and Capital Committee had made good progress and developed its relationship with the Audit Committee.

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 questions covered:

- The Chairman's role to lead the Board and to be aware of shareholders' views
- His relationships with both executive and non-executive Directors
- Boardroom behaviour

The feedback was summarised into a themed report which was reviewed by Independent Audit and distributed to all Board members, except the Chairman. The Directors, led by Lord Blackwell and with Independent Audit in attendance but without the Chairman being present, met to consider the report. They concluded that he continued to show great commitment to the Group, communicated well with the Directors and supported their participation and contribution, had led the Board to achieve consensus and represented the Company very effectively. Lord Blackwell was responsible for passing feedback from the review to the Chairman.

Directors

The Chairman led the performance review of the 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 and their appointment letters. 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. For this year, individual templates were prepared to support each interview. These built on specific responses to particular questions and areas of interest and training needs identified by each Director on his or her questionnaire. Each Director takes forward the resulting actions, supported by the Chairman, and the Company makes every effort to implement these action plans either using internal resources or external expertise.

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

Continuous improvement and future reviews

Recognising that the Board used the support of an external facilitator in 2011, the Nomination and Governance Committee will continue to consider and propose to the Board the most effective way to implement the 2012 review.

Director development

The Chairman, supported by the Group Company Secretary and General Counsel and the Group People and Operations Director, is responsible for arranging a comprehensive and structured preparation and induction programme for all new Directors. This induction is tailored to their individual requirements. All Directors are also required to complete the FSA's Significant Influence Function Holder's approval programme prior to appointment. The formal preparation and induction programme includes:

- Meetings with each executive Director, key members of senior management, the heads of the operating businesses and Group control functions
- Focused technical meetings with internal experts on specific areas including Solvency 2, treating customers fairly, risk and capital management and financial reporting
- Visits to business units
- Meetings with the external auditors and the FSA supervisory team
- An introduction to the Group's corporate governance and risk management frameworks and the role of the Board and its Committees
- Key Board materials and information, shareholder and financial reports
- The Group's organisational structure, strategy, business activities and operational plans

- The Group's key performance indicators, financial and operational measures and industry terminology
- Their individual responsibilities both as Directors and as holders of a Significant Influence Function

This programme provides the background knowledge new Directors need to perform to a high level as soon as possible after joining the Board and to support them as they build their knowledge and strengthen their performance.

When a non-executive Director is appointed to one of the Board's Committees, they receive relevant induction training. Recently appointed Directors are asked for their feedback on the programme to make sure that it keeps improving.

When Directors are appointed to the Board, they commit to broadening their understanding of the Group's business. They identify areas of the Group's activities, or relevant developments in the external business environment where they would benefit from additional training. Relevant external governance, financial and regulatory developments are also monitored by the Group Corporate Centre and an ongoing Board training programme is maintained. During 2011, specific Board training sessions took place on Solvency 2, the Bribery Act 2010, the Retail Distribution Review, Pensions auto enrolment, and treating customers fairly as well as on key business operational initiatives and new propositions. Preparation for the introduction of Solvency 2 has been a particular focus for the Board, and specific technical sessions have been held on the capital requirement calculations and the use of the internal model. In addition, in October 2011, the Board met in Mumbai, close to the offices of the Group's Indian joint venture operation. This gave the Directors the opportunity to interact with key personnel in the Group's joint venture operation and to explore specific local customer considerations.

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 and, once a year, at one of our international businesses. The Board will be holding one of its meetings in Canada in 2012. 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 2011 Board and Committee meetings is shown in this table:

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

¹ Appointed to the Board on 20 October 2011

² Retired 31 December 2011

(C) Committee 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 within the Board Charter 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.

Report from the Chairman of the Audit Committee (previously Audit and Compliance Committee)

The Board draws on the advice of the Audit Committee to support its effective governance over external financial reporting and internal financial controls and, during 2011 the implementation of the Group's Enterprise Risk Management framework. It reports its findings and recommendations to the Board. I am pleased to present my report on the work and operation of the Committee during the year. David Grigson, Chairman (from 1 January 2012)

The Committee members are David Grigson (appointed Chairman on 1 January 2012), Lord Blackwell, Crawford Gillies, Baroness McDonagh, and Colin Buchan (appointed 1 January 2012). The Board considers them all to be independent non-executive Directors. The Board is satisfied that David Grigson, who is a chartered accountant and served as chief financial officer of Reuters Group, has recent and relevant financial experience. Kent Atkinson was Committee Chairman until his retirement on 31 December 2011.

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 controls over financial reporting

Until 31 December 2011, the remit also included the Group's internal control (financial and non-financial), operational risk management and regulatory compliance arrangements, but, following the conclusions of the internal and external reviews of the duties of the Risk and Capital Committee, these responsibilities, other than internal controls over financial reporting, have now been transferred to the Risk and Capital Committee. As a consequence, the Committee has been renamed the Audit Committee.

During the year, the Committee met five times to coincide with the Company's financial reporting cycle. It met regularly 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 2011, the Committee reviewed the Group's draft:

- Preliminary Results 2010
- Annual Report and Accounts 2010
- Summary Financial Report 2010
- Half Year Results 2011
- Interim Management Statements issued in April and November 2011

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

The Committee's detailed review included considering:

- The Group's significant accounting policies and any changes made during the year, including the adoption of operating profit as the main IFRS performance measure
- Significant accounting issues and areas of judgement, including the acquisition of Focus Solutions Group, matters relevant to the staff pension scheme and the valuation of property assets
- Actuarial assumptions applied, in particular annuitant mortality, persistency and expenses 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, including the presentation of certain financial instrument disclosures, and the introduction of new business analysis by fee and spread and risk categories
- The results of management's assessments of the Group's going concern and Group solvency position, including recommending to the Board that the going concern assessment was reasonable
- Relevant external financial reporting developments and guidance, including the FRC's key questions for Audit Committees to consider and the FRRP's questions on the reporting of principal risks and uncertainties
- The views of the external auditors, including actuarial specialists, on all of the above

External audit

The Committee monitors the work of the external auditor. This includes reviewing how independent and objective the external audit 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 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 and 2011 is the final year for the current partner. The Committee believes that the present auditor's performance and reappointment should be considered 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 and taking into account all other relevant factors. 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 2011 effectiveness review, the Committee concluded that it was appropriate to recommend to the Board that a resolution should be proposed at the 2012 AGM to reappoint the present auditor. 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, which is reviewed annually, 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 and when the external audit firm's skills and experience make it the most suitable supplier. These include:

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

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 2011 included SICAV tax compliance work and assurance services relating to the ORSA, in preparation for Solvency 2.

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. During the year, an external review of the Internal Audit function was commissioned, benchmarking its activities against the Institute of Internal Audit standards. Group Internal Audit received the highest possible rating.

Risk framework

The Board approves the Group's Enterprise Risk Management ('ERM') framework. Until 31 December 2011, the Committee retained its oversight role in regard to operational risk as part of its duty to oversee the effectiveness of the system of internal controls. This duty has now been passed to the Risk and Capital Committee. 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. At each meeting it receives reports on all calls to our dedicated Speak-up helpline. Any concerns are independently investigated and the Committee ensures that appropriate follow-up action is taken. The Committee also receives updates at every meeting from the Group Head of Financial Crime who reports on compliance with the Group's Anti-bribery policy, and any other activities associated with financial crime.

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 2011, 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

As noted previously, the Committee also agreed detailed changes to its terms of reference to reflect the developing role of the Risk and Capital Committee.

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

Report from the Chairman of the Risk and Capital Committee

The Risk and Capital Committee supports the Board's effective governance over strategic risk management and the use of capital and reports its findings and recommendations to the Board. From its start-up in April 2010, the Committee made significant developments during 2011 and is now well established in its role and providing quality support and analysis to the Board. I am pleased to present my report on the work and operation of the Committee during the year. Lord Blackwell, Chairman

The Committee members are Lord Blackwell (Chairman), David Grigson, Sheelagh Whittaker, and Crawford Gillies (appointed 1 January 2012) who are all considered by the Board to be independent non-executive Directors. During 2011, the Committee met eight times. Kent Atkinson retired from the Committee on 31 December 2011.

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 risk and capital matters affecting the Heritage With Profits Fund

During 2011 it carried out this role through activities including:

- Undertaking training and awareness sessions on matters including capital measures, risk and control models and specific products as well ERMF implementation in each business unit
- Considering emerging risks and current risks concerns, including the Eurozone crisis, the impact of low interest rates and the Group's preparedness for the introduction of Solvency 2 and the use of the internal model, and how these developments may impact the Group's risk and capital 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 material business developments 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

Committee effectiveness

Recognising its short period of existence, in 2011 the Committee commissioned an external review by PricewaterhouseCoopers of its remit and operations. The report confirmed that the Committee had established itself very well and was fulfilling its role effectively. The report suggested some areas where the Committee's detailed duties might be refocused and to minimise overlaps with the duties of the Audit and Compliance Committee. The Committee supported these findings and the revisions to the detailed terms of reference were agreed with the Audit and Compliance Committee. The revised terms of reference for both Committees took effect from 1 January 2012. One of the key changes was that regulatory compliance reporting will now be brought to the Risk and Capital Committee.

The Committee also undertook a review of its own effectiveness as part of the overall Board Committee review programme. The members' conclusions supported the findings of the external review.

You can find out more about the principal potential risks facing the Group and how they are managed in section 1.5 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

Report from the Chairman of the Remuneration Committee

The Remuneration Committee supports effective governance over remuneration. You can read my full introduction in the Directors' remuneration report which follows this section. Crawford Gillies, Chairman

The Committee members are Crawford Gillies (Chairman), Lord Blackwell, Colin Buchan, Sheelagh Whittaker and Pierre Danon (appointed 1 January 2012) – all of whom are considered by the Board to be independent non-executive Directors.

During 2011 the Committee met eight times. The Committee's role is to approve or 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 Operations Director and the Head of Group Reward are invited to attend.

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

Report from the Chairman of the Nomination and Governance Committee

The Board takes advice from the Nomination and Governance Committee to support its effective oversight over Board appointments and the corporate governance framework. I am pleased to present my report on the work and operation of the Committee during the year. Gerry Grimstone, Chairman

The Committee members are Gerry Grimstone (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 membership is in line with the Code.

During the year the Committee met seven times. 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. The Committee makes recommendations to the Board on new Director appointments and carries 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

Taking account of the Group's strategy, as well as industry and regulatory developments, the Committee evaluates regularly the Board's balance of skills, diversity, knowledge and experience, as well as considering the time served by non-executive Directors. The Committee uses this focused analysis to support its recruitment activities.

Having identified the capabilities needed, the Committee prepares a description of a role and engages external search consultants to prepare a list of suitable candidates. The Committee discusses the list and once a short list has been agreed, the Committee interviews suitable candidates and, subject to the satisfactory completion of all background checks and regulatory approvals, makes appropriate recommendations to the Board. As part of its review process, the Committee considers all of the other appointments of recommended candidates with a view to assessing whether they will have sufficient time to meet the necessary time commitment. During 2011, and more recently, following structured searches, the Committee recommended to the Board the appointments of Pierre Danon, John Paynter and Lynne Peacock as non-executive Directors.

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.

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 operation of Group-wide talent development programmes at graduate and emerging leader levels as well as an accelerated programme for senior leaders. The Committee considered that good progress had been made at each of these levels. 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, and have presentations from, key talent across the Group. During the year, the Committee also supported the Board's diversity discussions, reviewing both the recommendations from the Davies report and the FRC's

related consultation. The Committee considered that it was important to support diversity throughout the Group and not only at the Board level. The Committee drafted and recommended a formal diversity statement which the Board adopted in November 2011.

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 the Code, and makes appropriate recommendations on governance arrangements to the Board. Where appropriate, the Committee submitted responses to corporate governance consultation documents during the year. The Committee also considers potential new outside appointments of Directors, and refers any potential or actual conflicts of interest identified to the Board for discussion.

The Committee undertook a review of its own effectiveness as part of the overall Board Committee review programme. The members concluded that the Committee had performed well and had strengthened its role to oversee the talent development and succession activities within the Group.

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

Report from the Chairman of the Investment Committee

The Investment Committee oversees the high-level asset allocation strategy (including benchmarks) within the Heritage With Profits Fund and Insured Funds as well as the investment activities and stewardship role of the Group as an investor and a fund manager and reports its findings and recommendations to the Board. I am pleased to present my report on the work and operation of the Committee during the year. Colin Buchan, Chairman

The Committee members are Colin Buchan (Chairman), Crawford Gillies and Pierre Danon (appointed 20 October 2011). They are all considered by the Board to be independent non-executive Directors. Kent Atkinson retired on 31 December 2011. During the year the Committee met four times and reported to the Board on matters relevant to the investment activities and stewardship role of the Group as an investor and fund manager. At each meeting, the Committee receives updates from Standard Life Investments on the performance of financial markets and the global outlook, and oversees investment activity within Standard Life Assurance Limited considering matters such as fund performance, investment objectives and asset allocation. The Committee also receives updates on specific corporate governance and stewardship matters related to investments managed by Standard Life Investments. During 2011, the Committee spent time considering the impact on markets of the Eurozone crisis. The Chief Executive and other executives (where appropriate) of Standard Life Investments attend Committee meetings.

The Committee also undertook a review of its own effectiveness. Committee members commented that the work to improve the clarity of the Committee's role and responsibilities of the Committee had been very beneficial.

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

Report from the Chairman of the Corporate Responsibility Committee

The Corporate Responsibility Committee provides oversight over sustainability and corporate responsibility issues and reports its findings and recommendations to the Board. I am pleased to present my report on the work and operation of the Committee during the year. Gerry Grimstone, Chairman

The Committee members are Gerry Grimstone (Chairman), Baroness McDonagh and David Nish.

During the year the Committee met three times. The Committee oversees and provides guidance and direction on the Group's 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 strategy and policies on Corporate Responsibility and making recommendations to the Board on Corporate Responsibility issues. This links our responsibilities to our stakeholders more closely to our long-term business objectives. The Committee's terms of reference are available from the Group's website at www.standardlife.com/about/board

You can find more details about the Group's Sustainability activities in the Sustainability section and on the Group's website at www.standardlife.com/corp_resp/index.html

Report from the Chairman of the With Profits Committee of Standard Life Assurance Limited

Whilst the approval of actuarial matters affecting the Group remains a matter reserved for the Board, FSA regulations require that a With Profits firm's governance arrangements should make provision for independent judgement and advice. In common with most large firms, the board of Standard Life Assurance Limited (SLAL) has established a With Profits Committee (WPC) for this purpose. I am pleased to present my report on the work and operation of the Committee during the year. Niall Franklin, Chairman

The Committee members are Niall Franklin (Chairman), Graham Aslet, Ray Greenshields and Isabel Hudson. They are all wholly independent of the Group. The WPC meets at least six times a year to monitor and advise SLAL on the management of its With Profits business. Senior actuaries involved with the management of With Profits business, in particular the With Profits Actuary and the Actuarial Function Holder, as well as the Head of Capital & Risk Management routinely attend these meetings.

SLAL has had a With Profits Committee since demutualisation. Its role is 'to monitor and advise the SLAL Board on the management of With Profits business, providing independent judgement on the fair treatment of With Profits policyholders and to take a proactive role in raising any issues that merit further consideration'. The Committee reviews all proposals that are material to

the interests of SLAL's WP policyholders. The Committee has the authority to engage external advisers, when appropriate, and has engaged Milliman to provide actuarial advice.

The Committee's routine formal interaction with the SLAL board is by the minutes of its meetings and by an annual report to the SLAL board on compliance with the Principles and Practices of Financial Management (PPFM) and the exercise of discretion. The Chairman of the Committee has attended SLAL board discussions in relation to material With Profits matters. The WPC has authority to make a report to policyholders. It did not do so during 2011 and would not expect to do so unless it disagreed materially with SLAL's own annual report to With Profits policyholders (which is required by FSA regulations) on the management of the business.

The Committee's terms of reference are available from the Group's website at www.standardlife.co.uk/1/content/resources/uk_internet/PDFs/Retail/wp109.pdf

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 2011, 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. Formal presentations were given to support the release of both the preliminary and half-year financial results, and an analyst and investor day was held in October 2011. The Chairman has his own investor contact programme and brings relevant issues to the attention of the Board.

The Board is equally committed to the interests of the Company's 1.4m retail shareholders who hold approximately 60% 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 2011, Summary Financial Report 2011 and the AGM guide 2012 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 statement, and the Business review (which includes the Chief Executive's and Chief Financial Officer's overviews) in this Annual Report and Accounts 2011 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 2012 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 investment management company, recognises the importance of good governance and stewardship. 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, 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 Stewardship Code's 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 during 2011 both areas reported 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 2011. 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.

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 details on our cash flow and capital management – Section 1.3 Chief Financial Officer's Overview – and a section describing our key risks – Section 1.5 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 £500m 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.

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 investments 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 Enterprise Risk Management (ERM) framework that enables risks to the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically. We have operated our ERM framework for a number of years and we continue to seek opportunities to strengthen the framework and to ensure that it is aligned with external best practice.

There are five key elements to our ERM framework which are set out in the adjacent diagram. The operation of this framework provides for a risk-based approach to managing our business, integrating concepts of strategic planning, operations management and internal control.

You can find out more information about each element of the framework below.

We believe that our current ERM framework is closely aligned to the Solvency 2 requirements relating to risk management and systems of governance, although we recognise there will be some developments as we move towards the implementation of Solvency 2 in January 2014.

One area that we envisage developing further is our own risk and solvency assessment (ORSA) process; however, our ERM framework provides a good foundation for this in terms of identifying, assessing, controlling and monitoring risks.

Our experience of operating and improving our ERM framework over a number of years means that we are well placed to meet the requirements of Solvency 2 which we anticipate will support the further embedding of risk management within the Group.

Risk culture

Our approach

- Right staff, right jobs, right behaviours, roles and responsibilities clearly defined
- Right structure, effectively implemented, risk focused committees and management
- Group-wide awareness, deepening understanding of risk, ongoing embedding and change

Risk governance structure

The risk governance structure we use in defining our risk culture includes the Risk and Capital Committee which 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 risk strategy, material risk exposures and future risk strategy and their impact on levels and allocation of capital
- The structure and implementation 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 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 (ERMC) 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 ERMC is supported by the Group Credit Risk Committee which deals with all types of credit risks arising from the current and proposed activities of the Group.

Group Risk supports the operation of these risk Committees and provides assurance, assistance and advice to these Committees as required.

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 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. These risk metrics will be kept under review to ensure they remain appropriate under the Solvency 2 regulatory framework.

	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 from 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

Group Risk continue to review and challenge financial and operational risk reporting from the risk functions across the Group to ensure that accurate and adequate information is delivered to the risk committees to support their risk management mandates. During the year, Group Risk enhanced various aspects of risk reporting in response to the Eurozone crisis.

In addition, in light of the Eurozone crisis the Group also set up a Eurozone Steering Group (ESG) and a Eurozone Working Group (EWG) to ensure that the Group is well prepared for any adverse scenarios that may transpire from the Eurozone crisis and to provide assurance to the Risk and Capital Committee in this area.

The ESG was formed to review and steer actions and contingency plans required to manage the Group's response to the Eurozone situation whilst the EWG supports the ESG in working through detailed issues when required.

Risk control processes

Our approach

- Driving group-wide operational excellence
- Operational Risk and Control: Integrated system, consistent application
- Active Control Management: make the right things happen the first time, identify when things have not gone well and understand why, recover the position quickly when things have not gone well

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.

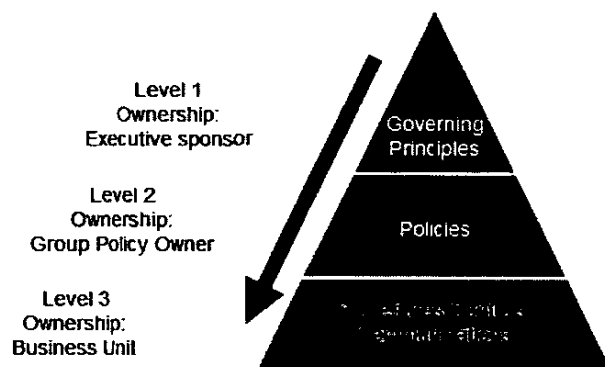
	Objective	Processes
Identify	Identify major sources of risk which may affect equity holder returns and/or the interests of the Group's policyholders, customers and other stakeholders.	Internal/external events and loss monitoring Risk register and policies Risk profile and ownership Key processes and 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 (ORAC)

The key control for the management of operational risks in the Group is the Operational Risk and Control framework which comprises of: Policy framework, Control Self Assessment (CSA), Risk Assessment, Key Risk Indicators, Risk Event and Action Plan Management, supported by the ORAC system. The Policy framework and CSA modules require senior management to certify adherence with Policy standards and key controls at least quarterly. Exceptions from these along with Risk Events that have occurred in the period are reported and discussed at monthly business unit and ERMC meetings.

Emerging risk management

Our approach

- Defined process for identification of emerging risks
- Supported by extreme scenario testing of business plans
- Raising awareness at executive level and across the Group

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. This enables us to take a forward looking view of risks driven by our business model along with any capital implication associated with these risks.

Risk and capital models

Our approach

- Modelling and understanding our business
- Managing complexity, achieving consistency and clarity with common metrics
- Risks effectively quantified and business fully profiled

The Group continually strives to enhance our internal risk and capital models. Our main objective is to improve the consistency of the 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

Our approach

- Putting risk at the heart of our business planning
- Understanding our risk and strategy and making the right decisions
- Effective strategic control and allocation of capital

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the Group's corporate objectives. This process enhances the Group's capability to assess strategic allocation of capital and the ability to identify, monitor and manage emerging risks. The process is based on a consideration of the general environment, the competitive environment and external events that could prevent, or impact the achievement of the strategy.

Directors' remuneration report

This section 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

In 2010, we made a number of changes to our executive remuneration arrangements to ensure that the way we structure remuneration supports the delivery of our strategy. In 2011, whilst the structure of remuneration has not changed, the Remuneration Committee has remained focused on ensuring that our remuneration arrangements are aligned with our corporate objectives and that the quantum of reward is appropriate in light of the Company's performance.

During 2011, we engaged with key investors ahead of the AGM to discuss points raised in relation to the Directors' remuneration report and modified our draft proposals as a result. We value the opportunity to listen to our shareholders' views, and provide further information and rationale for certain changes where requested. We are committed to maintaining an open and transparent dialogue with shareholders and will be seeking to continue these constructive discussions during 2012.

In ensuring that remuneration is linked to performance, is transparent and is easy to understand, the following principles are applied in determining remuneration:

- Encourage behaviours that deliver results which are aligned to the interests of shareholders and other stakeholders
- Be competitive and reflect Group and personal performance and the individual's value in the market, without paying more than is necessary
- Provide an appropriate level of fixed remuneration and ensure that short and long-term incentives balance risk and reward
- Reflect Standard Life's role in promoting best remuneration practice in the wider market

The Remuneration Committee ensures that decisions are made on an informed, objective and independent basis. Our approach to setting and assessing annual bonus and LTIP targets is as follows:

- The starting point for setting incentive targets is the business plan approved by the Board in order to ensure that remuneration supports our business strategy. The Remuneration Committee also takes into account how this level of performance compares against prior year and market expectations
- Our approach to adjustments to the reported figures is agreed up front to ensure consistency
- In reviewing the outturn of both our short and long-term plans, the Remuneration Committee considers the details of the results to ensure that the reported figures reflect the underlying performance of the business
- We consider how performance has been achieved as well as what the results show, by reviewing executives' performance against their individual scorecards
- The views of the Group Chief Risk Officer and the Risk & Capital Committee are sought to ensure that performance has not been achieved as a result of excessive risk taking within the business and that remuneration structures do not impact on the risk profile of the business

The Remuneration Committee ensures that there are regular opportunities for members to discuss matters without any executives present.

The Remuneration Committee is also responsible for overseeing remuneration policy for the Group as a whole and is mindful of pay and conditions for the wider workforce when determining executive remuneration. That is why the Group People and Operations Director is asked to keep the Remuneration Committee informed about the approach on salary increases, structure of incentive arrangements and distribution of outcomes throughout the wider organisation, as well as the take-up of all-employee share ownership plans, employee engagement survey results and staff morale.

Taking into account these broader considerations, with the exception of Jackie Hunt, base salary increases for Executive Directors together with all other elements of all the executive directors' packages for the year are unchanged

Our CFO, Jackie Hunt, was appointed in 2010. As described last year, and in line with our remuneration philosophy, Jackie's remuneration on appointment was set at a level below that of her predecessor and below the market range with the intention of moving to a more competitive level of remuneration as she became established in the role. This approach is consistent with how we treat employees who are promoted throughout the organisation. Following a successful period for Jackie, the Remuneration Committee has agreed to increase her base salary by 7.5% with effect from 16 March 2012.

Looking forward, we will be undertaking a review of long-term incentive arrangements for the Group and for Standard Life Investments during 2012 and will be seeking the views of our key investors as any proposed amendments or new arrangements are developed.

The Remuneration Committee has also maintained a keen interest in the commentary and regulations that continue to impact pay in financial services and wider industry. As a leading investor and a member of the FTSE 100 we advocate the highest standards of corporate governance, within the practical and commercial reality in which we operate. Therefore, I have taken the opportunity to respond to the Department of Business, Innovation & Skills discussion on executive pay and its consultation on the narrative reporting framework. We believe that the proposals announced by the Government on 24 January 2012 merit careful consideration and we welcome the opportunity to participate in the forthcoming consultation process to provide input on the practical aspects of the proposals.

This Directors' remuneration report sets out the details of our remuneration policy, the Remuneration Committee's activities during the year, and information which supports the vesting outcomes and payouts under our various incentive arrangements, together with information that is subject to audit. A resolution to approve the Directors' remuneration report will be put forward at the AGM, which I hope you will support.



Crawford Gillies, Chairman, Remuneration Committee

Remuneration Committee members and our role

Members: In 2011, the Remuneration Committee was made up of four independent non-executive Directors: Crawford Gillies (Remuneration Committee Chairman), Lord Blackwell, Colin Buchan and Sheelagh Whittaker. From 1 January 2012 Pierre Danon has joined the Remuneration Committee.

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 benefit 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 or request a copy from our Group Company Secretary and General Counsel.

External advisers

During the year, the Remuneration Committee took external advice from Deloitte LLP who were appointed as external advisors to the Remuneration Committee from October 2011 after a tender process conducted by the Remuneration Committee's Chairman. Having considered the merits of a number of potential candidates it was concluded that Deloitte LLP were likely to provide the appropriate level of support required. As noted, on page 42 Gerry Grimstone is an Independent Non-Executive of Deloitte LLP. Both the Chairman and the Remuneration Committee recognised the need to ensure there is no conflict arising from the appointment of Deloitte LLP to advise the Remuneration Committee. We are satisfied that the nature of the Chairman's appointment to Deloitte LLP does not give rise to such conflict and that there are appropriate internal controls and segregation of duties in place. The Chairman did not play a part in the tender and selection process.

A representative from Deloitte LLP attends, by invitation, all Remuneration Committee meetings to provide information and updates on external developments affecting remuneration as well as specific matters raised by the Remuneration Committee. Outwith the meetings, the Remuneration Committee's Chairman seeks advice on remuneration matters on an ongoing basis. The Remuneration Committee also received information on comparative pay data from Towers Watson. As well as advising the Remuneration Committee, Deloitte LLP also provided tax, risk and re-organisation services to the Group during the year.

Prior to this, Hewitt New Bridge Street ('HNBS', part of Aon Hewitt) performed this role. One of Aon Hewitt's group companies is a customer of Standard Life. The framework and operation of the internal control process, segregation of duties and remuneration structures within Aon Hewitt and HNBS was formally assessed in 2010 and there were no changes that caused the Remuneration Committee to reconsider its opinion that HNBS was independent before the relationship ended in October 2011.

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

What we did in 2011

The Remuneration Committee met eight times during 2011. The issues discussed and/or approved included:

January to March:

- 2010 Directors' remuneration report and 2011 AGM resolutions
- Approval of the 2011 Long-Term Incentive Plan (LTIP) and annual bonus design and performance targets, including the performance measures in the Chief Executive's 2011 scorecard
- Changes within the wider executive population, including exit terms for senior employees leaving the Group
- Effectiveness of the Remuneration Committee and its advisers in 2010, together with a review of the Remuneration Committee's Terms of Reference
- Executive Director and Executive team salaries
- Level of 2010 annual bonus payout across the Group,
- Level of vesting of 2008 awards under the Group and Standard Life Investments LTIPs after liaising with the Risk and Capital Committee
- Risk assessment of 2010 Group performance and 2011 remuneration structures after liaising with the Group Chief Risk Officer and Risk and Capital Committee
- Review of Executive Service Agreements

April to June:

- Changes within the wider executive population, including the appointment of Paul Matthews, the new UK CEO, and exit terms for senior employees leaving the Group
- Feedback received from shareholders and voting agencies following investor consultation and the 2011 AGM
- An updated process for reviewing and approving the design of new incentive plans in order to meet guidance/ requirements set out in the FSA Remuneration Code¹, Walker Report and Solvency 2

July to September:

- 2011 annual bonus and 2009 LTIP performance updates
- Changes within the wider executive population, including exit terms for senior employees leaving the Group
- Executive remuneration market trends update and any impact on Standard Life's remuneration policy
- Review of Remuneration Committee advisers

October to December:

- 2011 annual bonus and 2009 LTIP performance updates
- 2012 LTIP and annual bonus design, including the measures in the Chief Executive's 2012 scorecard
- Appointment of new Remuneration Committee advisor
- Changes within the wider executive population, including the appointment of Charles Guay, new CEO of SL Canada, and exit terms for senior employees leaving the Group
- Effectiveness of the Remuneration Committee, together with a review of the Remuneration Committee's Terms of Reference and our remuneration principles
- Market governance update including considering the impact of the FSA's "Dear CEO" letter
- Response to the Department of Business, Innovation & Skills (BIS) consultation on executive remuneration and narrative reporting
- Review of executive remuneration policy
- Executive Team's annual pay reviews
- Standard Life Investments' performance relative to the market and overview of UK sales incentive plans
- Chairman's 2012 fee for recommendation to the Board
- Review of Voluntary Shareholding Guidelines

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 2012 remuneration package:

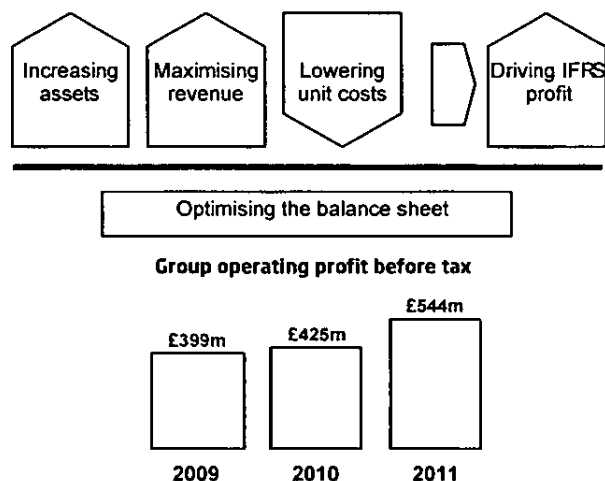
Fixed	Base salary	Reflects the relative market value of an individual's role, their position and sustained performance
	Benefits	Provides monetary and non-monetary items that assist employees in carrying out their duties efficiently, including car allowance and private medical cover
	Pension	Gives specific 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 executive 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 an appropriate rate, taking into account rates paid for similar roles within the financial services industry or other industries where the skills are transferable • Set salary of executives 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

How our remuneration policy supports our business strategy

Our aim is to drive shareholder value through being a leading, customer-centric business focused on long-term savings and investments propositions in our chosen markets. We have a simple business model which focuses on driving IFRS profitability. This is the key performance indicator used to assess our performance internally and to report to shareholders.



Our remuneration policy is aligned with and supports our business strategy:

- The Group LTIP is based on the achievement of Group operating profit targets. This aligns executives' long-term rewards with the Group's strategy to deliver sustainable IFRS profits growth.
- The annual bonus is based on a balanced scorecard approach and focuses on the activities which support the delivery of our strategic priorities for the year. This includes performance against our broader financial KPIs as well as people, customer and brand measures.
- The deferral of a portion of the annual bonus, along with the emphasis on long-term performance through the Group LTIP, supports our strategy of being a long-term, sustainable business.
- The Chief Executive of Standard Life Investments also participates in incentive plans which are directly linked to the performance of investment and profit performance of Standard Life Investments. These are aligned with the strategy for Standard Life Investments of delivering superior investment performance, supported by exceptional client service.

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 five examples below:

- The 2011 annual bonus was based on Group and personal performance. Performance was measured using scorecards which included financial, strategic, customer and external leadership and people 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 Remuneration Committee strikes a balance between making the targets stretching, but not so high as to promote risk taking. The 2012 annual bonus will also be based on Group and personal performance measures using a similarly balanced scorecard underpinned by sound risk management.
- In 2010, the Remuneration Committee changed the Group LTIP targets from measuring performance predominantly based on a return on an embedded value (RoEV) basis to being based on an operating profits performance measure. This change was made to minimise the risk of the incentive scheme driving behaviours in a different direction to the Group's strategy. The Remuneration Committee also recognised the importance of sound risk management by applying risk-based underpins to LTIP awards.
- The bonus plan and LTIP include a claw-back provision. This allows the Remuneration Committee to seek awards to be repaid if misconduct is subsequently discovered, or if the Group's financial statements are restated for up to two years from the date of the bonus award or the date the LTIP vests.
- Executive Directors and members of the Executive Team are required to defer up to half of any Group bonus above 25% of salary (subject to this being a minimum of 10% of salary) into Standard Life plc shares for two years subject to claw-back provisions
- 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 Group Chief Risk Officer and the Risk and Capital Committee that 2011 performance was not due to excessive risk taking within the business and that the 2012 remuneration arrangements did not impact on the risk profile of the Group.

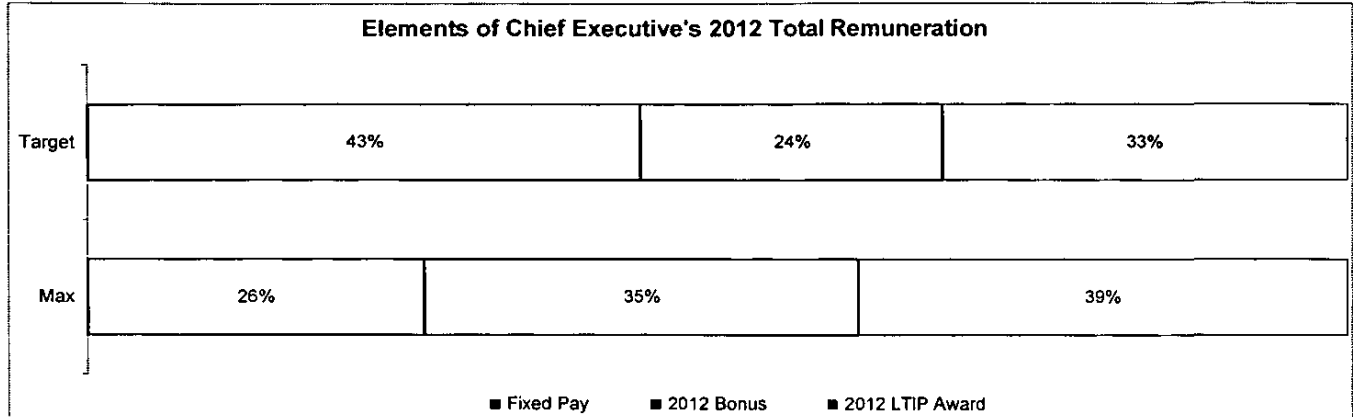
You can find out more about our approach to risk management in Section 1.5 of the Business review and in the Corporate governance report.

Our remuneration policy for 2012

		Our policy for 2012
Fixed	Base salary and benefits	<p>With effect from 16 March 2012 base salaries are as follows (the increase from 2011 is shown):</p> <ul style="list-style-type: none"> • David Nish - £775,000 (0%) • Jackie Hunt - £537,500 (7.5%) • Keith Skeoch - £425,000 (0%) <p>Benefits include car allowance and private medical cover</p>
	Pension	<p>Executive Directors receive a cash allowance as a percentage of salary:</p> <ul style="list-style-type: none"> • David Nish – 30% • Jackie Hunt – 25% • Keith Skeoch - 25%
Variable	Annual bonus	<p>Bonuses are based on a scorecard approach which assesses performance against a range of financial, strategic / delivery / process, customer and external leadership, people and personal performance measures.</p> <p>The maximum bonus opportunity that can be earned in respect of 2012's Group performance is as follows:</p> <ul style="list-style-type: none"> • David Nish – 175% of salary • Jackie Hunt – 150% of salary • Keith Skeoch - 60% of salary <p>Half of any Group bonus above 25% of salary is deferred for two years. Both the cash and deferred elements are subject to claw-back for two years from the date of award.</p>
		<p>Keith Skeoch, Chief Executive Officer Standard Life Investments, also participates in two Standard Life Investments' discretionary cash bonus plans:</p> <ul style="list-style-type: none"> • Personal bonus plan – capped at 105% of salary • Company bonus plan – normal maximum of 200% of salary
	LTIP	<p>The 2012 Group LTIP awards are based on 2014 Group operating profit (excluding joint ventures) before tax. Awards are subject to two discretionary underpins to be assessed by the Risk and Capital Committee and the Remuneration Committee.</p> <p>Award levels for 2012 are as follows:</p> <ul style="list-style-type: none"> • David Nish – 200% of salary • Jackie Hunt – 125% of salary • Keith Skeoch - 200% of salary <p>Awards remain subject to claw-back for two years from the date of vesting.</p> <p>Awards may also be reduced based on individual performance during the performance period.</p>

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 2012.



Notes:

- Fixed Pay includes base salary, car allowance, private medical insurance and pension allowance payable during 2012
- 2012 Bonus is the cash and deferred elements of the 2012 Group annual bonus where the target amount reflects 42.9% of the maximum
- 2012 LTIP award is the 2012 award under the Group LTIP where the target amount reflects 50% of the maximum award

What we did in 2011 and our approach for 2012

Base salary

2011: The Remuneration Committee approved annual increases for David Nish and Jackie Hunt with effect from 16 March 2011 to reflect their performance during 2010 and the approach taken to salary reviews for other executives across the Group. Keith Skeoch's salary was unchanged in 2011.

2012: The Remuneration Committee approved an increase of 7.5% for Jackie Hunt with effect from 16 March 2012 - base salaries for David Nish and Keith Skeoch remain unchanged.

	Annual base salary at 1 January 2011	Annual base salary at 16 March 2011	Annual base salary at 31 December 2011	Annual base salary from 16 March 2012
David Nish	£725,000	£775,000	£775,000	£775,000
Keith Skeoch	£425,000	£425,000	£425,000	£425,000
Jackie Hunt	£475,000	£500,000	£500,000	£537,500

Benefits

2011 and 2012: 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 accrual 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
- Maintaining the link between final salary and pensionable service to 31 December 2007 plus a contribution by the Company into a company sponsored defined contribution arrangement.

Employees starting after 16 November 2004 were able to join our Defined Contribution plan (Group Flexible Retirement Plan (GFRP) - previously GPPP). Executive Directors may also choose between the GFRP and a cash allowance of 25% of salary. The cash allowance does not count for bonus and share plan purposes.

2011 and 2012: David Nish, Keith Skeoch and Jackie Hunt elected to receive a cash allowance of 25% of salary. The Remuneration Committee approved an increase to 30% for David Nish with effect from 16 March 2011 and this was disclosed in the 2010 Directors' remuneration report. For 2012 the allowances remain unchanged.

Annual bonus

2011: In line with the annual bonus plan design adopted in 2010, David Nish and Keith Skeoch were awarded bonuses in 2011 based on 90% Group performance and 10% personal performance and Jackie Hunt based on 80% Group performance and 20% 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:

Group performance (underpinned by sound risk management)					
Elements (weighting)	Financial (36%) ¹ (32%) ²	Strategic/delivery/ process (27%) ¹ (24%) ²	Customer and external leadership (13.5%) ¹ (12%) ²	People (13.5%) ¹ (12%) ²	Personal performance (10%) ¹ (20%) ²
Measures	<ul style="list-style-type: none"> Group operating profit, EEV operating profit before tax (EVOP) and management expenses Long-term growth Balance sheet management 	<ul style="list-style-type: none"> Delivery of 2011 plan Ensure an appropriate balance of the business portfolio Drive and implement the long-term transformation plan Reduce unrewarded risk 	<ul style="list-style-type: none"> Customer driven culture Reposition and strengthen the Standard Life brand Enhance profile with key stakeholders 	<ul style="list-style-type: none"> Embed strategic vision across Standard Life 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	<p>Despite another challenging year for financial markets, Standard Life delivered very strong financial performance illustrated by:</p> <ul style="list-style-type: none"> Group operating profit significantly ahead of target up 28% at £544m Strong contribution by each of the Group's businesses with profitability and sales metrics well ahead of target Management of the balance sheet significantly ahead of stretch targets Whilst long-term net inflows were behind target, revenue generated from assets was ahead of target 	<p>The quality of strategic work has improved across the year with strong progress against the 2011 strategic deliverables and the continued delivery of the Group transformation plan which has delivered significant improvements in how the Group operates.</p>	<p>Very strong levels of performance achieved against target, led by the successful launch of the Group's refreshed brand and visual identity</p>	<p>Very strong progress made. The results of the Group's all employee survey signalled the overall strength in the belief of:</p> <ul style="list-style-type: none"> The Group's overall direction The commitment to our communities; and The focus on delivering quality to our customers <p>In addition, solid progress has been made in creating a high performing organisation that is flexible and fit for the future</p>	<p>Strong individual performance by each of the Executive Directors against their own individual objectives.</p>
<p>Based on performance against each of the four Group performance elements, the Remuneration Committee approved a rating of 4.2 out of 5 for performance against the Group scorecard during 2011.</p>					

¹ Weighting for David Nish and Keith Skeoch.

² Weighting for Jackie Hunt.

- The rating of 4.2 is based on a scale of 1 to 5 with 5 reflecting maximum performance, 3 on target and 1 unsatisfactory
- You can find out more about our financial KPIs in Section 1.2 of the Business review
- Before approving the level of performance in 2011, the Remuneration Committee sought the views of the Group Chief Risk Officer and the Risk and Capital Committee on the level of underlying risk within the business

The following table shows the awards approved by the Remuneration Committee for 2011. This includes:

- The total bonuses earned for performance in 2011, 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 remuneration committee relating to Keith Skeoch's payments under Standard Life Investments bonus plans. These were approved by the Group Remuneration Committee. Keith's Standard Life

Investments' awards reflect Standard Life Investments' very strong performance in 2011, which continued to build on the momentum of previous years' investment performance and sales.

	Group cash bonus	Group deferred bonus ¹	Standard Life Investments' cash bonuses	Total Bonuses ²
David Nish	£616,125	£422,375	-	£1,038,500
Keith Skeoch	£154,222	£47,972	£1,256,088	£1,458,282
Jackie Hunt	£358,875	£233,875	-	£592,750

¹ Half of awards over 25% of salary at 31 December 2011 are deferred into Standard Life plc shares which vest in March 2014, subject to the amount being deferred being at least 10% of salary.

² Annual bonus payments are not pensionable.

2012: As in 2011, 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 group headings - financial, strategy/delivery/process, customer and external leadership and people. Personal performance will be defined by the individual's scorecard and behaviours against the Group's leadership framework. The annual bonus for David Nish and Keith Skeoch will be weighted 90% Group performance and 10% personal performance. Jackie Hunt's annual bonus will be weighted 80% Group performance and 20% personal performance.

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 2012'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 2012, 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 Group's financial statements are 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 Remuneration Committee provided that it is in line with its principles on total remuneration.
- Following feedback received from investors in 2011, the Remuneration Committee confirmed that it would only use such discretion (i) if Keith Skeoch's bonuses (both company and personal) were at maximum; (ii) following consultation with the Group's largest shareholders on the Remuneration Committee's intention to use such discretion; and (iii) on the basis that the Remuneration Committee would ensure that any award made to Keith Skeoch did not exceed 2.5% of profits delivered above the stretch targets. In addition, the Remuneration Committee also confirmed that any additional payment made to Keith would be funded from Standard Life Investments' bonus pool and would be made as a deferred award subject to claw-back.

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, its remuneration committee proposes the level of bonus payments. This is then referred to the Group 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 Group operating profit (excluding joint ventures) before tax as the measure under the 2010 and future LTIP awards. This was to align executives' long-term rewards with the Group's strategy to deliver sustainable operating 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 International Chief Executive's scorecards which determine the level of their annual bonus.

In 2010, following consultation with its key investors and shareholder representative bodies, the Remuneration Committee also approved:

- The use of an operating profits 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 applied to the whole 2009 award.
- The introduction of two underpins when assessing the Group performance measure. 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 operating profit performance reflects overall Group performance.

2009 award: Due to commercial sensitivity, the amended targets for the 2009 award were not disclosed in the 2010 Directors' remuneration report. The Remuneration Committee committed to disclosing the targets in the 2011 report and as such, the targets together with level of vesting of the 2009 award are shown below. Overall, this resulted in 63.5% of the shares vesting from the 2009 award.

One third on RoEV performance for 2009 against the following range:		
2009 performance level	2009 RoEV targets	Level of vesting achieved before applying TSR multiplier ^{1,2}
Threshold	9%	64%
Target	10%	(Actual: 10.6%)
Maximum	11% and above	

¹ Vesting being on a straight-line basis between these points.
² Expressed as a percentage of the award.

Plus

Two thirds on Group operating profits before tax (excluding joint ventures) in 2011:		
2011 performance level	2011 Group operating profit before tax (excluding JVs)	Level of vesting achieved before applying TSR multiplier ^{1,2}
Threshold	£297.5m	80%
Target	£350m	(Actual: £544m)
Maximum	£402.5m and above	

¹ Vesting between threshold and maximum levels is based on an incremental basis using predetermined milestones.
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	Multiplier achieved 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	0.85

¹ Standard Life's TSR performance to 31 December 2011 (TSR of 1%) was more than 3% below the FTSE 100's performance (TSR of 43.5%). This resulted in a multiplier of 0.85 for the award.

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

Performance	2012 Group 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 also on 25 June 2010.

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

Performance	2013 Group 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 was equivalent to 200% of salary. This level of award was made to David Nish and Keith Skeoch on 31 March 2011. Jackie Hunt received an award equivalent to 125% of salary also on 31 March 2011.

2012 award: The Remuneration Committee approved the use of 2014 Group operating profit (excluding joint ventures) before tax against the following range as the core measure.

Performance	2014 Group operating profit before tax (excluding JVs)	Proportion vesting (% of total award) ¹
Threshold	£675m	0%
Maximum	£825m	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 2014 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 2011 and 2012 awards are subject to an additional personal performance underpin. This 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 2011 and 2012 awards are also subject to claw-back. This allows the Remuneration 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 Group's financial statements for 2013 (in the case of the 2011 award) or for 2014 (in the case of the 2012 award) are 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 ten years.
- The level of vesting, subject to the above hurdle being satisfied, will be based on consolidated cumulative three-year third party earnings before interest and tax (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 Remuneration 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.

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 equivalent to 200% of salary (at maximum vesting). No other executive Directors received an award under the Standard Life Investments LTIP.

2011 SLI LTIP award: The 2011 SLI LTIP award is subject to 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 received an award under this plan equivalent to 200% of salary (at maximum vesting) over Standard Life plc shares. No other executive Directors received an award under the SLI LTIP.

2012 SLI LTIP award: The 2012 SLI LTIP award is subject to the same performance measures used for the 2010 and 2011 award with EBIT performance and the investment performance hurdle being measured over the three years to 31 December 2014. 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 reviewed the guidelines at its December 2011 meeting and decided to make no change to the existing guidelines for 2012.

On 31 December 2011, 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 December 2011 ¹	Guideline already met?	Unvested LTIP awards as a % of salary/fee at 31 December 2011 ²	Unvested deferred bonus awards as a % of salary/fee at 31 December 2011 ³
Gerry Grimstone	100%	29 May 2011	149%	Yes	-	-
David Nish ⁴	150%	31 December 2014	178 %	Yes	493%	77%
Keith Skeoch	100%	10 July 2011	331 %	Yes	935%	15%
Jackie Hunt	100%	27 April 2015	21%	No	320%	53%

¹ Reflects closing price on 31 December 2011 of 206.3p.

² Based on the maximum value of unvested LTIP as at 31 December 2011 and including the shares equivalent dividends announced between November 2009 and November 2011. 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 and 2010 bonus as at 31 December 2011. These will vest in March 2012 and March 2013 respectively 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 was 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. As at 1 November 2011 he had achieved this target.

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

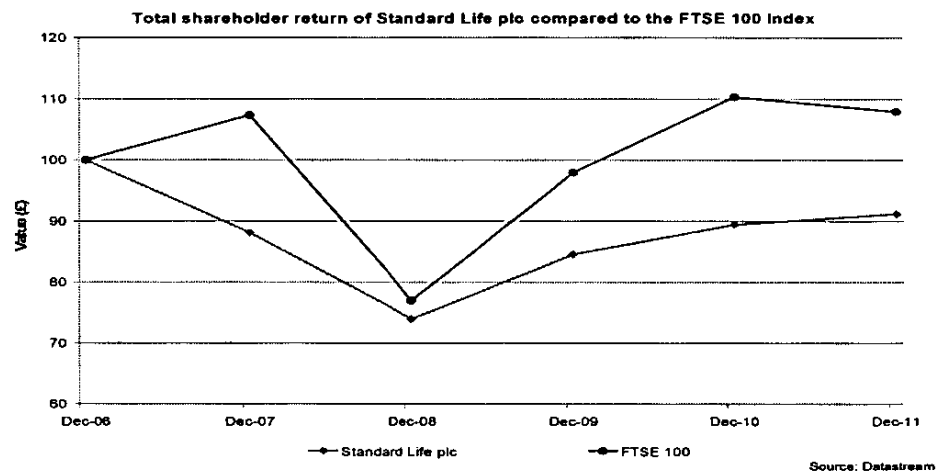
	Total number of shares owned at 1 January 2011	Shares acquired/(sold) by the Director during the period	Total number of shares owned at 31 December 2011	Shares acquired/(sold) by the Director during the period 31 December 2011 to 5 March 2012 ¹
Executive Directors				
David Nish	423,889	244,540	668,429	132
Keith Skeoch	637,859	43,599	681,458	132
Jackie Hunt	13,284	36,396	49,680	-
Non-executive Directors				
Kent Atkinson	4,129	277	4,406	-
Lord Blackwell	6,417	429	6,846	-
Colin Buchan	29,250	871	30,121	-
Crawford Gillies	47,021	3,149	50,170	-
Gerry Grimstone	236,164	16,380	252,544	-
Baroness McDonagh	2,263	152	2,415	-
David Grigson	15,000	-	15,000	-
Sheelagh Whittaker	10,611	710	11,321	-
Pierre Danon	-	12,000	12,000	-

¹ Acquired under the Standard Life (Employee) Share Plan in January and February 2012.

Note: John Paynter, appointed as a Non-executive Director with effect from 1 January 2012 held 15,000 shares in Standard Life plc at the date of his appointment.

Other pay and share matters

Performance graph: This graph shows the difference between investing £100 in Standard Life plc and the FTSE 100 on 1 January 2007 and 31 December 2011. 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 2011, 69% 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 2011, 67% of eligible employees in the UK were making a monthly average contribution of £40. 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 750 employees in these countries are buying shares each month.
- In 2011, shareholders approved the adoption of our new Sharesave Plan which allows UK tax resident employees to save towards the exercise of options over Standard Life plc shares with the option price set at the beginning of the savings period at a discount of up to 20% of the market price. The Company is looking to roll out this plan more widely, subject to local tax and regulatory rules. As at 31 December 2011, 40% of eligible employees in the UK were making a monthly average contribution of £102.

Share dilution limits: The LTIPs, the Standard Life (Employee) Share Plan and the Sharesave Plan contain dilution limits that comply with the guidelines produced by the Association of British Insurers (ABI). On 31 December 2011, the Company's standing against these dilution limits was:

- 2.41% against 5% in any 10 years under all executive share plans (Group LTIP and 2010 and 2011 awards under the Standard Life Investments LTIP)
- 2.95% against 10% in any 10 years under all share plans (Group LTIP, Standard Life (Employee) Share Plan, 2010 Standard Life Investments LTIP and the Sharesave Plan)

As is normal practice, there are employee trusts that operate in conjunction with the LTIPs and the Standard Life (Employee) Share Plan. On 31 December 2011, the number of unallocated shares held within these trusts was 24,355 in respect of the Standard Life (Employee) Share Plan. In addition, the trust held 10,879,286 shares acquired to satisfy the 2010 and 2011 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	2011 fees
David Nish	Non-executive Director and Chairman of the Audit Committee of Northern Foods plc (to April 2011)	£35,700
	Deputy Chairman of Board of Association of British Insurers	Nil
	Chairman of Insurance Committee of Association of British Insurers (from June 2011)	Nil
Keith Skeoch	Director of Investment Management Association	Nil
	Member of the Advisory Board of Reform Scotland	Nil
	Member of the Advisory Council of Institutional Investor Committee	Nil
Jackie Hunt	Chair of Financial Regulation and Taxation Committee of Association of British Insurers (from June 2011)	Nil

Note: In March 2012 Keith Skeoch was appointed to the Board of the Financial Reporting Council.

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 annually 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, Sheelagh Whittaker, Pierre Danon and John Paynter – no notice period
Termination payment	No provision for compensation payments
Remuneration	Fees as described below Reimbursement of travel and other reasonable expenses incurred in the performance of their duties No pension, annual bonus or other incentive payment permitted
Dates of letters of appointment	Gerry Grimstone 6 June 2003 ¹ as Director and 28 February 2007 as Chairman (continuation 27 May 2010) Kent Atkinson ³ 1 February 2005 ¹ (continuation 30 March 2009) Lord Blackwell 6 June 2003 ^{1,3} (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 Pierre Danon 20 October 2011 John Paynter 21 December 2011 ⁴

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 Retired with effect from 31 December 2011.

³ Appointed as Senior Independent Director effective from 19 May 2008.

⁴ Appointed as a non-executive Director with effect from 1 January 2012.

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 the Chairman and the non-executive Directors were reviewed by the Board in January 2012.

	2012 ¹	2011
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 Committee (formerly 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 ⁴	n/a	£25,000
Chairman of Investment Committee	£15,000	n/a
Chairman of Standard Life Investments	£37,500	n/a

¹ The core fee of £70,000 paid to each non-executive Director (including the Chairman) will total £630,000 for 2012. 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 £1,050,000 for 2012.

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.

⁴ This previously combined responsibility will be separated into two roles in 2012 – Chairman of Investment Committee and Chairman of Standard Life Investments – with separate role holders.

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 2011, the Directors contributed £4,124,711 (2010: £1,297,034) to products sold by the Group.

Directors' remuneration for 2011 (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 2011.

	Base salary/ fees ¹ £000	Pension allowance £000	Taxable benefits ² £000	Annual bonus ³ £000	Total 2011 £000	Total 2010 £000
Executive Directors						
David Nish	765	222	17	1,038	2,042	1,971
Keith Skeoch	425	106	12	1,458	2,001	1,872
Jackie Hunt ⁴	486	124	16	593	1,219	766
Non-executive Directors⁵						
Kent Atkinson	95	-	-	-	95	95
Lord Blackwell	110	-	-	-	110	110
Colin Buchan	95	-	-	-	95	95
Crawford Gillies	95	-	-	-	95	95
Gerry Grimstone	350	-	12	-	362	362
Baroness McDonagh	70	-	-	-	70	70
David Grigson	70	-	-	-	70	70
Sheelagh Whittaker	70	-	-	-	70	70
Pierre Danon ⁶	14	-	-	-	14	-
Total	2,645	452	57	3,089	6,243	5,576

¹ Figures reflect salaries/fees earned during 2011.

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

³ Bonuses reflect the cash and deferred element for 2011 performance.

⁴ Jackie Hunt's 2010 figures reflect her earnings from 14 May 2010 when she was appointed as Chief Financial Officer. 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 2010 total 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 the Risk and Capital Committee 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 Pierre Danon was appointed on 20 October 2011.

2. Directors' pension information

David Nish and Jackie Hunt are not members of this scheme. Keith Skeoch transferred out his benefits in 2011. The following table sets out accrued benefits held in the final salary scheme by Keith Skeoch.

	Accrued entitlement at 31 December 2010 £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 December 2011 £000
Keith Skeoch	43	4	2	-	49	-

	Age at 31 December 2011	Years of pensionable service at 31 December 2011	Transfer value of pension at 31 January 2010 £000	Increase in transfer value £000	Transfers out £000	Transfer value of pension at 31 December 2011 £000
Keith Skeoch	55	8	738	314	1,052	-

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. On 21 December 2011, Keith Skeoch transferred the value of his final salary pension (£1,052,000) out of the Staff Pension Scheme. This transfer was calculated by the Scheme Actuary and approved by the Trustees of the Staff Pension Scheme. At 31 December 2011, no liabilities remained in the scheme for Keith Skeoch. Keith transferred the monies from the transfer of his pension fund into Standard Life products.

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 2011 ¹	Exercised during year	Lapsed during year ²	At end of year	Share price at award date ³	Share price on exercise date	Actual date of exercise	Total value on exercise date
David Nish⁴											
21/04/08	21/04/11	255,411	-	-	-	255,411	-	£2.4715	-	-	-
20/04/09	20/04/12	319,636	-	50,035	-	-	369,671	£1.8478	-	-	-
25/06/10	25/06/13	778,983	-	69,680	-	-	848,663	£1.8614	-	-	-
31/03/11	31/03/14	-	752,573	17,180	-	-	769,753	£2.0596	-	-	-
		1,354,030	752,573	136,895	-	255,411	1,988,087				
Keith Skeoch											
21/04/08	21/04/11	141,614	-	-	-	141,614	-	£2.4715	-	-	-
20/04/09	20/04/12	340,945	-	53,371	-	-	394,316	£1.8478	-	-	-
16/06/10 ⁵	16/06/13	383,057	-	34,264	-	-	417,321	£1.8274	-	-	-
25/06/10	25/06/13	376,061	-	33,838	-	-	409,899	£1.8614	-	-	-
31/03/11 ⁶	31/03/14	-	412,701	9,421	-	-	422,122	£2.0596	-	-	-
31/03/11	31/03/14	-	412,701	9,421	-	-	422,122	£2.0596	-	-	-
		1,241,677	825,402	140,115	-	141,614	2,065,580				
Jackie Hunt^{4,7}											
20/04/09	20/04/12	152,695	-	23,901	-	-	176,596	£1.8478	-	-	-
25/06/10	25/06/13	318,980	-	28,533	-	-	347,513	£1.8614	-	-	-
31/03/11	31/03/14	-	303,456	6,927	-	-	310,383	£2.0596	-	-	-
		471,675	303,456	59,361	-	-	834,492				

¹ The Remuneration Committee has invoked the power within the LTIP rules in relation to the 2009, 2010 and 2011 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 2009 and November 2011. All awards were made under the Group LTIP unless otherwise stated.

² The lapsed awards reflect the full element of the 2008 award (100%) which lapsed in April 2011.

³ Based on the average share price for the five dealing days immediately before the awards were granted.

⁴ In addition to their interests in the LTIPs David Nish and Jackie Hunt were also granted options under the Standard Life Sharesave Plan. David Nish has been granted options over 9,669 Standard Life plc shares exercisable in 2016 and Jackie Hunt has been granted options over 5,715 Standard Life plc shares exercisable in 2014. The exercise price for these Sharesave options is 157.46p.

⁵ 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.

⁶ Keith Skeoch also received an award on 31 March 2011 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 to receive 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 vested on 15 March 2011 with a value of £112,862 at the date of exercise (210.5p).

Directors' remuneration report *continued*

Note: In addition to the above interests, the executive Directors have interests in shares as a result of the deferred element of the 2009 and 2010 bonus awards. The initial value deferred is reported in the annual bonus figures shown in the Directors' remuneration table for the year in which the bonus is payable. The number of shares in which each Director has an interest is as follows: David Nish 88,097 (2009), 211,325 (2010); Jackie Hunt 45,393 (2009), 89,868 (2010); Keith Skeoch 6,895 (2009), 26,111 (2010). These include shares in lieu of dividends from date of award to December 2011. The deferred element of the 2009 bonus vests on 31 March 2012 and the deferred element of the 2010 bonus on 31 March 2013.

The closing market price of the shares at 31 December 2011 was 206.3p and the range for the year was 172p to 244.7p.

Approved on behalf of the Board of Directors on 13 March 2012:



Crawford Gillies, Chairman Remuneration Committee

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 2011 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 50, 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2011 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 51 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:

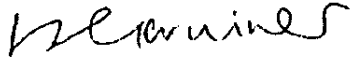
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A corporate governance statement has not been prepared by the Company

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 64, in relation to going concern
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance 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 2011 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
13 March 2012

- (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 2011

	Notes	2011 £m	2010 ¹ £m
Revenue			
Gross earned premium		3,343	3,244
Premium ceded to reinsurers		(98)	(94)
Net earned premium		3,245	3,150
Net investment return	2	4,911	14,570
Fee and commission income	3	855	752
Other income		75	97
Total net revenue		9,086	18,569
Expenses			
Claims and benefits paid		6,245	5,513
Claim recoveries from reinsurers		(620)	(619)
Net insurance benefits and claims		5,625	4,894
Change in reinsurance assets and liabilities	33	383	97
Change in insurance and participating liabilities	33	980	2,181
Change in investment contract liabilities	33	(757)	7,740
Change in unallocated divisible surplus	34	(87)	(22)
Expenses under arrangements with reinsurers	4	516	569
Administrative expenses			
Restructuring and corporate transaction expenses	8	72	72
Other administrative expenses	5	1,591	1,535
Total administrative expenses		1,663	1,607
Change in liability for third party interest in consolidated funds	31	103	443
Finance costs		116	113
Total expenses		8,542	17,622
Share of profit from associates and joint ventures	16	51	24
Profit before tax		595	971
Tax expense attributable to policyholders' returns	9	217	400
Profit before tax attributable to equity holders' profits		378	571
Total tax expense		249	498
Less: Tax attributable to policyholders' returns		(217)	(400)
Tax expense attributable to equity holders' profits	9	32	98
Profit for the year from continuing operations		346	473
Profit for the year from discontinued operations	10	-	20
Profit for the year		346	493
Attributable to:			
Equity holders of Standard Life plc		298	432
Non-controlling interests	31	48	61
		346	493
Earnings per share from continuing operations			
Basic (pence per share)	11	13.0	18.4
Diluted (pence per share)	11	12.9	18.3

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 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 2011

	Notes	2011 £m	2010 £m
Profit for the year		346	493
Less: Profit from discontinued operations	10	-	(20)
Profit from continuing operations		346	473
Fair value losses on cash flow hedges	30	-	(2)
Actuarial (losses)/gains on defined benefit pension schemes	38	(88)	184
Revaluation of land and buildings	18	(5)	(14)
Net investment hedge	30	13	(39)
Exchange differences on translating foreign operations	30	(53)	122
Equity movements transferred to unallocated divisible surplus	30	11	(2)
Aggregate equity holder tax effect of items recognised in comprehensive income	9	27	(60)
Other comprehensive (expense)/income for the year from continuing operations		(95)	189
Total comprehensive income for the year from continuing operations		251	662
Profit from discontinued operations	10	-	20
Other comprehensive income from discontinued operations	10	-	24
Total comprehensive income for the year from discontinued operations		-	44
Total comprehensive income for the year		251	706
Attributable to:			
Equity holders of Standard Life plc			
From continuing operations		203	601
From discontinued operations		-	44
Non-controlling interests			
From continuing operations		48	61
		251	706

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 2011

	Notes	2011 £m	2010 ¹ £m
Operating profit before tax from continuing operations			
UK		220	234
Global investment management		125	103
Canada		187	110
International		40	15
Other		(28)	(37)
Operating profit before tax from continuing operations		544	425
Adjusted for the following items:			
Short-term fluctuations in investment return and economic assumption changes ²	12	(139)	157
Restructuring and corporate transaction expenses	8	(70)	(71)
Impairment of intangible assets		(5)	-
Impairment of investments in associates		-	(1)
Other operating profit adjustments ²		-	-
Non-operating (loss)/profit before tax from continuing operations		(214)	85
Profit attributable to non-controlling interests		48	61
Profit before tax attributable to equity holders' profits		378	571
Tax (expense)/credit attributable to:			
Operating profit		(87)	(89)
Adjusted items		55	(9)
Total tax expense attributable to equity holders' profits		(32)	(98)
Profit for the year from continuing operations		346	473
Profit for the year from discontinued operations	10	-	20
Profit for the year		346	493

¹ The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has been classified as a discontinued operation. The analysis of operating profit presented for the years ended 31 December 2011 and 31 December 2010 include continuing operations only.

² As described in Accounting policy (a) – Basis of preparation, the Group has amended its operating profit accounting policy. As a result, £30m has been reallocated from other operating profit adjustments to short-term fluctuations in investment return and economic assumption changes for the year ended 31 December 2010.

The Group's chosen supplementary measure of performance is operating profit. The Directors believe that operating profit provides a more meaningful indication of the long-term operating performance of the Group. To align the measure of the Group's performance with the long-term nature of its business, operating profit excludes items which create short-term volatility. Operating profit includes the impact of significant actions taken by management during the year. Refer to accounting policy (jj) for further details.

Consolidated statement of financial position As at 31 December 2011

	Notes	2011 £m	2010 £m
Assets			
Intangible assets	14	200	135
Deferred acquisition costs	15	920	881
Investments in associates and joint ventures	16	326	3,087
Investment property	17	8,743	8,410
Property, plant and equipment	18	160	164
Pension and other post-retirement benefit assets	38	342	281
Deferred tax assets	19	210	201
Reinsurance assets	33	6,818	6,962
Loans	21	3,219	3,136
Derivative financial assets	22	2,212	1,343
Equity securities and interests in pooled investment funds	20	58,531	60,307
Debt securities ¹	20	67,176	61,364
Receivables and other financial assets	23	1,851	1,743
Other assets	24	228	297
Cash and cash equivalents ¹	25	9,187	5,805
Total assets		160,123	154,116
Equity			
Share capital	26	235	228
Shares held by trusts	27	(19)	(21)
Share premium reserve	28	1,110	976
Retained earnings	29	1,030	1,094
Other reserves	30	1,605	1,626
Equity attributable to equity holders of Standard Life plc		3,961	3,903
Non-controlling interests	31	358	335
Total equity		4,319	4,238
Liabilities			
Non-participating contract liabilities	33	102,558	99,164
Participating contract liabilities	33	32,553	33,474
Reinsurance liabilities	33	245	-
Deposits received from reinsurers	35	6,036	6,021
Third party interest in consolidated funds	31	8,428	5,454
Borrowings	36	170	245
Subordinated liabilities	37	1,186	1,799
Pension and other post-retirement benefit provisions	38	115	71
Deferred income	39	388	382
Deferred tax liabilities	19	145	220
Income tax liabilities	19	149	181
Derivative financial liabilities	22	1,102	924
Other financial liabilities	40	2,603	1,826
Other liabilities	41	126	117
Total liabilities		155,804	149,878
Total equity and liabilities		160,123	154,116

¹ There has been a reallocation between cash and cash equivalents and debt securities of £1,629m at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

Approved on behalf of the Board of Directors on 13 March 2012 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 2011

2011	Notes	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
1 January		228	(21)	976	1,094	1,626	3,903	335	4,238
Profit for the year		-	-	-	298	-	298	48	346
Other comprehensive income for the year		-	-	-	(61)	(34)	(95)	-	(95)
Total comprehensive income for the year		-	-	-	237	(34)	203	48	251
Distributions to equity holders	13	-	-	-	(303)	-	(303)	-	(303)
Issue of share capital other than in cash		7	-	134	-	-	141	-	141
Reserves credit for employee share-based payment schemes		-	-	-	-	24	24	-	24
Transfer to retained earnings for vested employee share-based payment schemes		-	-	-	11	(11)	-	-	-
Shares acquired by employee trusts		-	(7)	-	-	-	(7)	-	(7)
Shares distributed by employee trusts		-	9	-	(9)	-	-	-	-
Other movements in non-controlling interests in the year		-	-	-	-	-	-	(25)	(25)
31 December		235	(19)	1,110	1,030	1,605	3,961	358	4,319

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
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		-	-	-	15	(15)	-	-	-
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

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 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Profit before tax from continuing operations		595	971
Profit before tax from discontinued operations	10	-	17
		595	988
Change in operating assets ^{1,2}	44	(2,056)	(17,505)
Change in operating liabilities	44	4,026	12,457
Non-cash and other items	44	122	240
Taxation paid		(297)	(262)
Net cash flows from operating activities¹		2,390	(4,082)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(15)	(18)
Proceeds from sale of property, plant and equipment		-	2
Disposal of subsidiaries net of cash disposed ²		-	(1,122)
Acquisition of subsidiaries net of cash acquired		(41)	(19)
Acquisition of investments in associates and joint ventures		(23)	(16)
Proceeds from sale of intangible assets		1	1
Purchase of intangible assets		(40)	(46)
Net cash flows from investing activities		(118)	(1,218)
Cash flows from financing activities			
Proceeds from other borrowings		5	33
Repayment of other borrowings		(35)	(33)
Repayment of subordinated liabilities		(591)	-
Capital flows from non-controlling interests and third party interest in consolidated funds		2,177	2,553
Distributions paid to non-controlling interests		(65)	(56)
Shares acquired by trusts		(7)	(35)
Interest paid		(125)	(117)
Ordinary dividends paid	13	(162)	(186)
Net cash flows from financing activities		1,197	2,159
Net increase/(decrease) in cash and cash equivalents¹		3,469	(3,141)
Cash and cash equivalents at the beginning of the year	25	5,701	8,840
Effects of exchange rate changes on cash and cash equivalents		(45)	2
Cash and cash equivalents at the end of the year¹	25	9,125	5,701
Supplemental disclosures on cash flows from operating activities			
Interest paid		11	11
Interest received		2,832	2,663
Dividends received		1,575	1,330
Rental income received on investment properties		634	605

¹ There has been a reallocation between cash and cash equivalents and debt securities of £1,629m at 31 December 2010, which has impacted the statement of cash flows. Refer to Accounting policy (a) – Basis of preparation.

² There has been a reallocation between disposal of subsidiaries net of cash disposed and change in operating assets of £150m at 31 December 2010.

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 IFRS 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.

It should be noted that the Group's accounting policy for cash and cash equivalents states that cash and cash equivalents include any highly liquid investments with less than three months to maturity from the date of acquisition. Any debt instruments with a maturity date greater than three months from the date of acquisition are classified as debt securities. Following a review of short-dated debt instruments during the year, there has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010 of £1,629m. There has been no change to total assets or net assets.

Additionally, the Group has amended its operating profit accounting policy in respect of the treatment of the volatility arising from changes in insurance and investment contract liabilities driven by corresponding changes in tax provisions. Previously, such volatility was excluded from operating profit. Under the revised policy, volatility in relation to insurance contract liabilities is excluded from operating profit, only to the extent that it relates to short-term fluctuations in investment return and economic assumption changes or arises from items which are one-off in nature and outside the control of management. The purpose of this amendment is to improve consistency with the underlying principles of the Group's operating profit methodology. The change to the operating profit policy did not have a significant impact on the operating profit reported for the year ended 31 December 2010.

(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 2011 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Group's financial statements:

- Amendment to IAS 32 *Financial Instruments: Presentation – classification of rights issues*
- IAS 24 (revised) *Related Party Disclosures*
- *Annual Improvements 2010*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Amendment to IFRIC 14 *Prepayment of a Minimum Funding Requirement*

(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 2012. The Group has not early adopted the standards, amendments and interpretations described below:

Amendment to IFRS 1 *First time adoption of IFRS* (effective for annual periods beginning on or after 1 July 2011)

The amendment to IFRS 1 eliminates the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. Additionally, the revised standard provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The adoption of the amendment to IFRS 1 is not expected to have an impact on the financial statements of the Group. The amendment has not yet been endorsed by the EU.

Amendment to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 July 2011)

The amendment to IFRS 7 requires additional disclosures for financial instruments which are designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets. This includes understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of the amendment to IFRS 7 is not expected to have a significant impact on the financial statements of the Group.

Amendment to IAS 12 *Income Taxes* (effective for annual periods beginning on or after 1 January 2012)

IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment to IAS 12 introduces a presumption that the recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. The adoption of the amendment to IAS 12 is not expected to have a significant impact on the financial statements of the Group. 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*

Amendment to IAS 1 *Presentation of Financial Instruments* (effective for annual periods beginning on or after 1 July 2012)
The amendment to IAS 1 revises the way other comprehensive income (OCI) is presented. The key changes are as follows:

- Requirement to group items presented in OCI according to whether they will subsequently be reclassified to profit and loss
- Requirement to show separately the tax associated with items presented before tax in OCI for each classification of OCI items

The adoption of the amendment to IAS 1 will change the presentation of the consolidated statement of comprehensive income in the financial statements of the Group. The amendment has not yet been endorsed by the EU.

IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013)

IFRS 10 introduces a single consolidation model to be applied to all entities and replaces previous requirements on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and Standing Interpretations Committee (SIC) 12 *Consolidation – Special Purpose Entities*. IFRS 10 defines control, determines how to identify if an investor controls an investee and requires an investor to consolidate entities it controls under the new standard. IFRS 10 identifies three elements which must be present for an investor to control an investee, which are as follows:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use that power over the investee to affect the amount of the returns

IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013)

IFRS 11 defines and establishes accounting principles for joint arrangements and replaces previous requirements in IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The standard distinguishes between two types of joint arrangements – Joint Ventures and Joint Operations – based on how rights and obligations are shared by the parties to the arrangement. Joint operators should recognise their share of the assets, liabilities, revenue and expenses of the interest in accordance with applicable IFRSs. Joint venturers should apply the equity method of accounting prescribed in IAS 28 *Investments in Associates and Joint Ventures 2011* to account for their interest.

IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013)

IFRS 12 is a single disclosure standard which applies to all entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 requires entities to disclose information to enable users of the financial statements to evaluate the nature, risks and financial effects associated with interests in other entities. The required disclosures are grouped into the following main categories:

- Significant judgements and assumptions
- Interests in subsidiaries
- Interests in joint arrangements and associates
- Interests in unconsolidated structured entities

IAS 27 *Separate Financial Statements* (2011) (effective for annual periods beginning on or after 1 January 2013)

IAS 27 is revised to remove the requirements for consolidated financial statements which are superseded by the issue of IFRS 10.

IAS 28 *Investments in Associates and Joint Ventures* (2011) (effective for annual periods beginning on or after 1 January 2013)

IAS 28 is revised to include joint ventures as well as associates. Joint ventures are required to be equity accounted following the issue of IFRS 11.

Consolidation standards

IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) must be adopted concurrently. The adoption of IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) is expected to have a significant impact on the recognition, measurement and presentation of interests in other entities in the consolidated financial statements of the Group. Additional disclosures will also be presented. The new standards and amendments have not yet been endorsed by the EU.

IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 replaces the guidance on fair value measurement in existing IFRSs with a single standard. The standard does not change requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value and enhances disclosures about fair value measurement. Entities are required to make various quantitative and qualitative disclosures about fair value measurements and their classification within the hierarchy. The adoption of IFRS 13 is expected to result in additional disclosures in the financial statements of the Group. The standard has not yet been endorsed by the EU.

Amendment to IAS 19 *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013)

IAS 19 amendment revises requirements for pensions and other post retirement benefits, termination benefits and other employee benefits. The key changes which affect defined benefit plans are as follows:

- All actuarial gains and losses should be recognised immediately in other comprehensive income. Companies will no longer be able to defer gains and losses under the corridor approach.
- The calculation of the finance cost through profit and loss has been revised
- Enhanced disclosures surrounding the characteristics and risk profile of defined benefit plans are required

Other changes include changes to accounting for termination benefits and clarification of various miscellaneous issues and other matters submitted to the IFRS Interpretations Committee. The adoption of the amendment to IAS 19 is expected to have an impact on the measurement and presentation of defined benefit plans and related balances in the Group's financial statements. Additional disclosures will also be presented. The amendment has not yet been endorsed by the EU.

Amendment to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2013)

This amendment to IFRS 7 enhances the disclosure requirements where financial assets and liabilities are offset on the statement of financial position. The new requirements focus on enhancing quantitative disclosures about recognised financial instruments that are offset. Additionally enhanced disclosures are required on financial instruments subject to master netting or similar arrangements regardless of whether they are offset. The impact of the adoption of the amendment to IFRS 7 on the financial statements of the Group is currently being reviewed by management. The amendment has not yet been endorsed by the EU.

Amendment to IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 January 2014)

The amendment to IAS 32 clarifies the circumstances in which financial assets and financial liabilities may be offset on the statement of financial position. The impact of the adoption of the amendment to IAS 32 on the financial statements of the Group is currently being reviewed by management. The amendment has not yet been endorsed by the EU.

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2015)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in other comprehensive income. Financial liabilities that are neither held for trading nor elected to be held at FVTPL are measured at amortised cost. Financial liabilities that are held for trading are measured at FVTPL.

In December 2011 the IASB issued *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, which amends IFRS 9 to require application for annual periods beginning on or after 1 January 2015, rather than 1 January 2013.

The adoption of IFRS 9 is expected to have a significant impact on the measurement and presentation of financial instruments and related balances in the financial statements of the Group. The standard has not yet been endorsed by the EU.

(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:

(a) Basis of preparation *continued***(a)(iii) Critical accounting estimates and judgement in applying accounting policies *continued***

Financial statement area	Critical accounting judgements, estimates or assumptions	Related accounting policies and notes
Classification of insurance, reinsurance and investment contracts	Assessment of the significance of insurance risk transferred	(f)
Participating contracts, non-participating insurance contracts and reinsurance contracts	Determination of the valuation interest rates Determination of longevity and mortality assumptions Determination of persistency assumptions Determination of expense assumptions	(u), (v), (w), (x) and Notes 32 and 33
Deferred acquisition costs on insurance and investment contracts	Determination of the acquisition costs to be deferred on insurance contracts Determination of the amortisation pattern to be applied to deferred acquisition costs	(k) and Note 15
Financial instruments at fair value through profit or loss	Determination of the fair value of level 3 securities	(q)(i) and Note 43
Investment properties and property occupied by the Group	Determination of the fair value of investment properties and property occupied by the Group	(l), (m) and Notes 17 and 18
Defined benefit pension schemes	Determination of assumptions for mortality, discount rate, inflation and the rate of increase in salaries and pensions Assessment of the recoverability of any surplus	(aa) and Note 38
Assets whose carrying value is subject to impairment testing	Determination of the recoverable amount	(i),(j), (k), (o),(p) and Notes 14, 15, 18, 21 and 42

(b) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. Associate and joint venture undertakings are accounted for either using the equity method from the date that significant influence or joint control, respectively, commences until the date this ceases, or at fair value through profit or loss.

(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)(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 or 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 relevant line 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 within net investment return in the income statement. Translation differences on financial assets and liabilities held at amortised cost are included in the relevant line 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, reinsurance 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.

(f) Classification of insurance, reinsurance and investment contracts *continued*

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. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as a reinsurance contracts.

(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 contracts with reinsurers that do not qualify as reinsurance 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.

(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 contracts with reinsurers that do not qualify as reinsurance 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 and contingent 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 or investments 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 between six and 10 years 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 in proportion to projected margins over the life of the contracts. 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.

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.

(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. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset into working condition for its intended use. 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.

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 and reinsurance liabilities

Reinsurance assets and reinsurance liabilities arise under contracts that are classified as reinsurance contracts (refer to policy (f)).

Reinsurance contracts are measured using valuation techniques and assumptions that are consistent with the valuation techniques and assumptions used in measuring the underlying policy benefits and taking into account the terms of the reinsurance contract.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in Receivables and other financial assets and Other financial liabilities respectively.

Reinsurance assets and reinsurance 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.

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.

(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.

(p) Loans *continued*

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 highly effective

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 reserve. Incremental costs directly attributable to the issue of new equity instruments are shown in the share premium reserve 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 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) Equity continued

(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.

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 2011, Canadian Generally Accepted Accounting Principles (GAAP) measured assets at fair value through profit or loss (FVPTL) with the exception of investment property which was measured at amortised cost, and therefore an adjustment was made to the Canadian GAAP liability to reflect the measurement change in investment property. From 1 January 2011, all Canadian GAAP assets are measured at FVTPL and therefore no additional adjustment is necessary.

(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 2011, Canadian Generally Accepted Accounting Principles (GAAP) measured assets at fair value through profit or loss (FVPTL) with the exception of investment property which was measured at amortised cost, and therefore an adjustment was made to the Canadian GAAP liability to reflect the measurement change in investment property. From 1 January 2011, all Canadian GAAP assets are measured at FVTPL and therefore no additional adjustment is necessary.

(w) Non-participating contract liabilities *continued*

(w)(i) 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)(ii) 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, contingent liabilities and contingent assets

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 or if the obligation is probable but the amount cannot be reliably estimated.

Contingent assets are disclosed if the inflow of economic benefits is probable, but not virtually certain.

(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 and restricted stock 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. For share-based payment employee transactions, services received are measured at fair value.

Fair value of options granted under share incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

For cash-settled share-based payment transactions, services received are measured at the fair value of the liability. The fair value of the liability is remeasured at each reporting date and any changes in fair value are recognised in the income statement.

For equity-settled share-based payment transactions, the fair value of services received 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 and non-vesting conditions, such as the requirement of employees to save in a Save-as-you-earn scheme, are included in the calculation of the fair value of the instruments at the date of grant. Vesting conditions which are not market 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.

Cancellations of awards granted arise where non-vesting conditions attached to the award are not met during the vesting period. Cancellations are accounted for as an acceleration of vesting and the remaining unrecognised expense in respect of the fair value of the award is recognised immediately.

At each period end the Group reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the income statement with a corresponding adjustment to the equity compensation reserve.

At the time the equity instruments vest, the amount recognised in the equity compensation reserve in respect of those equity instruments is transferred to retained earnings.

(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 criteria for recognition of a financial liability 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 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 holder liabilities except where they are directly related to a significant management action, 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
- Amortisation of intangibles acquired in business combinations
- 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. 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 was classified as a discontinued operation in this reportable segment in the year ended 31 December 2010, refer to Note 10.

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.

Canada

Canadian operations provide long-term savings, investment and insurance solutions to individuals, and group benefit and retirement plan members.

International

The businesses included in this reportable segment offer a range of life and pension products and comprise wholly owned operations in Ireland, Germany, Austria and Hong Kong and investments in joint ventures in India and China.

Other

This reportable segment primarily includes the group corporate centre and related activities.

(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 beneath the pro forma reconciliation of consolidated operating profit to profit for the year, operating profit is considered to present an indication of the long-term 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.

1. Segmental analysis *continued***(b) Reportable segments - income statement, operating profit and asset information *continued***

2011	UK £m	Global investment management £m	Canada £m	International ¹ £m	Other £m	Elimination ² £m	Total £m
Revenue							
Net earned premium	1,178	2	1,129	936	-	-	3,245
Net investment return	3,266	-	1,364	298	-	(17)	4,911
Other segment income	494	252	141	51	28	(36)	930
Inter-segment revenue	22	114	2	-	559	(697)	-
Total net revenue	4,960	368	2,636	1,285	587	(750)	9,086
Expenses							
Segment expenses	4,480	262	2,522	1,257	640	(735)	8,426
Finance costs	116	-	15	-	-	(15)	116
Total expenses	4,596	262	2,537	1,257	640	(750)	8,542
Share of profit from associates and joint ventures	20	15	14	2	-	-	51
Profit/(loss) before tax	384	121	113	30	(53)	-	595
Tax attributable to policyholders' returns	211	-	-	6	-	-	217
Tax attributable to equity holders' profits	(10)	29	12	5	(4)	-	32
Profit/(loss) for the year	183	92	101	19	(49)	-	346
Profit attributable to non-controlling interests	(48)	-	-	-	-	-	(48)
Profit/(loss) attributable to equity holders of Standard Life plc	135	92	101	19	(49)	-	298
Reconciliation to consolidated operating profit							
Tax attributable to equity holders' profits	(10)	29	12	5	(4)	-	32
Non-operating loss before tax	95	4	74	16	25	-	214
Operating profit/(loss) before tax	220	125	187	40	(28)	-	544
Other income included in the income statement is as follows:							
Interest income	98	1	174	22	1	-	296
Other expenses included in the income statement include:							
Impairment losses (reversed)/recognised	(3)	-	(2)	-	5	-	-
Amortisation of intangible assets	11	-	1	2	4	-	18
Amortisation of deferred acquisition costs	79	1	9	43	-	-	132
Depreciation of property, plant and equipment	-	1	2	1	11	-	15
Interest expense ³	169	-	21	1	117	(131)	177
Assets							
Segment assets	120,996	417	25,393	12,697	1,129	(835)	159,797
Investments in associates and joint ventures	47	48	127	91	13	-	326
Total assets	121,043	465	25,520	12,788	1,142	(835)	160,123
Additions during the year							
Intangible assets	51	3	1	3	30	-	88
Deferred acquisition costs	66	-	17	95	-	-	178
Property, plant and equipment	1	2	1	-	11	-	15
Investment properties	259	-	199	2	-	-	460
	377	5	218	100	41	-	741

¹ Included in the international reporting segment, total net revenue, excluding inter-segment revenue, for Germany, Ireland, Austria and Asia is £925m (2010: £1,055m), £119m (2010: £548m), £173m (2010: £198m) and £68m (2010: £91m) respectively.

² Eliminations relate to inter-segment revenue and expenses.

³ Refer to Note 5 – Other administrative expenses.

2010	UK ¹ £m	Global investment management £m	Canada £m	International £m	Other £m	Elimination ² £m	Total £m
Revenue							
Net earned premium	1,319	3	919	909	-	-	3,150
Net investment return	11,553	-	2,077	937	9	(6)	14,570
Other segment income	464	209	136	46	23	(29)	849
Inter-segment revenue	11	111	3	-	544	(669)	-
Total net revenue	13,347	323	3,135	1,892	576	(704)	18,569
Expenses							
Segment expenses	12,541	228	2,948	1,841	640	(689)	17,509
Finance costs	114	-	14	-	-	(15)	113
Total expenses	12,655	228	2,962	1,841	640	(704)	17,622
Share of profit/(loss) from associates and joint ventures	21	11	15	(23)	-	-	24
Profit/(loss) before tax	713	106	188	28	(64)	-	971
Tax attributable to policyholders' returns	385	-	-	16	(1)	-	400
Tax attributable to equity holders' profits	27	27	43	8	(7)	-	98
Profit/(loss) for the year from continuing operations	301	79	145	4	(56)	-	473
Profit for the year from discontinued operations ¹	20	-	-	-	-	-	20
Profit/(loss) for the year	321	79	145	4	(56)	-	493
Profit attributable to non-controlling interests from continuing operations	(61)	-	-	-	-	-	(61)
Profit/(loss) attributable to equity holders of Standard Life plc	260	79	145	4	(56)	-	432
Reconciliation to consolidated operating profit ¹							
Tax attributable to equity holders' profits from continuing operations	27	27	43	8	(7)	-	98
Non-operating (profit)/loss before tax from continuing operations	(33)	(3)	(78)	3	26	-	(85)
Less: Profit for the year from discontinued operations	(20)	-	-	-	-	-	(20)
Operating profit/(loss) before tax from continuing operations	234	103	110	15	(37)	-	425
Other income included in the income statement is as follows:							
Interest income ³	73	1	164	21	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 ³	-	1	2	1	8	-	12
Interest expense ^{3,4}	163	-	21	1	113	(128)	170
Assets							
Segment assets	114,931	419	24,246	11,290	913	(770)	151,029
Investments in associates and joint ventures	2,697	42	123	211	14	-	3,087
Total assets	117,628	461	24,369	11,501	927	(770)	154,116
Additions during the year							
Intangible assets	39	-	2	4	32	-	77
Deferred acquisition costs	110	1	17	90	-	-	218
Property, plant and equipment	-	-	1	1	16	-	18
Investment properties	758	-	73	-	-	-	831
	907	1	93	95	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 for the year ended 31 December 2010. The reconciliation to consolidated operating profit for the year ended 31 December 2010 includes continuing operations only.

² Eliminations relate to inter-segment revenue and expenses.

³ All from continuing operations.

⁴ Refer to Note 5 – Other administrative expenses.

1. Segmental analysis *continued***(b) Reportable segments - income statement, operating profit and asset information *continued***

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

	2011 £m	2010 £m
UK	7,647	7,437
Continental Europe	43	48
Canada	1,413	1,223
Total	9,103	8,708

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	2011 £m	2010 £m
Interest and similar income			
Cash and cash equivalents		121	86
Loans		174	173
Other		1	1
		296	260
Dividend income		1,602	1,330
Gains/(losses) on financial instruments			
Equity securities		(5,804)	6,680
Debt securities		6,551	4,738
Derivative financial instruments		1,399	391
		2,146	11,809
Impairment losses reversed on loans		2	-
Foreign exchange losses on instruments other than as at fair value through profit or loss		(22)	(23)
Net income from investment properties			
Rental income	17	634	611
Net fair value gains on investment properties	17	253	556
		887	1,167
Total net investment return		4,911	14,543
Less: Net investment return from discontinued operations	10	-	27
Net investment return		4,911	14,570

3. Fee and commission income

	2011 £m	2010 £m
Fee income on investment contracts at fair value	642	584
Fee income from third party funds under management	182	162
Reinsurance commission income	2	2
Other fee and commission income	29	4
Fee and commission income¹	855	752

¹ All from continuing operations

4. Expenses under arrangements with reinsurers

	2011 £m	2010 £m
Interest payable on deposits from reinsurers	42	40
Premium Adjustments	474	529
Expenses under arrangements with reinsurers	516	569

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	2011 £m	2010 £m
Interest expense		19	17
Commission expenses		393	370
Staff costs and other employee-related costs	6	569	586
Operating lease rentals		31	15
Auditors' remuneration	7	6	7
Other administrative expenses		584	571
Depreciation of property, plant and equipment	18	15	12
Impairment losses on property, plant and equipment	18	1	-
Reversal of impairment on property, plant and equipment	18	(4)	(9)
Amortisation of intangible assets	14	18	22
Impairment losses on intangible assets	14	5	-
Impairment on investments in associates	16	-	4
		1,637	1,595
Acquisition costs deferred during the year	15	(178)	(218)
Amortisation of deferred acquisition costs	15	132	196
Total other administrative expenses		1,591	1,573
Less: Other administrative expenses from discontinued operations	10	-	(38)
Other administrative expenses		1,591	1,535

In addition to interest expense of £19m (2010: £17m), interest expense of £116m (2010: £113m) was incurred in respect of subordinated liabilities and £42m (2010: £40m) in respect of deposits from reinsurers. For the year ended 31 December 2011, total interest expense is £177m (2010: £170m).

6. Staff costs and other employee-related costs

	Notes	2011 £m	2010 £m
The aggregate remuneration payable in respect of employees:			
Wages and salaries		522	518
Social security costs		53	50
Other pension costs	38		
Defined benefit scheme		(46)	(13)
Defined contribution scheme		13	12
Employee share-based payments	47	27	19
Total staff costs and other employee-related costs		569	586

Included within total staff costs is £nil (2010: £9m) arising from discontinued operations.

	2011	2010
The average number of staff employed by the Group during the year:		
UK	4,029	3,364
Global investment management	989	822
Canada	1,982	2,023
International	778	783
Group corporate centre	443	778
Group information and technology	568	1,484
Total average number of staff employed	8,789	9,254

As part of the Group transformation, employees have been transferred from Group information and technology to UK and Global investment management.

There are no staff employed as part of discontinued operations for the year ended 31 December 2011 (2010: 280).

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 69 to 86.

7. Auditors' remuneration

	2011 £m	2010 £m
Fees payable to the Company's auditor for the audit of the Company's individual and consolidated financial statements	0.5	0.4
Fees payable to the Company's auditor for other services:		
The audit of the Company's consolidated subsidiaries pursuant to legislation	3.2	3.8
The audit of the Company's non-consolidated funds pursuant to legislation	1.1	1.0
Other services pursuant to legislation	0.5	0.6
Tax advisory services	0.2	0.2
Tax compliance services	0.2	0.2
Other services	0.5	0.8
Total auditors' remuneration	6.2	7.0

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 (2010: £32,000).

8. Restructuring and corporate transaction expenses

Total restructuring costs from continuing operations incurred during the year were £72m (2010: £72m). These include £59m (2010: £64m) of expenses in relation to the Solvency 2 programme and a number of local business unit transformation programmes. Of the restructuring costs from continuing operations, £70m (2010: £71m) is adjusted when determining operating profit before tax, with the remaining £2m (2010: £1m) incurred by the Heritage With Profits Fund in relation to Solvency 2.

9. Tax expense

The tax expense is attributed as follows:

	Notes	2011 £m	2010 £m
Tax expense attributable to policyholders' returns		217	400
Tax expense attributable to equity holders' profits		32	98
		249	498
Tax credit from discontinued operations	10	-	(3)
		249	495

The Finance Act 2011 reduced the UK corporation tax rate to 25% with effect from 1 April 2012 and this rate has been applied in calculating the UK deferred tax position at 31 December 2011. The 2011 Budget statement also announced the Government's intention to make further reductions in the rate of UK corporation tax in 2013 and 2014. 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 £23m (2010: £4m) and is included in profit before tax in the consolidated income statement in 'Share of profit from associates and joint ventures'.

(a) Current year tax expense/(credit)

	Notes	2011 £m	2010 £m
Income tax:			
UK		269	253
Double tax relief		(2)	(1)
Canada and International		31	42
Adjustment to tax expense in respect of prior years		12	4
Total income tax		310	298
Deferred tax:			
Deferred tax (credit)/expense arising from the current year	19	(61)	197
Total deferred tax		(61)	197
Total tax expense		249	495
Less: Income tax credit attributable to discontinued operations		-	3
Total income tax expense attributable to continuing operations		249	498
Attributable to equity holders' profits		32	98

No unrecognised tax losses of previous years were used to reduce income tax expense (2010: £nil). Unrecognised losses and timing differences of £12m were used to reduce deferred tax expense (2010: £nil).

Deferred tax of £26m (2010: £10m) has not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries.

(b) Tax relating to components of other comprehensive income

Tax relating to components of other comprehensive income is as follows:

	Notes	2011 £m	2010 £m
Tax on actuarial (losses)/gains on defined benefit pension schemes	29	(27)	59
Tax on revaluation of land and buildings		-	1
Tax on fair value gains on cash flow hedges attributable to discontinued operations		-	6
Tax relating to each component of other comprehensive income		(27)	66

All of the amounts presented above are in respect of equity holders of Standard Life plc.

9. Tax expense *continued*

(c) Reconciliation of tax expense

	Notes	2011 £m	2010 £m
Profit before tax from continuing operations		595	971
Profit before tax from discontinued operations	10	-	17
		595	988
Tax at 26.5% (2010: 28%)		158	277
Policyholder tax (net of tax at UK standard rate)		160	288
Permanent differences		(31)	28
Non-taxable transfer to equity holders		(51)	(55)
Different tax rates		12	(56)
Adjustment to current tax expense in respect of prior years		12	4
Recognition of previously unrecognised tax credit		(14)	(5)
Deferred tax not recognised		7	10
Non-taxable profit on sale of subsidiaries and associates		-	(1)
Adjustment to deferred tax expense in respect of prior years		(4)	5
Total tax expense for the year		249	495
Less: Income tax credit attributable to discontinued operations	10	-	3
Total income tax expense from continuing operations		249	498

10. Discontinued operations

There are no discontinued operations in the year ended 31 December 2011. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 for a cash consideration of £138m and was therefore classified as a discontinued operation in the year ended 31 December 2010. The Group's banking business, Standard Life Bank, was sold on 1 January 2010 for a cash consideration of £246m.

The profit included in the consolidated income statement in respect of discontinued operations for the year ended 31 December 2010 is as follows:

	Notes	2010 £m
Revenue		
Net earned premium		152
Net investment return	2	(27)
Other income		1
Net revenue		126
Expenses		
Net insurance benefits and claims		105
Change in insurance and participating liabilities		2
Administrative expenses:		
Restructuring and corporate transaction expenses		1
Other administrative expenses	5	38
Total administrative expenses		39
Expenses		146
Gain recognised on the measurement of the assets of disposal group		37
Profit before tax		17
Tax credit		(3)
Profit for the year		20

The comprehensive income included in the consolidated statement of comprehensive income in respect of discontinued operations for the year ended 31 December 2010 is as follows:

	2010 £m
Profit for the year from discontinued operations	20
Fair value gains on cash flow hedges	30
Aggregate equity holder tax effect of items not recognised in the income statement	(6)
Other comprehensive income for the year from discontinued operations	24
Total comprehensive income for the year from discontinued operations	44

The aggregate assets and liabilities of operations that were sold during the year ended 31 December 2010 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 year. The weighted average number of ordinary shares outstanding during the year is the weighted average number of shares in issue less the weighted average number of shares owned by employee share trusts that have not vested unconditionally to employees.

	2011	2010
Profit from continuing operations (£m)	298	412
Profit from discontinued operations (£m)	-	20
Profit attributable to equity holders of Standard Life plc (£m)	298	432
Weighted average number of ordinary shares in issue (millions)	2,301	2,242
Basic earnings per share from continuing operations (pence per share)	13.0	18.4
Basic earnings per share from discontinued operations (pence per share)	-	0.9
Basic earnings per share (pence per share)	13.0	19.3

11. Earnings per share *continued***(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.

	2011	2010
Profit from continuing operations (£m)	298	412
Profit from discontinued operations (£m)	-	20
Profit attributable to equity holders of Standard Life plc (£m)	298	432
Weighted average number of ordinary shares for diluted earnings per share (millions)	2,304	2,248
Diluted earnings per share from continuing operations (pence per share)	12.9	18.3
Diluted earnings per share from discontinued operations (pence per share)	-	0.9
Diluted earnings per share (pence per share)	12.9	19.2

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was three million (2010: six 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.

(c)(i) Basic alternative earnings per share

	2011 £m	2011 p per share	2010 £m	2010 p per share
Operating profit before tax from continuing operations	544	23.6	425	19.0
Short-term fluctuations in investment return and economic assumption changes ¹	(139)	(6.0)	157	7.0
Restructuring and corporate transaction expenses	(70)	(3.1)	(71)	(3.2)
Impairment of intangible assets	(5)	(0.2)	-	-
Impairment of investments in associates	-	-	(1)	-
Other operating profit adjustments ¹	-	-	-	-
Profit attributable to non-controlling interests	48	2.1	61	2.7
Profit before tax from continuing operations	378	16.4	571	25.5
Tax (expense)/credit attributable to:				
Operating profit	(87)	(3.7)	(89)	(4.0)
Adjusted items	55	2.4	(9)	(0.4)
Profit attributable to non-controlling interests	(48)	(2.1)	(61)	(2.7)
Profit from discontinued operations	-	-	20	0.9
Profit attributable to equity holders of Standard Life plc	298	13.0	432	19.3

¹ As described in Accounting policy (a) – Basis of preparation, the Group has amended its operating profit accounting policy. As a result, £30m was reallocated from other operating profit adjustments to short-term fluctuations in investment return and economic assumption changes for the year ended 31 December 2010.

(c)(ii) Diluted alternative earnings per share

	2011 £m	2011 p per share	2010 £m	2010 p per share
Operating profit before tax from continuing operations	544	23.6	425	19.0
Short-term fluctuations in investment return and economic assumption changes ¹	(139)	(6.0)	157	6.9
Restructuring and corporate transaction expenses	(70)	(3.1)	(71)	(3.2)
Impairment of intangible assets	(5)	(0.2)	-	-
Impairment of investments in associates	-	-	(1)	-
Other operating profit adjustments ¹	-	-	-	-
Profit attributable to non-controlling interests	48	2.1	61	2.7
Profit before tax from continuing operations	378	16.4	571	25.4
Tax (expense)/credit attributable to:				
Operating profit	(87)	(3.8)	(89)	(4.0)
Adjusted items	55	2.4	(9)	(0.4)
Profit attributable to non-controlling interests	(48)	(2.1)	(61)	(2.7)
Profit from discontinued operations	-	-	20	0.9
Profit attributable to equity holders of Standard Life plc	298	12.9	432	19.2

¹ As described in Accounting policy (a) – Basis of preparation, the Group has amended its operating profit accounting policy. As a result, £30m was reallocated from other operating profit adjustments to short-term fluctuations in investment return and economic assumption changes for the year ended 31 December 2010.

12. Short-term fluctuations in investment return and economic assumption changes

The Group focuses on operating profit as a measure of its performance which incorporates expected returns on investments backing equity holder funds with a consistent allowance for corresponding expected movements in equity holder liabilities. The methodology used in operating profit is outlined below.

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 except where they are directly related to a significant management action. 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 equity securities and property, with the exception of the Canadian 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 Canadian operations are determined by the Appointed Actuary in Canada.

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:

	2011		2010	
	UK %	Canada %	UK %	Canada %
Equity securities	6.49	8.60	7.11	8.60
Property	5.49	8.60	6.11	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 Canadian 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.

For the year ended 31 December 2011, short-term fluctuations in investment return and economic assumption changes were losses of £139m (2010: gains of £157m). 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.

13. Dividends

The Company paid a final dividend of 8.65 pence per share (final 2009: 8.09 pence) totalling £197m in respect of the year ended 31 December 2010 on 27 May 2011 (final 2009: £180m) and an interim dividend of 4.60 pence per share (interim 2010: 4.35 pence) totalling £106m (interim 2010: £98m) in respect of the year ended 31 December 2011 on 18 November 2011.

Subsequent to 31 December 2011, the Directors have proposed a final dividend for the year ended 31 December 2011 of 9.20 pence per ordinary share, £217m in total. The dividend will be paid on 31 May 2012 to shareholders on the Company's register as at 23 March 2012, subject to approval at the Annual General Meeting on 25 May 2012. This dividend will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2012.

The option to receive dividend entitlement under the Scrip scheme was removed and has been replaced with a dividend reinvestment plan commencing with the final dividend for 2011. Investors who took part in the Scrip scheme received their dividend entitlement in the form of shares rather than cash and the distribution under the Scrip scheme was recorded as an appropriation of retained earnings. Dividends paid during the year ended 31 December 2011 comprise £141m (2010: £92m) settled by the issue of shares under the Scrip scheme and £162m paid in cash (2010: £186m).

14. Intangible assets

	Notes	Goodwill £m	Intangible assets acquired through business combinations £m	Internally developed software £m	Other acquired intangible assets £m	Total £m
Gross amount						
At 1 January 2010		35	6	106	14	161
Additions		26	5	40	6	77
Disposals and adjustments ¹		(16)	-	(20)	-	(36)
Other		-	-	-	(1)	(1)
At 31 December 2010		45	11	126	19	201
Additions		26	19	38	5	88
Disposals and adjustments		-	-	(5)	-	(5)
Impairment charge ²	5	-	-	(5)	-	(5)
Other		-	-	-	(1)	(1)
At 31 December 2011		71	30	154	23	278
Accumulated amortisation						
At 1 January 2010		-	(1)	(49)	(5)	(55)
Amortisation charge for the year	5	-	(2)	(15)	(5)	(22)
Disposals and adjustments ¹		-	-	10	-	10
Other		-	-	-	1	1
At 31 December 2010		-	(3)	(54)	(9)	(66)
Amortisation charge for the year	5	-	(5)	(9)	(4)	(18)
Disposals and adjustments ¹		-	-	5	-	5
Other		-	-	-	1	1
At 31 December 2011		-	(8)	(58)	(12)	(78)
Carrying amount						
At 1 January 2010		35	5	57	9	106
At 31 December 2010		45	8	72	10	135
At 31 December 2011		71	22	96	11	200

¹ Disposals during the year ended 31 December 2010 are in respect of intangible assets attributable to discontinued healthcare operations.

² Following a review of the Group's IT strategy it was concluded that a portion of software development previously capitalised was not currently being used and was subsequently impaired.

The Group's goodwill of £71m (2010: £45m) has been acquired through a series of business combinations. The cash generating unit to which all goodwill is attributed is the UK business unit.

Goodwill is reviewed annually for impairment by comparing the carrying value of each of the investments including goodwill with its recoverable amount. The recoverable amount of the investments is determined by the fair value less costs to sell methodology or by calculating its value in use.

The fair value calculation uses cash flow projections based on business plans for a maximum period of 15 years. The key assumptions have been applied by management to the calculations after considering past experience and market expectations for future growth.

Key assumptions used in the calculations:

- A growth rate has been used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth rates for the industry and the UK economy
- Additional net flows into assets under administration and increased market share have been assumed due to enhanced product offerings
- Cost savings have been assumed due to synergies expected
- A risk-adjusted discount rate ranging from 10% to 15% has been applied

As a result of the impairment testing carried out, no goodwill was judged to be impaired at 31 December 2011 and 31 December 2010. Sensitivity analysis showed that the result was insensitive to reasonably possible changes in key assumptions.

15. Deferred acquisition costs

	Notes	2011 £m	2010 £m
At 1 January		881	872
Additions during the year	5	178	218
Amortisation charge	5	(132)	(196)
Foreign exchange adjustment		(7)	1
Attributable to discontinued healthcare operations		-	(14)
At 31 December		920	881

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £776m (2010: £749m). Included in deferred acquisition costs above are costs deferred on investment contracts (deferred origination costs) amounting to £695m (2010: £706m).

16. Investments in associates and joint ventures

	2011 £m	2010 £m
Investments in associates and joint ventures:		
Designated as at fair value through profit or loss	-	2,775
Accounted for using the equity method	271	238
Loans to associates and joint ventures	55	74
Total investments in associates and joint ventures	326	3,087

	Notes	2011 £m	2010 £m
At 1 January		3,087	2,169
Share of profits from associates and joint ventures		51	24
Dividends received		(12)	(14)
Additions		24	21
Disposals and loan repayments		(22)	(38)
Impairment losses	5	-	(4)
Net (decrease)/increase in associates designated as at fair value through profit or loss		(2,775)	916
Foreign exchange adjustment		(27)	13
At 31 December		326	3,087

Share of profits from associates and joint ventures totalling £51m (2010: £24m), includes £9m (2010: £21m) arising from those accounted for at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and £42m (2010: £3m) arising from those accounted for using the equity method.

16. Investments in associates and joint ventures *continued*

During the year ended 31 December 2011, two sub-funds of Standard Life Investments (Global Liquidity Funds) plc (GLF), the Sterling Liquidity Fund and Euro Liquidity Fund, were restructured. The majority of the external holding in these funds transferred to a third party. The remaining assets were transferred into two new GLF sub-funds being the GBP VNAV Liquidity Fund and the Euro VNAV Liquidity Fund, which are subsidiaries of the Group. As a result of the restructure, the GLF sub-funds are no longer associates of the Group.

The newly created sub-funds have been consolidated on a line by line basis in the Group's results for 31 December 2011. The significant impact of this change has been to decrease the Group's investments in associates and joint ventures by £2,775m and increase cash and cash equivalents, investment securities and third party interest in consolidated funds.

(a) Investments in associates

The following are particulars of the Group's share of significant associates:

Name of associate	Country of incorporation or registration	Interest held %	Year end	Nature of business	Assets £m	Liabilities £m	Revenues £m	Profit £m
At 31 December 2011								
HDFC Asset Management Company Limited ¹	India	40.0	31 Mar	Investment Management	59	28	38	15
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 Investment (Global Liquidity Funds) plc – Euro Liquidity Fund	Ireland	22.6	31 Dec	OEIC	451	-	2	1
HDFC Asset Management Company Limited ¹	India	40.0	31 Mar	Investment Management	60	28	31	11

¹ The reporting date for HDFC Asset Management Company Limited is 31 March as this is its year end date. This is different from the Group's year end date of 31 December.

(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 2011								
Castan Waterfront Development Inc.	Canada	50.0	-	21	-	4	1	-
First Real Properties Limited	Canada	49.0	2	86	7	9	24	11
Alberta	Canada	50.0	1	11	1	11	3	3
HDFC Standard Life Insurance Company Limited	India	26.0	28	875	41	829	231	221
Heng An Standard Life Insurance Company Limited	China	50.0	73	231	193	76	55	63
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

17. Investment property

	2011 £m	2010 £m
At 1 January	8,410	7,111
Additions – acquisitions	308	642
Additions – subsequent expenditure	152	189
Net fair value gains	253	556
Disposals	(320)	(186)
Foreign exchange adjustment	(26)	79
Other	(34)	19
At 31 December	8,743	8,410

The fair value of investment property can be analysed as:

Freehold	6,492	6,068
Long leasehold	2,138	2,195
Short leasehold	113	147
	8,743	8,410

The rental income arising from investment properties during the year amounted to £634m (2010: £611m), which is included in net investment return as 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 £185m (2010: £184m).

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 or local equivalents. 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\$10m and CA\$50m are externally appraised twice a year while properties with a 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.

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2011 £m	2010 £m
Not later than one year	295	281
Later than one year and no later than five years	911	957
Later than five years	820	873
Total operating lease receivables	2,026	2,111

18. Property, plant and equipment

	Notes	Land and buildings £m	Equipment £m	Total £m
Cost or valuation				
At 1 January 2010		121	198	319
Additions		-	18	18
Disposals and adjustments ¹		(1)	(12)	(13)
Revaluations	30	(14)	-	(14)
Impairment losses reversed ²	5	9	-	9
Foreign exchange adjustment		3	-	3
At 31 December 2010		118	204	322
Additions		1	14	15
Disposals and adjustments ³		-	(121)	(121)
Revaluations	30	(5)	-	(5)
Impairment losses reversed ²	5	4	-	4
Impairment losses recognised	5	(1)	-	(1)
Foreign exchange adjustment		(2)	-	(2)
At 31 December 2011		115	97	212
Accumulated depreciation				
At 1 January 2010		-	(158)	(158)
Depreciation charge for the year	5	-	(12)	(12)
Disposals and adjustments ¹		-	12	12
At 31 December 2010		-	(158)	(158)
Depreciation charge for the year	5	-	(15)	(15)
Disposals and adjustments ³		-	121	121
At 31 December 2011		-	(52)	(52)
Carrying amount				
At 1 January 2010		121	40	161
At 31 December 2010		118	46	164
At 31 December 2011		115	45	160

¹ Disposals during the year ended 31 December 2010 include equipment with a cost of £3m and net book value of £nil in respect of discontinued healthcare operations.

² Impairment losses reversed recognised in the consolidated income statement were £4m (2010: £9m). Refer to Note 5 – Other administrative expenses. The impairment reversal arose due to increases in the market value of a number of properties.

³ For the year ended 31 December 2011 £121m (2010: £9m) of disposals and adjustments relates to equipment with net book value of £nil and no longer in use.

If land and buildings were measured using the cost model, the historical cost before impairment would be £175m (2010: £180m). 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.

19. Tax assets and liabilities

	Notes	2011 £m	2010 £m
Income tax recoverable	24	107	162
Deferred tax assets		210	201
Total tax assets		317	363
Income tax liabilities		149	181
Deferred tax liabilities		145	220
Total tax liabilities		294	401

All current income tax assets and liabilities as at 31 December 2011 and 31 December 2010 are expected to be recoverable or payable in less than 12 months. Deferred tax assets and liabilities are expected to be recovered or settled after more than 12 months.

(a) Recognised deferred tax

	2011 £m	2010 £m
Deferred tax assets comprises:		
Actuarial liabilities	221	184
Losses carried forward	56	39
Realised losses on investments	-	33
Depreciable assets	35	32
Deferred income	57	55
Employee benefits	41	30
Provisions and other temporary timing differences	27	19
Insurance related items	45	96
Subordinated liabilities valuation differences	1	1
Unrealised losses on investments	40	16
Other	3	-
Gross deferred tax assets	526	505
Less: Offset against deferred tax liabilities	(316)	(304)
Net deferred tax assets	210	201
Deferred tax liabilities comprises:		
Insurance related items	44	-
Unrealised gains on investments	86	180
Deferred acquisition costs	194	197
Deferred gains on realisation	-	29
Subordinated liabilities valuation differences	2	3
Temporary timing differences	14	-
Employee benefits	120	109
Deferred tax on acquired assets	-	2
Other	1	4
Gross deferred tax liabilities	461	524
Less: Offset against deferred tax assets	(316)	(304)
Net deferred tax liabilities	145	220
Movements in deferred tax assets/(liabilities) comprise:		
At 1 January	(19)	228
Acquisition of subsidiaries	(3)	4
Disposal of subsidiaries	-	(5)
Amounts credited/(charged) to net profit	61	(197)
Amounts credited/(charged) directly to equity	27	(60)
Foreign exchange adjustment	(1)	11
At 31 December	65	(19)

19. Tax assets and liabilities *continued***(a) Recognised deferred tax *continued***

A deferred tax asset of £96m (2010: £55m) 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 of £1m (2010: £1m) will expire in 2013. The remaining losses do not have an expiry date.

(b) Unrecognised deferred tax

Due to uncertainty regarding recoverability, deferred tax has not been recognised in respect of the following assets:

- Cumulative losses carried forward of £177m (2010: £231m)
- Tax reserves of the German branch of Standard Life Assurance Limited of £74m (2010: £98m)
- Unrealised investment losses of £320m (2010: £5m)

20. Financial investments

	Notes	2011 £m	2010 £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 held for trading	22	2,211	1,343
Total financial investments classified as held for trading		2,212	1,343
Designated upon recognition:			
Equity securities and interests in pooled investment funds	43	58,531	60,307
Debt securities ¹	43	67,176	61,364
Investments in associates and joint ventures	16	-	2,775
Total financial investments designated upon initial recognition¹		125,707	124,446
Total financial investments at fair value through profit or loss¹		127,919	125,789
Loans and receivables:			
Loans	21	3,219	3,136
Receivables and other financial assets	23	1,851	1,743
Loans to associates and joint ventures	16	55	74
Cash and cash equivalents ¹	25	9,187	5,805
Total loans and receivables¹		14,312	10,758
Total financial investments		142,231	136,547

¹ There has been a reallocation from cash and cash equivalents to debt securities of £1,629m at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

The amount of debt securities of continuing operations expected to be recovered or settled after more than 12 months is £61,089m (2010: £56,990m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

21. Loans

	Notes	2011 £m	2010 £m
Loans secured by mortgages	43(d)	3,005	2,941
Loans secured on policies		103	106
Other		111	89
Total loans		3,219	3,136

Loans with variable rates and fixed interest rates are £220m and £2,999m respectively (2010: £276m and £2,860m respectively). Loans that are expected to be recovered after more than 12 months are £2,858m (2010: £2,849m).

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 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	2011 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2010 Fair value assets £m	Fair value liabilities £m
Cash flow hedges	24	1	-	25	-	1
Net investment hedges	721	-	2	631	-	25
Held for trading	72,357	2,211	1,100	56,362	1,343	898
Derivative financial instruments	73,102	2,212	1,102	57,018	1,343	924

Derivative assets of £1,541m (2010: £982m) are expected to be recovered after more than 12 months. Derivative liabilities of £431m (2010: £457m) 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 revenue receivable in foreign currency.

Forward foreign exchange contracts with an aggregate notional principal amount of £24m (2010: £25m) and a net fair value asset position of £1m (2010: net liability of £1m) were designated as hedges of future cash flows arising from revenue receivable in foreign currency in 2011 and 2010. The cash flows from these instruments are expected to be reported in the consolidated income statement for the following year. In 2011 and 2010, the ineffectiveness recognised in income statements that arises from these cash flow hedges was less than £1m.

(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 £721m (2010: £631m) and a net liability position of £2m (2010: £25m) were designated as net investment hedges and gave rise to currency gains for the year of £13m (2010: losses of £39m), 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 2011, the losses recognised in the income statement were £nil (2010: £nil). No amounts were withdrawn from equity during the year (2010: £nil), as there were no disposals of foreign operations.

22. Derivative financial instruments *continued***(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	2011 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2010 Fair value assets £m	Fair value liabilities £m
Equity derivatives:						
Dividends	-	-	-	8	-	-
Futures	6,056	29	28	3,823	28	36
Variance swaps	64	89	143	66	86	170
Options	11,412	620	299	4,857	356	7
Interest rate derivatives:						
Interest rate swaps	17,982	1,041	126	13,495	455	203
Futures	14,191	55	108	11,889	52	49
Options	118	28	-	154	24	-
Foreign exchange derivatives:						
Cross currency swaps	135	42	-	480	169	-
Forwards	10,347	188	117	10,510	96	175
Futures	127	-	-	454	-	1
Options	2,116	26	68	4,502	48	83
Other derivatives:						
Inflation rate swaps	1,352	-	33	349	1	14
Swaptions	5,006	61	132	2,597	16	11
Credit default swaps	3,451	32	46	3,178	12	149
Derivative financial instruments held for trading	72,357	2,211	1,100	56,362	1,343	898

(d) Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

	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
2011							
Cash inflows							
Derivative financial assets	7,251	989	3	-	2	5	8,250
Derivative financial liabilities	14,573	1,208	86	50	26	29	15,972
Total	21,824	2,197	89	50	28	34	24,222
Cash outflows							
Derivative financial assets	(10,527)	(1,124)	-	-	-	-	(11,651)
Derivative financial liabilities	(7,737)	(906)	-	-	-	-	(8,643)
Total	(18,264)	(2,030)	-	-	-	-	(20,294)
Net derivative financial instruments cash inflows	3,560	167	89	50	28	34	3,928

Cash inflows and outflows are presented on a net basis where the Group is required to settle cash flows net.

Included within interest rate derivative futures are bond futures. The maturity profile only includes one leg of the bond futures contract, being the payment or receipt of the agreed price (cash). The other leg of the contract involves the physical receipt or delivery of the bonds.

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
Cash inflows							
Derivative financial assets	6,963	1,302	-	-	-	-	8,265
Derivative financial liabilities	7,225	675	-	-	-	-	7,900
Total	14,188	1,977	-	-	-	-	16,165
Cash outflows							
Derivative financial assets	(2,331)	(1,227)	-	-	-	-	(3,558)
Derivative financial liabilities	(7,103)	(734)	(110)	(147)	(54)	(17)	(8,165)
Total	(9,434)	(1,961)	(110)	(147)	(54)	(17)	(11,723)
Net derivative financial instruments cash inflows/(outflows)	4,754	16	(110)	(147)	(54)	(17)	4,442

23. Receivables and other financial assets

	2011 £m	2010 £m
Amounts receivable on direct insurance business	88	69
Amounts receivable on reinsurance contracts	10	9
Outstanding sales of investment securities	112	112
Accrued income	1,042	987
Cancellations of units awaiting settlement	86	108
Collateral pledged in respect of derivative contracts	13	86
Property related assets	149	145
Other	351	227
Receivables and other financial assets	1,851	1,743

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

The amount of receivables and other financial assets of continuing operations expected to be recovered after more than 12 months is £74m (2010: £67m).

24. Other assets

	Notes	2011 £m	2010 £m
Income tax recoverable	19	107	162
Prepayments		25	28
Other		96	107
Other assets		228	297

The amount of other assets expected to be recovered after more than 12 months is £40m (2010: £50m).

25. Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	612	551
Money at call and short notice	682	664
Demand and term deposits with original maturity of less than 3 months ¹	6,799	3,352
Debt investments with less than 3 months to maturity from date of acquisition	1,094	1,238
Cash and cash equivalents¹	9,187	5,805

¹ There has been a reallocation from cash and cash equivalents to debt securities of £1,629m at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

	Notes	2011 £m	2010 £m
Cash and cash equivalents ¹		9,187	5,805
Bank overdrafts	36	(62)	(104)
Total cash and cash equivalents for consolidated statement of cash flows		9,125	5,701

¹ There has been a reallocation from cash and cash equivalents to debt securities of £1,629m at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

Cash in hand is non-interest bearing. Cash at bank, money at call and short notice and deposits are subject to variable interest rates.

26. Share capital**(a) Authorised share capital**

The authorised share capital of the Company at the year end was:

	2011 Number	2011 £m	2010 Number	2010 £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 ordinary share capital of the Company during the year was:

	2011 Number	2011 £m	2010 Number	2010 £m
At 1 January	2,283,019,841	228	2,236,292,157	224
Shares issued in lieu of cash dividends	70,138,459	7	44,854,401	4
Shares issued in respect of share incentive plans	507,364	-	566,626	-
Shares issued in respect of share options	158	-	1,305,584	-
Demutualisation shares	-	-	490	-
Shares issued in respect of bonus issue	-	-	583	-
At 31 December	2,353,665,822	235	2,283,019,841	228

During the year ended 31 December 2011, 70,138,459 (2010: 44,854,401) shares were issued in respect of dividends paid in the period under the Scrip dividend scheme.

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 2011, the Company allotted 507,364 (2010: 566,626) 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 and a Sharesave (Save-as-you-earn) scheme for all eligible employees. During the year ended 31 December 2011, no (2010: 1,305,584) and 158 (2010: nil) ordinary shares were issued on exercise of share options in relation to the LTIP and Sharesave schemes respectively.

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 2011 no ordinary shares were issued to eligible members in respect of their demutualisation entitlements (2010: 490).

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.

All ordinary shares in issue in the Company rank pari passu and carry the same voting rights and the same 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 2011 which were not offset by a corresponding obligation to deliver a fixed number of equity instruments was 10,879,286 (2010: 12,209,946).

28. Share premium reserve

The premium arising on the shares issued during the year was:

	2011 £m	2010 £m
At 1 January	976	888
Shares issued in lieu of cash dividends	134	88
At 31 December	1,110	976

29. Retained earnings

	Notes	2011 £m	2010 £m
At 1 January		1,094	685
Profit for the year attributable to equity holders		298	432
Dividends and appropriations		(303)	(273)
Transfer from equity compensation reserve for vested employee share-based payments	30	11	15
Transfer between reserves on disposal of subsidiaries ¹		-	121
Actuarial (losses)/gains on defined benefit pension schemes	38	(88)	184
Shares distributed by employee trusts		(9)	(10)
Aggregate tax items recognised in equity		27	(59)
Other		-	(1)
At 31 December		1,030	1,094

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 in the year ended 31 December 2010.

30. Reconciliation of movements in other reserves

2011	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		5	1	369	(54)	3,108	36	261	(2,100)	1,626
Fair value gains on cash flow hedges		-	1	-	-	-	-	-	-	1
Fair value gains transferred to income statement on cash flow hedges		-	(1)	-	-	-	-	-	-	(1)
Net investment hedge		-	-	-	13	-	-	-	-	13
Revaluation of land and buildings	18	(5)	-	-	-	-	-	-	-	(5)
Exchange differences on translating foreign operations		-	-	(53)	-	-	-	-	-	(53)
Reserves credit for employee share-based payment schemes		-	-	-	-	-	24	-	-	24
Vested employee share-based payments	29	-	-	-	-	-	(11)	-	-	(11)
With profits funds: associated UDS movement recognised in equity	34	7	-	4	-	-	-	-	-	11
At 31 December		7	1	320	(41)	3,108	49	261	(2,100)	1,605
Balance at 31 December 2011 comprises:										
Total reserve before with profit fund adjustment		-	3	556	(41)	3,108	48	261	(2,100)	1,835
Total with profit fund adjustment		7	-	(237)	-	-	-	-	-	(230)
At 31 December		7	3	319	(41)	3,108	48	261	(2,100)	1,605

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. On disposal of Standard Life Bank plc and Standard Life Healthcare Limited during 2010, £86m of the merger relief was realised and transferred from the merger reserve to retained earnings.

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 £303m (2010: £278m), of which £nil (2010: £5m) has been treated as a deduction from the special reserve.

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		-	-	-	-	-	-	-	-	-
Fair value gains transferred to income statement on cash flow hedges		-	28	-	-	-	-	-	-	28
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	29	-	-	-	-	-	(15)	-	-	(15)
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.

31. Non-controlling interests and third party interest in consolidated funds

The movement in non-controlling interests during the year was:

	2011 £m	2010 £m
At 1 January	335	296
Foreign exchange differences on translating foreign operations	(4)	(4)
Change in net assets attributable to non-controlling interests	48	61
Net contributions	(12)	(12)
Distributions	(9)	(6)
At 31 December	358	335

The movement in third party interest in consolidated funds during the year was:

	2011 £m	2010 £m
At 1 January	5,454	3,004
Foreign exchange differences on translating foreign operations	(88)	(73)
Change in liability for third party interest in consolidated funds	103	443
Net contributions and movements between classifications of investments	3,050	2,161
Distributions	(91)	(81)
At 31 December	8,428	5,454

32. Insurance contracts, investment contracts and reinsurance contracts - terms, methods and assumptions

Insurance and investment contracts include unitised, conventional and annuity business. Unitised contracts are those where the contractual benefits are determined with reference to units allocated to the contract, 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).

On 31 December 2011, the unitised element of most non-participating business and the longevity risk of some annuity business written in the HWPF were transferred to the PBF. Prior to 31 December 2011 they had been reinsured to Standard Life Investment Funds Limited.

(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 contracts - 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 on a participating basis or, prior to 31 December 2011, in one or more internal linked funds. 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.

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 2011 is £3,137m (2010: £3,022m) and this represents approximately 28% (2010: 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 2011 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,921m (2010: £1,928m) and this represents approximately 17% (2010: 18%) 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 contracts - 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.

32. Insurance contracts, investment contracts and reinsurance contracts - terms, methods and assumptions *continued*

(a) Heritage With Profits Fund (HWPF) *continued*

(a)(ii) UK insurance and investment contracts - methods *continued*

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 unithed 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.

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:

	2011	2010
Risk discount rate	3.83% - 4.34%	3.81% - 4.81%
Investment returns		
Equity securities	2.03%	3.59%
Property	2.03%	3.59%
FI – annuity/protection	2.54%	3.81%
FI – other business	2.03%	3.59%
Expense inflation	3.37%	3.95%

The table above shows the changes in the basis between 2010 and 2011. 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 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 contracts - 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 which varies by the quality of asset and the credit spread at the valuation date. 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	2011	2010
1. Assurances		
Life (includes Lifetime Protection Series)	1.70%	2.70%
Other	2.15%	3.45%
2. Annuities		
Individual/group		
Non-linked		
Life	2.20%	3.50%
Pensions: reinsured externally	3.35%	3.85%
Pensions: not reinsured externally	4.05%	5.20%
Deferred annuities	3.65%	4.30%
Linked to RPI		
Linked to RPI: reinsured externally	(0.50%)	0.25%
Linked to RPI: not reinsured externally	(0.35%)	0.45%
Deferred annuities linked to RPI	(0.75%)	0.45%

32. Insurance contracts, investment contracts and reinsurance contracts - terms, methods and assumptions *continued*

(a) Heritage With Profits Fund (HWPF) *continued*

(a)(iii) UK insurance and investment contracts - 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	2011	2010
1. Assurances		
Lifetime Protection Series	Males: 67.0% TMS00/TMN00 Females: 67.0% TFS00/TFN00	Males: 72.0% TMS00/TMN00 Females: 72.0% TFS00/TFN00
Assurances (excluding Lifetime Protection Series)	Males: 78.8% AMC00 Females: 80.4% AFC00	Males: 72.3% AMC00 Females: 72.3% AMC00
2. Annuities		
Individual and group in deferment	Males: 76.7% AMC00 Females: 78.3% AFC00	Males: 70.5% AMC00 Females: 70.5% AMC00
Individual after vesting	Males: 95.6% RMC00 Females: 99.9% RFC00	Males: 98.4% RMC00 Females: 106.6% RFC00
Group after vesting	Males: 113.2% RMV00 Females: 117.7% WA00	Males: 113.5% RMV00 Females: 113.8% WA00

In the valuation of annuities and deferred annuities issued in the UK, allowance is made for future improvements in the rates of mortality. For 2011, this is based on Standard Life's parameterisation of the CMI_2009 model with long-term improvement rates of 1.9% for males and 1.5% for females. The Continuous Mortality Investigation Bureau (CMI) are a body funded by the UK insurance and reinsurance industry that produce industry standard mortality tables and projection bases for mortality improvements. CMI_2009 is a model that was published towards the end of 2009.

Standard Life's parameterisation of the CMI_2009 model makes the following changes relative to the 'core' model:

- blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model), and
- assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model).

For 2010, the improvement factors assumed for males were in line with the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1.6% pa. The improvement factors assumed for females were in line with 75% of the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1.3% pa and were 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.

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 3.37% (2010: 3.95%) for UK business derived from the expected RPI implied by current investment yields and an additional allowance for earnings inflation.

For non-participating immediate and deferred annuity contracts and conventional non-participating insurance contracts, an explicit allowance for maintenance expenses is included in the liabilities. An allowance for investment expenses is reflected in the valuation rate of interest.

In calculating the liabilities for unitised regular premium non-participating insurance contracts, the administration expenses are assumed to be identical to the expense charges made against each policy. Similar assumptions are made, where applicable, in respect of mortality, morbidity and the risk benefit charges made to meet such costs.

(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 unitised participating contracts and guaranteed annuity options on some pension business.

The liabilities are calculated using a methodology and basis consistent with the UK approach but using assumptions appropriate to the Irish market. The value of options and guarantees on the Irish business are measured using a methodology consistent with the UK with due allowance for any appropriate interactions across the fund as a whole. However, the basis used is appropriate for the Irish market.

Germany

The contracts investing in the HWPf mainly consist of unitised participating endowment assurances and deferred annuities, under which a percentage of each premium is applied to purchase units in the fund. Certain unit prices in the HWPf are guaranteed not to decrease. The death benefit under endowment assurances is the greater of the sum assured on death or 105% of the current surrender value. The death benefit under deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, 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 or guaranteed annuity factors.

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. Prior to 31 December 2011, most business was reinsured to Standard Life Investment Funds Limited (SLIF), with the exception of protection business. On 31 December 2011, the business previously reinsured to SLIF was recaptured by the PBF. 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 contracts – 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 comprises endowment and whole life contracts under which a percentage of the premium is used to allocate units in one or more internal linked funds. Some of this business is classified as insurance contracts, for example Homeplan. Others are classified as investment contracts, for example Capital Investment Bonds.

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.

32. Insurance contracts, investment contracts and reinsurance contracts - terms, methods and assumptions *continued*

(b) Proprietary Business Fund (PBF) *continued*

(b)(i) UK insurance and investment contracts - terms *continued*

For those annuities in payment which increase at a predefined rate, the total liability at 31 December 2011 is £257m (2010: £159m) and this represents approximately 8% (2010: 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%), the impact on the shareholder equity from those annuities with a predefined rate of increase and the corresponding assets is not significant.

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 2011 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £365m (2010: £143m) and this represents approximately 12% (2010: 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 the impact on the shareholder surplus from these annuities is not significant.

(b)(ii) UK insurance and investment contracts - 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 contracts - 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 reflect sustainability and also to allow for the possibility of rental defaults. For corporate bonds, a deduction is made for the risk of default which varies by the quality of asset and the credit spread at the valuation date. 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	2011	2010
1. Assurances		
Lifetime Protection Series (term assurance/critical illness)	1.30% / 1.70%	0.15% / 2.70%
Life	1.30%	2.10%
2. Annuities		
Individual/group		
Life	3.80%	4.55%
Pensions	3.80%	4.55%
Linked to RPI	(0.15%)	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	2011	2010
1. Assurances		
Lifetime Protection Series	Males: 67.0% TMS00/TMN00 Females: 67.0% TFS00/TFN00	Males: 72.0% TMS00/TMN00 Females: 72.0% TFS00/TFN00
Assurances (excluding Lifetime Protection Series)	Males: 78.8% AMC00 Females: 80.4% AFC00	Males: 72.3% AMC00 Females: 72.3% AMC00
2. Annuities		
Individual after vesting (business written after 10 July 2006)	Males: 88.4% RMC00 Females: 92.4% RFC00	Males: 91.0% RMC00 Females: 98.6% RFC00
Individual after vesting (business written prior to 10 July 2006)	Males: 95.6% RMV00 Females: 99.9% WA00	n/a n/a
Group after vesting (business written after 10 July 2006)	Males: 104.7% RMV00 Females: 108.9% WA00	Males: 105.0% RMV00 Females: 105.3% WA00
Group after vesting (business written prior to 10 July 2006)	Males: 113.2% RMV00 Females: 117.7% WA00	n/a n/a

In the valuation of annuities and deferred annuities issued in the UK, allowance is made for future improvements in the rates of mortality. For 2011, this is based on Standard Life's parameterisation of the CMI_2009 model with long-term improvement rates of 1.9% for males and 1.5% for females.

Standard Life's parameterisation of the CMI_2009 model makes the following changes relative to the 'core' model:

- blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model), and
- assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model).

For 2010, the improvement factors assumed for males were in line with the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1.6% pa. The improvement factors assumed for females were in line with 75% of the average of CMI Medium and Long Cohort projections, with a minimum improvement of 1.3% pa and were 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.

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 3.37% (2010: 3.95%) 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.

32. Insurance contracts, investment contracts and reinsurance contracts - terms, methods and assumptions *continued*

(b) Proprietary Business Fund (PBF) *continued*

(b)(iv) Canadian business - terms, methods and assumptions

The only Canadian business written in the PBF are stacking contracts and structured settlement assignment contracts. These contracts are reinsured within the Group with The Standard Life Assurance Company of Canada. Stacking contracts are a second position insurance on accumulation contracts and vested annuities. Structured settlement assignment contracts are in effect annuity contracts purchased by a third party.

(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 in this fund. 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 or guaranteed annuity factors.

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.

(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 unithised 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 2011 is £648m (2010: £642m) and these represent approximately 13% (2010: 13%) of the total Canadian annuity business. The liability for annuities linked to CPI is approximately £367m (2010: £385m). This represents approximately 7% (2010: 8%) of the total Canadian annuity business.

The life contingent 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 £47m (2010: £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 £1,165m at 31 December 2011 (2010: £872m).

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 £46m (2010: £31m). At 31 December 2011, the liability for all the TIFs (i.e. pre and post November 2003) is £109m (2010: £55m).

32. Insurance contracts, investment contracts and reinsurance contracts - terms, methods and assumptions *continued*

(d) The Standard Life Assurance Company of Canada (SLCC) *continued*

(d)(i) Business written in Canada *continued*

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. Since it offers a significant insurance risk on capital guarantees, the individual product has been classified as insurance.

Provided that the monies have been invested for a minimum of 10 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 £27m 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%.

(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 the greatest value of the required assets.

(d)(iii) Canadian business - assumptions

The Canadian economic environment at 31 December 2011 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	2011	2010
6 months	0.90%	1.14%
1 year	0.96%	1.39%
2 years	0.94%	1.64%
3 years	1.03%	1.91%
5 years	1.34%	2.44%
7 years	1.65%	2.79%
10 years	2.03%	3.14%
20 years	2.48%	3.57%
30 years	2.48%	3.54%

The following table shows other key investment returns used in the asset and liability projections under CALM:

Investment returns	2011	2010
Equity securities	6.94%	6.94%
Property	6.92%	6.92%

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 equity securities 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	2011	2010
1. Assurances		
Perspecta Universal Life and Term Life	65%-120% of base table (where base table is 75-76% of CIA 97-04) with new internally developed projection scale CAN1921-2004 M/F (2012)	65%-120% of base table (where base table is 78% of CIA 97-04)
Participating and non-participating life, closed to new business	75%-108% of CIA 97-04 with new internally developed projection scale CAN1921-2004 M/F (2012)	76%-113% of CIA 97-04
2. Annuities		
Individual after vesting	19%-93% of IAM83M/IAM83F with internally developed projection scale CAN1921-2004 M/F (2012)	53%-100% of IAM83M/IAM83F with internally developed projection scale CAN1921-2004 M/F (2011)
Group after vesting	85%-103% of GAM94M/GAM94F with internally developed projection scale CAN1921-2004 M/F (2012)	92%-111% of GAM94M/GAM94F with internally developed projection scale CAN1921-2004 M/F (2011)

Mortality assumptions are derived from studies performed during 2011, with data to 2010, 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.

32. Insurance contracts, investment contracts and reinsurance contracts - terms, methods and assumptions *continued*

(f) Reinsurance contracts - terms, methods and assumptions

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements with reinsurers. The Group's most significant reinsurance arrangements are described below.

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. Refer to Note 42 – Risk management for details of the deposit back and also to Note 4 – Expenses under arrangements with reinsurers. A floating charge over the ring fenced pool of assets has been granted to the reinsurer.

The Standard Life Assurance Company of Canada (SLCC) has entered into contracts to reinsure mortality risk arising under the Universal Life insurance contracts it has issued. Under these contracts the reinsurers receive regular reinsurance premiums throughout the period until death claims arise on the underlying contracts based on payment schedules established at inception of the reinsurance contract. SLCC receives payments from the reinsurers on the death of the Universal Life policyholders to cover the death benefit due.

Amounts recoverable from or due to reinsurers under each reinsurance contract 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 or reinsurance liabilities respectively.

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 contracts, investment contracts and reinsurance contracts

	Notes	2011 £m	2010 £m
Non-participating insurance contract liabilities	33(a)	25,048	23,564
Non-participating investment contract liabilities	33(b)	77,510	75,600
Non-participating contract liabilities		102,558	99,164
Participating insurance contract liabilities	33(a)	16,509	17,357
Participating investment contract liabilities	33(a)	15,319	15,329
Unallocated divisible surplus	34	725	788
Participating contract liabilities		32,553	33,474

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:

	2011 £m	2010 £m
Participating contract liabilities before apportionment	31,385	32,374
Apportionment of non-participating PVFP	443	312
	31,828	32,686
Participating insurance contracts	16,509	17,357
Participating investment contracts	15,319	15,329
Participating contract liabilities after apportionment	31,828	32,686
Unallocated divisible surplus before apportionment	1,674	1,996
Apportionment of non-participating PVFP	(949)	(1,208)
Unallocated divisible surplus after apportionment	725	788

(a) Insurance contracts, participating investment contracts and reinsurance contracts

The movement in insurance contract liabilities, participating investment contract liabilities and reinsurance contracts during the year was as follows:

2011	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £m	Net £m
At 1 January	17,357	23,564	15,329	56,250	(6,962)	49,288
Expected change	(1,014)	(523)	(658)	(2,195)	301	(1,894)
Methodology/modelling changes	(11)	(7)	14	(4)	-	(4)
Effect of changes in:						
Economic assumptions	(37)	1,309	176	1,448	(292)	1,156
Non-economic assumptions	4	(245)	15	(226)	385	159
Effect of:						
Economic experience	325	595	438	1,358	(23)	1,335
Non-economic experience	38	(507)	(51)	(520)	18	(502)
New business	30	1,013	76	1,119	(6)	1,113
Total change in contract liabilities	(665)	1,635	10	980	383	1,363
Foreign exchange adjustment	(183)	(151)	(20)	(354)	6	(348)
At 31 December	16,509	25,048	15,319	56,876	(6,573)	50,303
Reinsurance assets					(6,818)	
Reinsurance liabilities					245	
					(6,573)	

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.

Non-economic assumptions change of £159m (net of reinsurance) includes an increase of £105m (net of reinsurance) in respect of changes in Canadian mortality assumptions. This increase is primarily in respect of a change in mortality improvement rates.

Economic assumptions reflect changes in fixed income yields, leading to lower valuation rates on non-participating business, and other market movements. Economic assumptions also include a decrease in liabilities of £77m as a result of changes, introduced by management, in respect of the long-term asset allocation assumptions in Canada.

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.

2010	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £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
Reinsurance assets					(6,962)	
Reinsurance liabilities					-	
					(6,962)	

33. Insurance contracts, investment contracts and reinsurance contracts *continued*

(b) Non-participating investment contracts

The change in non-participating investment contract liabilities was as follows:

	2011 £m	2010 £m
At 1 January	75,600	63,728
Contributions	11,904	11,145
Initial charges and reduced allocations	(7)	(9)
Account balances paid on surrender and other terminations in the year	(8,525)	(7,589)
Investment return credited and related benefits	(757)	7,740
Foreign exchange adjustment	(305)	955
Recurring management charges	(400)	(370)
At 31 December	77,510	75,600

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:

	2011 £m	2010 £m
At 1 January	788	791
Change in UDS recognised in the income statement	(87)	(22)
Change in UDS not recognised in the income statement	(11)	2
Foreign exchange adjustment	35	17
At 31 December	725	788

35. Financial liabilities

	Notes	2011 £m	2010 £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
Derivative financial instruments designated as net investment hedges	22	2	25
Derivative financial instruments designated as held for trading	22	1,100	898
Total financial liabilities classified as held for trading		1,102	924
Designated upon initial recognition:			
Non-participating investment contract liabilities	43	74,673	72,670
Third party interest in consolidated funds	31	8,428	5,454
Total financial liabilities designated upon initial recognition		83,101	78,124
Total financial liabilities at fair value through profit or loss		84,203	79,048
Financial liabilities measured at amortised cost:			
Non-participating investment contract liabilities	43(d)	2,837	2,930
Deposits received from reinsurers		6,036	6,021
Borrowings	36	170	245
Subordinated liabilities	37	1,186	1,799
Other financial liabilities	40	2,603	1,826
Total financial liabilities recognised at amortised cost		12,832	12,821
Total financial liabilities		97,035	91,869

36. Borrowings

	Notes	2011 £m	2010 £m
Bank overdrafts	25	62	104
Other		108	141
Borrowings		170	245

Included within bank overdrafts of £62m (2010: £104m) is £32m (2010: £35m) relating to unrepresented cheques.

37. Subordinated liabilities

	2011		2010	
	Principal amount	Carrying value £m	Principal amount	Carrying value £m
Subordinated guaranteed bonds:				
6.75% Sterling fixed rate perpetual	£500,000,000	502	£500,000,000	502
6.375% Euro fixed/floating rate due 12 July 2022	€62,780,000	54	€750,000,000	660
Mutual Assurance Capital Securities:				
6.546% Sterling fixed rate perpetual	£300,000,000	315	£300,000,000	315
5.314% Euro fixed/floating rate perpetual	€360,000,000	315	€360,000,000	322
Subordinated liabilities		1,186		1,799

The difference between the fair value and carrying value of the subordinated liabilities is presented in Note 43(d) – 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, with the exception of the outstanding 6.375% Euro fixed/floating subordinated guarantee bonds due 2022 that are redeemable at par at the option of the Company in July 2012 and are therefore expected to be settled within 12 months. The accrued interest on subordinated liabilities of £52m (2010: £71m) 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.

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.

Following a tender process in respect of its Euro denominated 6.375% fixed/floating rate subordinated guaranteed bonds due 2022 (the Bonds), the Company announced on 12 September 2011 that it had agreed to purchase €687,220,000 of the Bonds at a purchase price of €10,200 per €10,000. After settlement on 14 September 2011, €62,780,000 in aggregate principal amount of the Bonds remain outstanding.

The maturity date for the remaining 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 the legal final maturity in July 2022. 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 in the event that they are not redeemed at par at the option of the Company.

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.

37. Subordinated liabilities *continued*

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.

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 mandatorily 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. The UK scheme is closed to new entrants.

Contributions to plans

The following table shows the actual contributions made to the plans in 2010 and 2011:

	Defined benefit		Defined contribution	
	2011 £m	2010 £m	2011 £m	2010 £m
UK – normal funding	30	31	9	8
UK – additional contributions	20	70	-	-
Canada	5	4	4	4
Ireland	1	2	-	-

Expected contributions to the plans in 2012 are as follows:

	Defined benefit	Defined contribution
	2012 £m	2012 £m
UK – normal funding	29	9
UK – additional contributions	20	-
Canada	5	4
Ireland	2	-

Total contributions to the UK defined benefit scheme in the year to 31 December 2011 include additional contributions of £20m (2010: £20m) paid in accordance with an existing agreement with the scheme trustees. Additional contributions were made in the year to 31 December 2010 as a result of the disposal of Standard Life Healthcare Limited and Standard Life Bank plc, 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 2011 £m	One percentage point increase 2010 £m	One percentage point decrease 2011 £m	One percentage point decrease 2010 £m
Effect on defined benefit obligation	5	4	(4)	(3)

(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	2011 £m	2010 £m
Current service cost		(60)	(67)
Interest cost on benefit obligation		(107)	(110)
Expected return on plan assets		136	119
Past service cost		64	59
Credit recognised in the consolidated income statement	6	33	1

Contributions made to defined contribution plans are included within current service cost, with the balance attributed to the Group's defined benefits schemes.

In 2011, a credit from past service costs of £64m (2010: £59m) was recognised as a result of a change in the basis of future pension discretionary increases in the UK staff pension scheme.

(b) Actuarial gains and losses recognised in the consolidated statement of comprehensive income

The actuarial (losses)/gains recognised in the consolidated statement of comprehensive income are as follows:

	2011 £m	2010 £m
Actual return less expected return on schemes' assets	385	204
Experience gains and losses arising on schemes' liabilities	-	(2)
Changes in assumptions underlying schemes' liabilities	(264)	(18)
Surplus not recognised	(209)	-
Actuarial (losses)/gains in the consolidated statement of comprehensive income	(88)	184

Under the guidance contained in IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, when measuring the defined benefit asset, £209m (2010: £nil) of the surplus is not considered recoverable.

The cumulative amount of actuarial gains recognised in the statement of comprehensive income since 16 November 2003, the date of adoption of IFRS, is £145m (2010: £233m).

The actuarial losses for the year ended 31 December 2011 of £88m (2010: gain of £184m) were recognised directly in retained earnings.

38. Pension and other post-retirement benefit provisions *continued***(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:

	2011				2010			
	UK £m	Canada £m	Ireland £m	Total £m	UK £m	Canada £m	Ireland £m	Total £m
Present value of funded obligation	(1,972)	(215)	(54)	(2,241)	(1,724)	(175)	(51)	(1,950)
Present value of unfunded obligation	-	(68)	-	(68)	-	(56)	-	(56)
Fair value of scheme assets	2,519	179	58	2,756	2,005	175	48	2,228
Adjustment for unrecognised past service costs	-	(5)	-	(5)	-	(6)	-	(6)
Surplus not recognised	(209)	-	-	(209)	-	-	-	-
Net asset/(liability) in the consolidated statement of financial position	338	(109)	4	233	281	(62)	(3)	216

The Group also recognises a net liability of £6m (2010: £6m) arising from a scheme with a total defined benefit obligation of £6m (2010: £6m) administered for the benefit of employees in Germany, resulting in a combined net asset presented in the statement of financial position of £227m (2010: £210m).

(d) Defined benefit obligation

The movement in the present value of defined benefit obligation is as follows:

	2011 £m	2010 £m
At 1 January	2,012	1,924
Foreign exchange differences	(5)	14
Current service cost	47	55
Interest cost	107	110
Actuarial losses	264	20
Past service cost	(64)	(59)
Benefits paid	(46)	(52)
At 31 December	2,315	2,012

The defined benefit obligation is as follows:

	2011 £m	2010 £m
Wholly unfunded	75	62
Wholly funded	2,025	1,950
Partly funded	215	-
Total defined benefit obligation	2,315	2,012

(e) Plan assets

The changes in the fair value of plan assets are as follows:

	2011 £m	2010 £m
At 1 January	2,228	1,836
Expected return on scheme assets	136	119
Actuarial gains	385	204
Contributions by employer	56	107
Foreign exchange difference on foreign plans	(5)	12
Benefits paid	(44)	(50)
At 31 December	2,756	2,228

The distribution of the fair value of the plan assets at 31 December is as follows:

	2011			Total £m	2010			Total £m
	UK £m	Canada £m	Ireland £m		UK £m	Canada £m	Ireland £m	
Equity securities	472	89	35	596	490	127	23	640
Bonds – government	457	64	-	521	317	46	20	383
Bonds – corporate	701	2	-	703	577	-	5	582
Property	52	9	-	61	47	-	-	47
Cash and cash equivalents	422	-	23	445	504	-	-	504
Derivatives	415	-	-	415	70	-	-	70
Other	-	15	-	15	-	2	-	2
Total	2,519	179	58	2,756	2,005	175	48	2,228

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. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

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:

	2011			2010		
	UK %	Canada %	Ireland %	UK %	Canada %	Ireland %
Expected return on plan assets	5.45	5.75	4.00	6.15	7.00	5.00

The actual return on plan assets during 2011 was £521m (2010: £323m).

(f) Principal assumptions

The principal economic assumptions used in determining the year end pension benefit obligation for the Group's plans are as follows:

	2011			2010		
	UK %	Canada %	Ireland %	UK %	Canada %	Ireland %
Rate of increase in salaries	4.45-5.45	3.50	3.50	4.65-5.65	3.50	3.50
Rate of increase in pensions	2.85	1.33	1.00	3.05-3.65	1.33	1.00
Discount rate	4.60	4.50	5.10	5.30	5.50	5.25
Inflation assumption	2.85-3.45	2.00	2.00	3.05-3.65	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 £49m (2010: £43m).

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:

2011	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life			
				Male, age today NRA	40	Female, age today NRA	40
UK	Scheme specific basis reflecting membership demographics	'Double entry' table, CMI cohort projections with underpin	60	28	30	29	30
Canada	UP94 proj to 2015	scale AA	63	21	23	24	25
Ireland	PNML00	Projected to 2025	60	28	31	30	32

2010	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life			
				Male, age today NRA	40	Female, age today NRA	40
UK	Scheme specific basis reflecting membership demographics	'Double entry' table, CMI cohort projections with underpin	60	28	30	29	30
Canada	UP94 proj to 2015	scale AA	63	21	19	23	22
Ireland	PNML00	Projected to 2025	60	28	31	29	32

38. Pension and other post-retirement benefit provisions *continued***(g) History of experience gains and losses**

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of the defined benefit obligation	2,315	2,012	1,924	1,513	1,587
Fair value of the plan assets	2,756	2,228	1,836	1,629	1,384
Adjustment for unrecognised past service costs	(5)	(6)	(6)	(5)	-
Net surplus/(deficit) in the plans	436	210	(94)	111	(203)
Surplus not recognised	209	-	(153)	153	-
Experience adjustments on plan liabilities	(264)	(20)	(329)	207	22
Experience adjustments on plan assets	385	204	99	107	(25)

39. Deferred income

	2011 £m	2010 £m
At 1 January	382	371
Additions during the year	83	83
Released to the income statement as fee income	(76)	(71)
Foreign exchange adjustment	(1)	(1)
At 31 December	388	382

The amount of deferred income expected to be settled after more than 12 months is £318m (2010: £313m).

40. Other financial liabilities

	2011 £m	2010 £m
Contingent commissions	65	61
Amounts payable on direct insurance business	319	325
Amounts payable on reinsurance contracts	26	26
Outstanding purchases of investment securities	204	131
Accruals	285	304
Creation of units awaiting settlement	68	75
Cash collateral held in respect of derivative contracts	1,070	396
Property related liabilities	250	232
Other	316	276
Other financial liabilities	2,603	1,826

The amount of other financial liabilities expected to be settled after more than 12 months is £159m (2010: £161m).

41. Other liabilities

	2011 £m	2010 £m
Provisions	17	10
Other	109	107
Other liabilities	126	117

Provisions comprise obligations in respect of compensation, litigation, staff entitlements, reorganisations and onerous contracts.

The movement during the year was as follows:

	2011 £m	2010 £m
At 1 January	10	21
Charged/(credited) to the consolidated income statement:		
Additional provisions	13	6
Unused amounts reversed	(1)	(6)
Disposal of subsidiaries	-	(6)
Used during the year	(5)	(5)
At 31 December	17	10

The amount of other liabilities expected to be settled after more than 12 months is £6m (2010: £1m).

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 Officer (CEO) 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 CEO 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 CEO 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

Risks are monitored and controlled by 'business units' where the Group defines 'business units' according to the materiality, purpose and strategic significance of the activities that are undertaken. The definition of 'business unit' is not constrained by the Group's legal structure which 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.

(b)(i) UK and Europe life and pensions

UK and Europe life and pensions is subdivided to separately present the risks borne by the HWPF and other with profits funds, other funds business and unit linked business.

HWPF and other with profits funds

This comprises the HWPF, the UK Smoothed Managed With Profits Fund, the German Smoothed Managed With Profits Fund and the 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.

Other funds business

This comprises Standard Life Assurance Limited Shareholder Fund (SHF), Standard Life Assurance Limited Proprietary Business Fund (PBF) and Standard Life International Limited (SLIL).

Unit linked business

This comprises unit linked business held within the PBF and SLIL.

On 31 December 2011, the business of Standard Life Investment Funds Limited (SLIF) was transferred to the SHF and the PBF under a court approved scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000. This transaction had no impact on the risk profile of the UK and Europe life and pensions business unit.

(b)(ii) Canada

Canada is subdivided to separately present the risks borne by segregated and non-segregated funds business.

42. Risk management *continued*

(b) The Group structure *continued*

(b)(iii) Other business units

Other business units include the activities of the Company, Standard Life Investments Limited, Standard Life (Asia) Limited and other operations. Other business units previously included SLIL. The 2010 comparatives have been revised to reflect the reallocation of SLIL to UK and Europe life and pensions.

(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 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

(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 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

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 and investment property measured at fair value is presented in Note 43 – Fair value of financial assets and liabilities and Note 17 – Investment property.

(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 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 debt securities, loans and derivative financial instruments.

(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 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.

The principal source of foreign currency risk for equity holders arises from the Group's investments in overseas subsidiaries and joint ventures, primarily its Canadian subsidiary. Hedges exist to limit the size of the exposure relating to the investment in Canada. Equity holders have limited direct exposure to the Euro.

During the year, in response to concerns regarding the Eurozone, the Group performed a review of the potential impact of one or more countries ceasing to use the Euro and establishing a new national currency. The review concluded that no management action was considered necessary in respect of this risk however the situation in Europe continues to be monitored.

(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:

	2011 £m	2010 £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	51,149	51,015
Other funds excluding unit linked business ¹	5,223	5,555
Unit linked business ¹	66,449	64,393
Canada		
Non-segregated funds	11,579	11,211
Segregated funds	12,855	12,511
Other business units ¹	1,297	1,109
	148,552	145,794
Non-controlling interests and third party interest in consolidated funds:		
Financial investments	7,928	5,022
Investment property	1,312	1,103
	9,240	6,125
Intangible assets	200	135
Deferred acquisition costs	920	881
Investments in associates and joint ventures accounted for using the equity method	271	238
Property, plant and equipment	160	164
Pension and other post-retirement benefits assets	342	281
Deferred tax assets	210	201
Other assets	228	297
	2,331	2,197
Total assets	160,123	154,116

¹ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

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 2011 and 31 December 2010. The information presented excludes the share of assets attributable to 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*

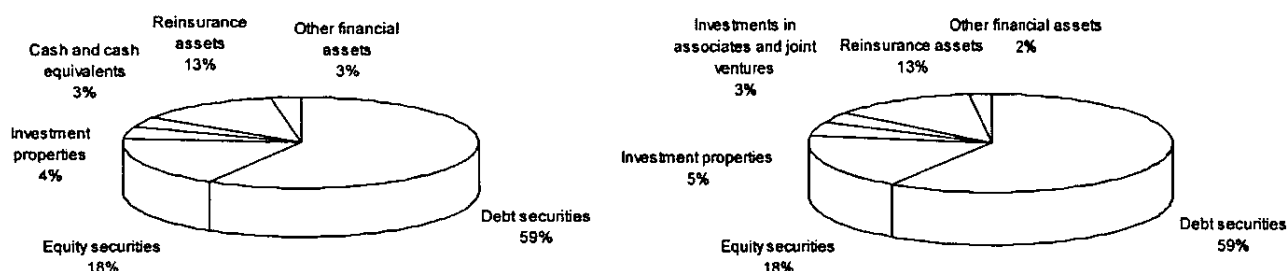
(d)(ii) Market risk concentrations *continued*

UK and Europe life and pensions: HWPF and other with profits funds

Financial investments, reinsurance assets and investment property £51,149m (2010: £51,015m)

2011

2010



¹ As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.

The assets of the 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
- The need to invest assets supporting participating business 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.

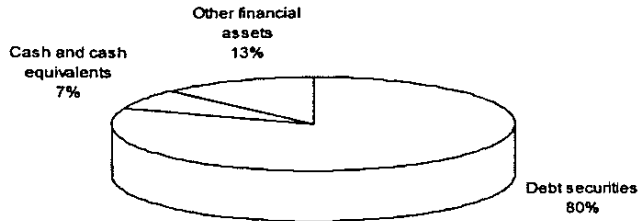
Following the demutualisation of SLAC, new participating business is written in the Proprietary Business Fund (PBF), with the exception of certain increments on contracts in-force prior to demutualisation, which are written in the HWPF. For the new participating business written in the PBF, the investment 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.

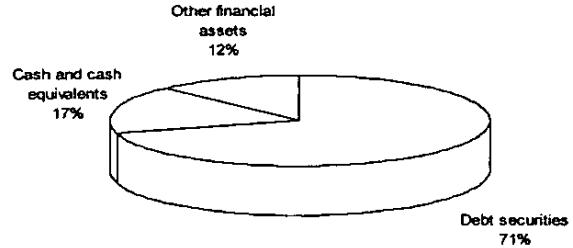
The decrease in investments in associates and joint ventures and increase in cash and cash equivalents reflects the impact of the restructuring of two sub-funds of Standard Life Investments (Global Liquidity Funds) plc. Refer to Note 16 – Investments in associates and joint ventures for further details.

UK and Europe life and pensions: Other funds business, excluding unit linked business
Financial investments £5,223m (2010: £5,555m)

2011



2010

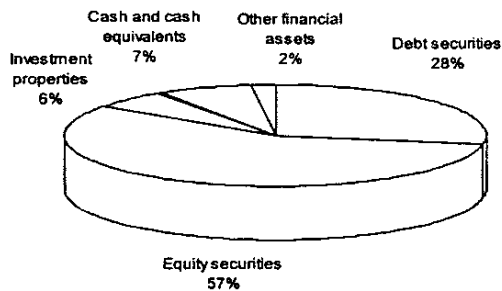


- ¹ As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.
- ² There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.
- ³ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

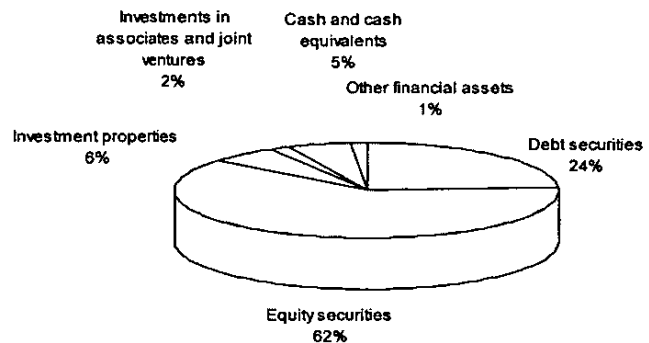
Assets in the other funds business are managed against benchmarks that ensure diversification is spread across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise from the liabilities. A combination 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 business
Financial investments and investment property £66,449m (2010: £64,393m)

2011



2010



- ¹ As a result of the split presentation of UK and Europe life and pensions, other financial assets include 'intra-fund' balances.
- ² There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.
- ³ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

Assets within the unit linked business 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 the market risk of these assets is predominantly limited to variations in charges arising as a consequence of changes in the fair value of assets under management.

The decrease in investments in associates and joint ventures and increase in cash and cash equivalents reflects the impact of the restructuring of two sub-funds of Standard Life Investments (Global Liquidity Funds) plc. Refer to Note 16 – Investments in associates and joint ventures for further details.

42. Risk management *continued*

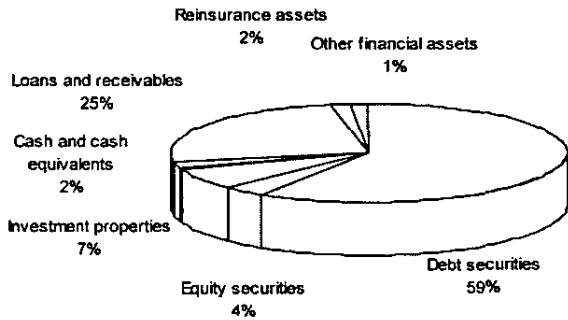
(d) Market risk *continued*

(d)(ii) Market risk concentrations *continued*

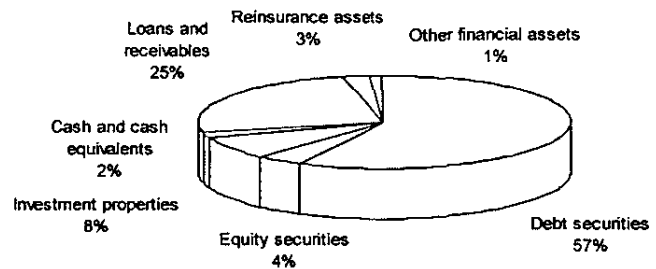
Canada: non-segregated funds

Financial investments, reinsurance assets and investment property £11,579m (2010: £11,211m)

2011



2010

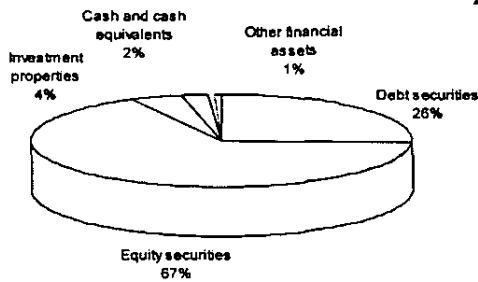


Equity holders are exposed to market risks from Canadian non-segregated fund business including losses from mismatches between financial assets and liabilities. Equity holders also have exposure to variations in the cost of meeting guarantees to policyholders in respect of certain contracts, which may arise as a consequence of changes in the value of underlying assets. Derivatives may be used to manage this risk.

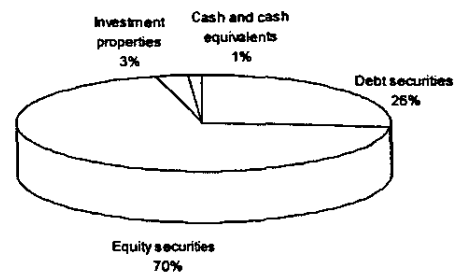
Canada: segregated funds

Financial investments and investment property £12,855m (2010: £12,511m)

2011



2010

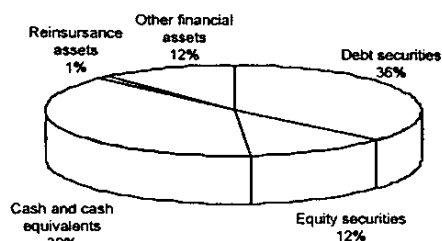


Similar to unit linked business, the exposure of equity holders to market risk in respect of segregated fund business is predominantly limited to variations in charges arising as a consequence of changes in the value of assets under management.

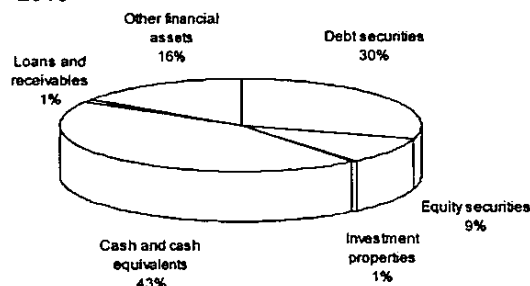
Other business units

Financial investments and investment property £1,297m (2010: £1,109m)

2011



2010



¹ There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

² As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

Cash and cash equivalents primarily represent assets of the Company and the assets held to support the liabilities, capital requirements and strategic activities of Standard Life Investments Limited. The remaining assets predominantly represent assets managed by Standard Life (Asia) Limited where the exposure of equity holders to the market risk of the assets is limited to variations in charges arising as a consequence of changes in the fair value of the 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 2011 there is no direct impact of market risk on the sensitivity of GWPF. However, there is an indirect impact on PBF due to a realistic Capital Support Arrangement (CSA) that was introduced during 2011 for the GWPF. This provides support by reducing the liability to transfer future annual management charges to the PBF hence increasing the assets on the balance sheet to the extent necessary to avoid a realistic deficit (if possible). There is no impact on GWPF participating liabilities. If support is provided under the realistic CSA, there is an increase in expense reserves in the PBF. Further realistic support would be required for the decrease in interest rate sensitivity and this is included within the non-participating insurance contract liabilities in the table below.

Earnings over a period may be reduced as a consequence of the impact of market movements on charges levied on unit linked business, segregated fund business and other with profits fund business with the exception of the GWPF. 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.

42. Risk management *continued***(d) Market risk *continued*****(d)(iii) Sensitivity analysis - market risk *continued***

2011 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	-	-	-	-	-	-	-	-	343	(422)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	(5)	-	-	-	-	-	-
Assets backing – non-participating liabilities	-	-	-	-	-	-	-	-	(337)	402
Financial assets	-	-	-	-	-	-	-	-	(54)	50
	-	-	-	(5)	-	-	-	-	(48)	30
Canada										
Non-participating insurance contract liabilities	-	(3)	3	(9)	42	(35)	80	(78)	488	(884)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Participating insurance contract liabilities	(14)	14	(27)	27	(8)	8	(16)	16	28	(35)
Assets backing – participating insurance contract liabilities	14	(14)	27	(27)	8	(8)	16	(16)	(28)	35
Assets backing – non-participating insurance contract liabilities	16	(16)	33	(33)	41	(41)	82	(82)	(482)	626
Assets backing – non-participating investment contract liabilities	-	-	-	-	-	-	-	-	(39)	46
Other assets and liabilities	1	1	3	5	37	(37)	73	(73)	(48)	57
	17	(18)	39	(37)	120	(113)	235	(233)	(81)	(155)
Other business units										
Other assets and liabilities	1	(1)	2	(2)	-	-	-	-	4	(4)
	1	(1)	2	(2)	-	-	-	-	4	(4)
Total	18	(19)	41	(44)	120	(113)	235	(233)	(125)	(129)

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.

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 some of 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.

Canada's non-participating insurance contract liabilities are valued using the Canadian Asset Liability Method (CALM), which 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. At 31 December 2011, the low yields in Canada have resulted in the assumed reinvestment rates used in the valuation of the non-participating insurance contracts under CALM becoming more sensitive to a fall in interest rates. This is reflected in the sensitivity analysis above.

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	-	-	-	-	-	-	-	-	-	-
Assets backing – non-participating liabilities	-	-	-	-	-	-	-	-	(277)	336
Financial assets	-	-	-	-	-	-	-	-	(79)	90
	-	-	-	-	-	-	-	-	(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.

The impact on total equity is equal to that in the tables 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 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 impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. The sensitivities presented in the table are not sufficiently severe to have restricted recourse cash flows in 2011 and 2010. 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.

42. Risk management *continued***(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 to which the Group may have exposure at certain times, for example commission terms paid to intermediaries.

Individual business units are responsible for implementing processes to ensure that credit exposures are managed within any limits that have been established and for the reporting exposures and any limit breaches to the Group Credit Risk Committee.

The overall approach to managing credit risk has not changed during the year however there have been various changes in limits in response to changing economic conditions. In particular, concerns regarding the Eurozone resulted in the introduction of country limits to manage the aggregate exposure to banking counterparties in certain European countries. Refer to Section (e)(i) for details of these changes and the impact these changes have had on exposures.

The analysis of credit risk exposure presented in the tables that follow can be reconciled to the Group's total assets as follows:

	2011 £m	2010 £m
Financial investments (excluding equity securities) and reinsurance assets:		
UK and Europe life and pensions		
Heritage With Profits Fund and other with profits funds	39,831	39,385
Other funds, excluding unit linked business ¹	5,223	5,549
Unit linked business ¹	28,824	24,006
Canada		
Non-segregated funds	10,335	9,888
Segregated funds	3,778	3,475
Other business units ¹	1,138	1,001
	89,129	83,304
Non-controlling interests and third party interest in consolidated funds – financial investments (excluding equity securities and interests in pooled investment funds) ²	5,470	3,061
Equity securities	54,450	57,144
	59,920	60,205
Intangible assets	200	135
Deferred acquisition costs	920	881
Investments in associates and joint ventures accounted for using the equity method	271	238
Investment property	8,743	8,410
Property, plant and equipment	160	164
Pension and other post-retirement benefits assets	342	281
Deferred tax assets	210	201
Other assets	228	297
	11,074	10,607
Total assets	160,123	154,116

¹ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

² Comprises £12m (2010: £116m) attributable to investments in associates and joint ventures, £223m (2010: £105m) attributable to derivative financial assets, £3,758m (2010: £2,290m) attributable to debt securities, £154m (2010: £127m) attributable to other assets and £1,323m (2010: £423m) 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 based on 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.

42. Risk management *continued***(e) Credit risk *continued*****(e)(i) Credit exposure**

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

The objective evidence that is taken into account in determining whether any impairment of debt securities has occurred includes:

- 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 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: HWPF and other with profits funds business

Total credit exposure £39,831m (2010: £39,385m)

	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	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Neither past due nor impaired:																
AAA	21,714	20,336	-	-	197	43	-	-	-	-	-	1,558	-	-	21,911	21,937
AA	1,863	2,063	-	-	735	59	160	117	6,601	6,501	-	-	-	-	9,359	8,740
A	3,997	4,800	-	-	724	119	525	157	-	48	-	-	-	-	5,246	5,124
BBB	1,306	1,420	-	-	-	-	-	-	-	-	-	-	-	-	1,306	1,420
Below BBB	611	772	-	-	-	-	-	-	-	-	-	-	-	-	611	772
Not rated	338	327	40	45	1	1	331	331	-	-	-	-	319	331	1,029	1,035
Internally rated	180	134	139	162	-	-	-	-	7	8	-	-	-	-	326	304
	30,009	29,852	179	207	1,657	222	1,016	605	6,608	6,557	-	1,558	319	331	39,788	39,332
Past due	-	-	-	-	-	-	-	-	-	-	-	-	24	21	24	21
Impaired	19	32	-	-	-	-	-	-	-	-	-	-	-	-	19	32
Total	30,028	29,884	179	207	1,657	222	1,016	605	6,608	6,557	-	1,558	343	352	39,831	39,385

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 2011, receivables and other financial assets of £24m (2010: £20m) were past due by less than three months and £nil (2010: £1m) were past due by between three and six months.

The equity holders' exposure to credit risk arising from investments held in the HWPF and other with profits funds is similar in principle to that described for market risk exposures in Section (d). As at 31 December 2011, the financial assets of the HWPF include £6,036m (2010: £6,021m) 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 default of the reinsurer. Any credit losses and defaults within the portfolio of assets are borne by the external reinsurer.

The decrease in investments in associates and joint ventures and increase in cash and cash equivalents reflects the impact of the restructuring of two sub-funds of Standard Life Investments (Global Liquidity Funds) plc. Refer to Note 16 – Investments in associates and joint ventures for further details.

During the year, country limits were introduced to manage the aggregate exposure to banking counterparties in certain European countries. This has resulted in reducing the credit exposure for cash and cash equivalents to those countries where there are credit concerns.

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Other ³		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK ²	16,326	16,046	1,115	1,602	2,752	2,682	1,078	1,214	-	-	21,271	21,544
Canada	17	3	-	-	34	48	4	12	-	-	55	63
Australia	65	43	188	242	61	36	23	27	-	-	337	348
Austria	225	85	-	-	66	64	1	1	-	-	292	150
Belgium	1	118	9	15	-	4	11	19	-	-	21	156
Denmark	6	1	48	51	1	2	37	36	-	-	92	90
Finland	218	-	133	-	-	-	2	-	-	-	353	-
France	876	378	210	306	92	107	394	526	-	-	1,572	1,317
Germany	1,338	735	512	444	161	144	178	315	-	-	2,189	1,638
Greece	-	-	-	-	-	-	2	3	-	-	2	3
Ireland ²	-	-	12	24	37	78	11	14	-	-	60	116
Italy	1	482	71	124	64	72	108	173	-	-	244	851
Japan	16	17	66	-	28	4	-	10	-	-	110	31
Mexico	1	-	-	-	-	-	34	-	-	-	35	-
Netherlands	374	150	303	140	137	186	107	125	-	-	921	601
Norway	82	-	64	36	54	46	20	13	-	-	220	95
Portugal	-	-	-	-	-	-	3	6	-	-	3	6
Spain	9	151	73	174	4	27	64	108	-	-	150	460
Sweden	71	-	108	109	10	14	13	36	-	-	202	159
Switzerland	-	-	170	51	64	72	12	44	-	-	246	167
US	69	49	336	467	308	406	204	286	-	-	917	1,208
Other	-	122	24	110	142	126	145	199	425	324	736	881
Total	19,695	18,380	3,442	3,895	4,015	4,118	2,451	3,167	425	324	30,028	29,884

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

² Includes impaired debt securities of £19m (2010: £28m (UK) and £4m (Ireland)).

³ This balance primarily consists of securities held in supranationals.

During the year, the benchmarks for the HWPf European sovereign bond portfolios were revised. These portfolios invest in European sovereign debt that is considered to provide secure returns. Following an assessment that the debt of certain sovereign issuers had increased in risk and no longer provided the security required, the benchmarks for these portfolios were revised to exclude debt issued by those sovereign issuers. Following the implementation of this benchmark change, the HWPf does not have material exposures to Italian, Spanish and Belgian sovereign debt. The HWPf continues to have no exposure to sovereign debt issued by Portugal, Ireland and Greece.

42. Risk management *continued***(e) Credit risk *continued*****(e)(i) Credit exposure *continued***

UK and Europe life and pensions: Other funds business, excluding unit linked business

Total credit exposure £5,223m (2010: £5,549m)

	Debt securities		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Investments in associates and joint ventures		Receivables and other financial assets ¹		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Neither past due nor impaired:														
AAA	869	1,075	58	73	-	-	-	-	-	8	-	-	927	1,156
AA	755	922	208	533	29	264	2	2	-	-	-	-	994	1,721
A	1,827	1,320	91	347	185	33	3	4	-	-	-	-	2,106	1,704
BBB	303	147	-	-	-	-	-	-	-	-	-	-	303	147
Below BBB	65	63	-	-	-	-	-	-	-	-	-	-	65	63
Not rated	91	88	-	-	-	-	-	-	-	-	433	366	524	454
Internally rated	291	289	-	-	-	-	3	3	-	-	-	-	294	292
	4,201	3,904	357	953	214	297	8	9	-	8	433	366	5,213	5,537
Past due	-	-	-	-	-	-	-	-	-	-	10	11	10	11
Impaired	-	1	-	-	-	-	-	-	-	-	-	-	-	1
Total	4,201	3,905	357	953	214	297	8	9	-	8	443	377	5,223	5,549

¹ As a result of the split presentation of UK and Europe life and pensions, receivables and other financial assets include 'intra-fund' balances.² There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.³ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

At 31 December 2011, receivables and other financial assets of £10m (2010: £9m) were past due by less than three months, £nil (2010: £1m) were past due by between six and 12 months and £nil (2010: £1m) were past due by over one year.

The equity holder is exposed to credit risk arising from 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).

During the year, country limits were introduced to manage the aggregate exposure to banking counterparties in certain European countries. This has resulted in reducing the credit exposure for cash and cash equivalents to those countries where there are credit concerns. The benchmarks used to manage debt securities in respect of the other funds business of UK life and pensions significantly restrict exposures to sovereign issuers.

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Other ²		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK	370	361	350	382	824	980	511	317	74	63	2,129	2,103
Canada	-	-	-	-	-	-	-	-	-	-	-	-
Australia	-	-	12	11	5	6	1	-	-	-	18	17
Austria	-	1	-	-	-	-	-	-	-	-	-	1
Belgium	-	2	1	-	-	-	1	-	-	-	2	2
Denmark	-	-	39	64	-	-	17	15	-	-	56	79
Finland	-	-	23	-	-	-	-	-	-	-	23	-
France	-	3	66	225	2	-	315	243	-	-	383	471
Germany	4	8	50	48	3	-	250	154	-	-	307	210
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Ireland ³	-	-	2	1	3	73	2	-	-	-	7	74
Italy	-	8	24	36	-	1	67	53	-	-	91	98
Japan	-	-	23	-	27	8	5	-	-	-	55	8
Mexico	-	-	-	-	-	-	43	-	-	-	43	-
Netherlands	-	2	155	118	1	21	15	11	-	-	171	152
Norway	-	-	25	1	-	-	31	27	-	-	56	28
Portugal	-	-	-	-	-	-	1	-	-	-	1	-
Spain	-	2	17	68	-	-	39	23	-	-	56	93
Sweden	-	-	56	43	-	-	28	26	-	-	84	69
Switzerland	-	-	75	-	11	-	12	10	-	-	98	10
US	-	1	198	128	71	37	177	158	-	-	446	324
Other	-	2	3	22	-	1	6	6	166	135	175	166
Total	374	390	1,119	1,147	947	1,127	1,521	1,043	240	198	4,201	3,905

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

² This balance primarily consists of securities held in supranationals.

³ 2010 includes impaired debt securities of £1m.

UK and Europe life and pensions: unit linked business

Total credit exposure £28,824m (2010: £24,006m)

	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	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Neither past due nor impaired:																
AAA	6,908	6,741	-	-	349	448	-	-	-	-	-	1,107	-	-	7,257	8,296
AA	3,327	2,065	5	-	1,754	822	6	4	292	115	-	-	-	-	5,384	3,006
A	4,726	3,730	50	40	2,591	2,040	3,804	2,816	406	216	-	-	-	-	11,577	8,842
BBB	2,203	1,603	35	14	82	42	-	-	-	-	-	-	-	-	2,320	1,659
Below BBB	1,302	1,091	-	3	2	4	-	-	-	-	-	-	-	-	1,304	1,098
Not rated	49	137	-	-	25	-	271	343	25	4	27	36	547	534	944	1,054
Internally rated	24	24	-	-	-	-	-	-	-	-	-	-	-	-	24	24
	18,539	15,391	90	57	4,803	3,356	4,081	3,163	723	335	27	1,143	547	534	28,810	23,979
Past due	-	-	-	-	-	-	-	-	-	-	-	-	8	10	8	10
Impaired	6	17	-	-	-	-	-	-	-	-	-	-	-	-	6	17
Total	18,545	15,408	90	57	4,803	3,356	4,081	3,163	723	335	27	1,143	555	544	28,824	24,006

¹ As a result of the split presentation of UK and Europe life and pensions, receivables and other financial assets include 'intra-fund' balances.

² There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

³ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

42. Risk management *continued***(e) Credit risk *continued*****(e)(i) Credit exposure *continued***

At 31 December 2011, receivables and other financial assets of £8m (2010: £9m) were past due by less than three months and £nil (2010: £1m) were past due by between six and 12 months. The table above includes £4,081m (2010: £3,163m) 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.

The decrease in investments in associates and joint ventures and increase in cash and cash equivalents reflects the impact of the restructuring of two sub-funds of Standard Life Investments (Global Liquidity Funds) plc. Refer to Note 16 – Investments in associates and joint ventures for further details.

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Other ³		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK ²	4,704	3,858	1,431	1,180	1,538	1,569	1,663	1,500	-	2	9,336	8,109
Canada	80	67	1	-	-	-	25	21	-	-	106	88
Australia	115	39	122	165	38	23	20	16	-	-	295	243
Austria	5	18	-	-	-	-	-	-	-	-	5	18
Belgium	8	25	9	14	-	2	41	31	-	-	58	72
Denmark	16	14	125	68	8	6	48	29	-	-	197	117
Finland	48	-	159	-	-	-	1	8	-	-	208	8
France	172	179	162	322	69	53	511	540	-	-	914	1,094
Germany	206	350	541	176	26	11	413	379	-	-	1,186	916
Greece	-	-	-	-	-	-	-	1	-	-	-	1
Ireland ²	-	2	9	22	82	90	15	8	-	-	106	122
Italy	118	202	63	126	19	27	229	232	-	-	429	587
Japan	574	500	133	8	14	31	-	1	-	-	721	540
Mexico	391	-	-	-	-	-	104	1	-	-	495	1
Netherlands	20	64	417	162	19	30	130	105	-	-	586	361
Norway	47	-	90	29	-	-	7	-	-	-	144	29
Portugal	3	2	-	-	-	-	1	2	-	-	4	4
Spain	47	60	54	199	-	1	99	95	-	-	200	355
Sweden	59	9	246	140	-	-	49	48	-	-	354	197
Switzerland	-	-	357	40	25	33	24	32	-	-	406	105
US	634	540	453	456	356	351	661	385	-	-	2,104	1,732
Other	2	83	41	35	89	77	161	172	398	342	691	709
Total	7,249	6,012	4,413	3,142	2,283	2,304	4,202	3,606	398	344	18,545	15,408

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

² Includes impaired debt securities of £6m (2010: £11m (UK) and £6m (Ireland)).

³ This balance primarily consists of securities held in supranationals.

The assets held in unit linked funds are managed in accordance with the mandates of the particular funds, hence debt security exposures largely arise as a consequence of the investment decisions of the unit linked policyholder.

Any losses occurring as a result of credit risk are normally attributed to the funds with the exposure of the equity holder predominantly limited to variations in charges arising as a consequence of changes in the fair value of assets under management.

Canada: non-segregated funds
Total credit exposure £10,335m (2010: £9,888m)

	Debt securities		Loans		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Investments in associates and joint ventures		Receivables and other financial assets		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Neither past due nor impaired:																
AAA	953	998	1,758	1,459	48	9	-	-	-	-	-	-	-	-	2,759	2,466
AA	1,919	1,959	612	856	37	112	10	-	-	3	-	-	-	-	2,578	2,930
A	3,340	2,895	395	284	143	63	25	-	186	216	-	-	-	-	4,089	3,458
BBB	548	410	13	92	-	-	-	-	-	-	-	-	-	-	561	502
Below BBB	-	-	6	3	-	-	-	-	-	-	-	-	-	-	6	3
Not rated	77	82	96	96	-	-	-	-	5	177	16	22	126	116	320	493
Internally rated	-	16	-	-	-	-	-	-	-	-	-	-	-	-	-	16
	6,837	6,360	2,880	2,790	228	184	35	-	191	396	16	22	126	116	10,313	9,868
Impaired	-	-	22	20	-	-	-	-	-	-	-	-	-	-	22	20
Total	6,837	6,360	2,902	2,810	228	184	35	-	191	396	16	22	126	116	10,335	9,888

The equity holder is exposed to credit risk of the assets held within Canada non-segregated funds.

The principle collateral held as security for mortgage loans is the underlying properties. At 31 December 2011, the estimated gross fair value of collateral held against loans and advances that were impaired was £22m (2010: £20m). 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 £127m as at 31 December 2011 (2010: £72m). Refer to Note 46(b).

During the year, country limits were introduced to manage the aggregate exposure to banking counterparties in certain European countries. This has resulted in reducing the credit exposure for cash and cash equivalents to those countries where there are credit concerns. The limits used to manage debt security exposures in the non-segregated business in Canada largely concentrate exposure to Canadian issuers. Other than exposure to Germany, there are no other exposures to European-issued debt securities.

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK	-	-	-	-	-	-	-	-	-	-
Canada	3,607	3,622	278	198	513	433	2,307	1,986	6,705	6,239
Germany	20	16	-	-	-	-	-	-	20	16
US	6	4	30	30	74	61	-	7	110	102
Other	2	3	-	-	-	-	-	-	2	3
Total	3,635	3,645	308	228	587	494	2,307	1,993	6,837	6,360

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

42. Risk management *continued***(e) Credit risk *continued*****(e)(i) Credit exposure *continued*****Canada: segregated funds****Total credit exposure £3,778m (2010: £3,475m)**

	Debt securities		Loans		Cash and cash equivalents		Receivables and other financial assets		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Neither past due nor impaired:										
AAA	1,348	1,393	26	22	38	31	-	-	1,412	1,446
AA	935	901	11	18	112	78	-	-	1,058	997
A	827	683	9	8	139	65	-	-	975	756
BBB	222	183	2	2	-	-	-	-	224	185
Below BBB	-	-	-	-	-	-	-	-	-	-
Not rated	2	28	-	-	29	7	78	56	109	91
Internally rated	-	-	-	-	-	-	-	-	-	-
Total	3,334	3,188	48	50	318	181	78	56	3,778	3,475

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK	2	2	-	-	-	-	-	-	2	2
Canada	2,136	2,069	400	349	267	260	489	409	3,292	3,087
France	2	-	-	-	-	-	-	-	2	-
Germany	1	2	-	-	-	-	-	-	1	2
US	6	58	4	-	14	8	1	1	25	67
Other	12	30	-	-	-	-	-	-	12	30
Total	2,159	2,161	404	349	281	268	490	410	3,334	3,188

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

The fund mandates and limits used to manage debt security exposures in the segregated business in Canada largely concentrates exposure to Canadian issuers. Other than exposures to Germany and France, there are no other exposures to European-issued debt securities.

Other business units**Total credit exposure £1,138m (2010: £1,001m)**

	Debt securities		Loans		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Investments in associates and joint ventures		Receivables and other financial assets		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Neither past due nor impaired:																
AAA	58	20	-	-	74	31	-	-	-	-	-	2	-	-	132	53
AA	191	238	-	-	233	268	-	-	-	-	-	-	-	-	424	506
A	223	34	-	-	188	187	-	1	-	-	-	-	-	-	411	222
BBB	-	11	-	-	6	-	-	-	-	-	-	-	-	-	6	11
Below BBB	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	2
Not rated	1	24	-	12	-	-	1	-	11	-	-	-	140	155	153	191
Internally rated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	473	329	-	12	501	486	1	1	11	-	-	2	140	155	1,126	985
Past due	-	-	-	-	-	-	-	-	-	-	-	-	12	16	12	16
Total	473	329	-	12	501	486	1	1	11	-	-	2	152	171	1,138	1,001

¹ As discussed in Accounting policy (a) – Basis of preparation, there has been a reallocation between cash and cash equivalents and debt securities at 31 December 2010. The 2010 comparatives have been updated to reflect this.

² As discussed in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL between business units. The 2010 comparatives have been updated to reflect this.

At 31 December 2011, receivables and other financial assets of £10m (2010: £12m) were past due by less than three months, £1m (2010: £2m) were past due by between three and six months, £1m (2010: £1m) were past due by between six and 12 months and £nil (2010: £1m) were past due by over one year.

Unrecognised financial instrument commitments made by private equity funds of £257m at 31 December 2011 (2010: £315m) were held by other business units. These include amounts committed by limited partnerships to raise funding during investment periods. Refer to Note 46(b) – Commitments – Unrecognised financial instruments.

During the year, country limits were introduced to manage the aggregate exposure to banking counterparties in certain European countries. This has resulted in reducing the credit exposure for cash and cash equivalents to those countries where there are credit concerns.

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Other		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK	14	4	132	71	-	27	1	3	-	-	147	105
Canada	3	9	-	-	-	-	-	-	-	-	3	9
Australia	-	-	-	-	-	-	-	-	-	-	-	-
Austria	-	1	-	-	-	-	-	-	-	-	-	1
Belgium	-	1	-	-	-	-	-	-	-	-	-	1
Denmark	-	-	27	15	-	-	-	-	-	-	27	15
Finland	-	-	27	-	-	-	-	-	-	-	27	-
France	-	2	37	66	-	1	-	1	-	-	37	70
Germany	-	3	54	18	-	1	-	-	-	-	54	22
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-	-	-	-	-
Italy	-	4	-	9	-	-	-	-	-	-	-	13
Japan	-	-	27	-	-	-	-	-	-	-	27	-
Mexico	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands	-	1	27	15	-	-	-	1	-	-	27	17
Norway	-	-	27	-	-	-	-	-	-	-	27	-
Portugal	-	-	-	-	-	-	-	-	-	-	-	-
Spain	-	1	-	18	-	-	-	-	-	-	-	19
Sweden	-	-	41	18	-	-	-	-	-	-	41	18
Switzerland	-	-	54	-	-	-	-	-	-	-	54	-
US	1	-	-	1	-	-	-	2	-	-	1	3
Other	1	2	-	10	-	14	-	2	-	8	1	36
Total	19	28	453	241	-	43	1	9	-	8	473	329

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

(e)(ii) Credit spreads

As at 31 December 2011, 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 £52m (2010: £71m). A further reduction of net profit after tax of £59m (2010: £37m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

42. Risk management *continued*

(e) Credit risk *continued*

(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 2011, the Group had pledged £13m (2010: £86m) of cash and £214m (2010: £278m) of securities as collateral for derivative financial liabilities.

At 31 December 2011, the Group had accepted £1,070m (2010: £396m) of cash and £219m (2010: £4,434m) 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). These instruments are included in debt securities in the statement of financial position. The Group's exposure to such financial instruments at 31 December 2011 was £257m (2010: £281m). 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 £13m gain (2010: £22m) 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 loss of £2m (2010: £4m gain).

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.

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.

(f)(i)(ii) Other financial risks

Persistency – withdrawals and lapse rates

The Group defines persistency risk as the risk that business lapses or becomes paid-up at a different rate than assumed. This risk may arise if persistency rates are greater or less than assumed or if policyholders selectively lapse when it is beneficial for them. If the benefits payable on lapse or being paid-up are greater than the reserve held then the risk will be of a worsening of persistency and if benefits are paid out that are lower than the reserve then the risk will be that fewer policyholders will lapse or become paid-up.

Persistency risk also reflects the risk of a reduction in expected future profits 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.

42. Risk management *continued***(f) Demographic and expense risk *continued*****(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 2011	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	(15)	14	(10)	10	2	(2)	(5)	5
Other funds								
Non-participating insurance contract liabilities	(86)	81	(5)	4	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-	-	-
Canada								
Non-participating insurance contract liabilities	(50)	47	(11)	11	10	(8)	(4)	4
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-
Total	(151)	142	(26)	25	12	(10)	(9)	9

(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

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 SHF. 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 both on contracts written in the PBF and on contracts written in the HWPF for which the longevity risk has been transferred to the PBF.

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.

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 2011 and 31 December 2010 none 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.

42. Risk management *continued***(g) Liquidity risk *continued*****(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. 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.

2011	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)	802	2,853	2,844	2,071	1,382	2,016	11,968
Non-participating investment contract liabilities (excluding unit linked)	-	1	1	1	-	-	3
Participating insurance contract liabilities	2,201	6,556	2,780	1,396	1,097	1,764	15,794
Participating investment contract liabilities	569	2,428	3,260	3,266	2,547	3,244	15,314
Other funds business, excluding unit linked business:							
Non-participating insurance contract liabilities	173	631	670	553	441	706	3,174
Non-participating investment contract liabilities	-	1	1	-	-	-	2
Unit linked business	5,872	19,163	16,601	10,919	6,699	5,934	65,188
Total UK and Europe life and pensions	9,617	31,633	26,157	18,206	12,166	13,664	111,443
Canada							
Participating insurance contract liabilities	3	13	29	37	45	588	715
Participating investment contract liabilities	-	5	-	-	-	-	5
Non-participating insurance contract liabilities	547	1,779	1,527	974	648	3,088	8,563
Non-participating investment contract liabilities	1,913	5,259	2,976	1,514	832	1,015	13,509
Reinsurance liabilities	(1)	(2)	1	4	8	235	245
Total Canada	2,462	7,054	4,533	2,529	1,533	4,926	23,037
Other business units							
Non-participating insurance contract liabilities	96	-	-	-	-	-	96
Non-participating investment contract liabilities	55	-	-	-	-	-	55
Total Other	151	-	-	-	-	-	151
Total	12,230	38,687	30,690	20,735	13,699	18,590	134,631
Unallocated divisible surplus							725
Total insurance, investment and reinsurance contract liabilities							135,356

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 business¹	5,002	17,043	15,706	11,163	7,328	7,230	63,472
Total UK and Europe life and pensions¹	8,946	30,809	25,653	18,048	12,209	13,773	109,438
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 business units							
Non-participating insurance contract liabilities	6	-	-	-	-	-	6
Non-participating investment contract liabilities ¹	83	-	-	-	-	-	83
Total Other¹	89	-	-	-	-	-	89
Total	11,726	38,392	30,144	20,388	13,543	17,657	131,850
Unallocated divisible surplus							788
Total Insurance and Investment contract liabilities							132,638

¹ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

The analysis that follows presents the undiscounted cash flows payable by remaining contractual maturity at the reporting date for all financial liabilities, including 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 life and pensions business and Canadian segregated funds business presented in the table below have been designated as payable within 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 this analysis, the maturity within one year includes liabilities that are repayable on demand.

2011	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
Non-participating investment contract liabilities (excluding unit linked and segregated funds)	1,780	1,021	518	155	84	96	3,654
Non-participating investment contract liabilities – unit linked	63,995	-	-	-	-	-	63,995
Non-participating investment contract liabilities – segregated funds	10,678	-	-	-	-	-	10,678
Third party interests in consolidated funds	8,421	-	7	-	-	-	8,428
Subordinated liabilities	73	286	330	335	222	-	1,246
Borrowings ¹	99	76	9	2	-	-	186
Other financial liabilities ¹	2,327	85	40	32	27	289	2,800
Total	87,373	1,468	904	524	333	385	90,987

¹ Cash flows include those attributable to third parties (Borrowings: £28m; Other financial liabilities: £132m).

42. Risk management *continued***(g) Liquidity risk *continued*****(g)(i) Maturity analysis *continued***

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
Non-participating investment contract liabilities (excluding unit linked and segregated funds) ¹	1,801	1,153	499	164	82	99	3,798
Non-participating investment contract liabilities – unit linked	62,182	-	-	-	-	-	62,182
Non-participating investment contract liabilities – segregated funds	10,488	-	-	-	-	-	10,488
Third party interests in consolidated funds	5,443	-	11	-	-	-	5,454
Subordinated liabilities ²	111	443	522	1,021	274	-	2,371
Borrowings ¹	195	52	9	3	-	-	259
Other financial liabilities ¹	1,565	63	35	25	24	205	1,917
Total	81,785	1,711	1,076	1,213	380	304	86,469

¹ Cash flows include those attributable to third parties (Borrowings: £67m; Other financial liabilities: £48m). The maturity profile for the undiscounted cash flows been revised to reflect all the relevant cash flows as included in the statement of financial position.

² The subordinated liabilities analysis has been amended to reflect contractual rather than expected repayments.

The principal amounts of financial liabilities where the counterparty has no right to repayment are excluded from the above analysis along with interest payments on such instruments after 20 years. Also excluded 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 2011.

Refer to Note 22 for the maturity profile of undiscounted cash flows of derivative financial instruments.

The Group also had unrecognised commitments in respect of financial instruments as at 31 December 2011 of £382m and £3m with a contractual maturity of within one year and between one and five years respectively (2010: £386m and £7m).

(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 £157m (2010: £4,231m) of securities.

The securities lending arrangements in place as at 31 December 2011 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:

	2011 £m	2010 £m
Domestic government	150	4,091
International fixed income	-	3
Total assets on loan	150	4,094

The Group does not have the right to sell or repledge the collateral.

(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 – 2011: £nil (2010: £2,775m)

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 – 2011: £58,531m (2010: £60,307m)

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.

Debt securities – 2011: £67,176m (2010: £61,364m)

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, including provincial and municipal, 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 – 2011: £2,212m (2010: £1,343m) and derivative financial liabilities – 2011: £1,102m (2010: £924m)

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 – 2011: £74,673m (2010: £72,670m) and third party interest in consolidated funds – 2011: £8,428m (2010: £5,454m)

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 table below presents the Group's financial assets measured at fair value by level of the fair value hierarchy.

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2011	2010
	2011	2010	2011	2010	2011	2010		
£m	£m	£m	£m	£m	£m	£m	£m	
Investments in associates and joint ventures	-	2,775	-	-	-	-	-	2,775
Derivative financial assets	577	435	1,635	908	-	-	2,212	1,343
Equity securities	57,286	59,059	-	40	1,245	1,208	58,531	60,307
Debt securities ¹	27,699	25,147	38,095	34,731	1,382	1,486	67,176	61,364
Total financial assets at fair value	85,562	87,416	39,730	35,679	2,627	2,694	127,919	125,789

¹ There has been a reallocation from cash and cash equivalents to debt securities of £1,629m at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation. The debt securities reallocated are included in level 2 of the fair value hierarchy.

There were no significant transfers of financial assets between the levels of the fair value hierarchy during the year ended 31 December 2011. In the year to 31 December 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 government securities issued by some European countries.

43. Fair value of financial assets and liabilities *continued***(c) Methods and assumptions used to determine fair value of financial assets and liabilities *continued***

The tables that follow present an analysis of the Group's financial assets measured at fair value by level of the fair value hierarchy for each business unit as set out in Note 42 – Risk management.

UK and Europe life and pensions – Financial assets measured at fair value

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2011 £m	2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m		
Heritage With Profits Fund and other with profits funds								
Investments in associates and joint ventures	-	1,559	-	-	-	-	-	1,559
Derivative financial assets	367	334	647	271	-	-	1,014	605
Equity securities	8,388	8,606	-	-	752	729	9,140	9,335
Debt securities ¹	19,861	17,969	9,887	11,543	279	371	30,027	29,883
	28,616	28,468	10,534	11,814	1,031	1,100	40,181	41,382
Other funds								
Investments in associates and joint ventures	-	8	-	-	-	-	-	8
Derivative financial assets	-	-	214	297	-	-	214	297
Equity securities	-	5	-	-	-	-	-	5
Debt securities ¹	539	512	3,508	3,064	155	328	4,202	3,904
	539	525	3,722	3,361	155	328	4,416	4,214
Unit linked funds²								
Investments in associates and joint ventures	-	1,107	-	-	-	-	-	1,107
Derivative financial assets	158	72	565	263	-	-	723	335
Equity securities	37,756	39,631	-	40	77	68	37,833	39,739
Debt securities ¹	6,806	5,943	11,701	9,371	38	94	18,545	15,408
	44,720	46,753	12,266	9,674	115	162	57,101	56,589
Total	73,875	75,746	26,522	24,849	1,301	1,590	101,698	102,185

¹ There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

² As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

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		2011 £m	2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m		
Non-segregated funds								
Derivative financial assets	-	-	36	-	-	-	36	-
Equity securities	412	459	-	-	1	1	413	460
Debt securities	-	-	6,003	5,722	834	638	6,837	6,360
	412	459	6,039	5,722	835	639	7,286	6,820
Segregated funds								
Equity securities	8,529	8,709	-	-	-	-	8,529	8,709
Debt securities	-	-	3,262	3,150	72	38	3,334	3,188
	8,529	8,709	3,262	3,150	72	38	11,863	11,897
Total	8,941	9,168	9,301	8,872	907	677	19,149	18,717

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.

Other business units – Financial assets measured at fair value

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2011 £m	2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m		
Investments in associates and joint ventures	-	2	-	-	-	-	-	2
Derivative financial assets	-	-	2	1	-	-	2	1
Equity securities	148	91	-	-	10	9	158	100
Debt securities ¹	16	39	456	289	1	2	473	330
Total	164	132	458	290	11	11	633	433

¹ There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

² As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

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		2011 £m	2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m		
Investments in associates and joint ventures	-	99	-	-	-	-	-	99
Derivative financial assets	52	29	171	76	-	-	223	105
Equity securities	2,053	1,558	-	-	405	401	2,458	1,959
Debt securities ¹	477	684	3,278	1,592	3	15	3,758	2,291
Total	2,582	2,370	3,449	1,668	408	416	6,439	4,454

¹ There has been a reallocation from cash and cash equivalents to debt securities at 31 December 2010. Refer to Accounting policy (a) – Basis of preparation.

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 table below presents the Group's financial liabilities measured at fair value by level of the fair value hierarchy.

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2011 £m	2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m		
Non-participating investment contract liabilities	-	-	74,673	72,670	-	-	74,673	72,670
Third party interest in consolidated funds	-	-	8,421	5,443	7	11	8,428	5,454
Derivative financial liabilities	434	95	668	829	-	-	1,102	924
Financial liabilities at fair value	434	95	83,762	78,942	7	11	84,203	79,048

There were no significant transfers between level 1 and 2 financial liabilities during the years ended 31 December 2011 or 31 December 2010.

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)(ii) Fair value hierarchy for financial liabilities measured at fair value in the statement of financial position *continued***

The table that follows provides an analysis of the Group's financial liabilities measured at fair value by level of the fair value hierarchy for each business unit as set out in Note 42 – Risk management.

	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3		2011 £m	2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m		
UK and Europe life and pensions Heritage With Profits Fund and other with profits funds business								
Derivative financial liabilities	86	8	41	122	-	-	127	130
	86	8	41	122	-	-	127	130
Other funds								
Non-participating investment contract liabilities	-	-	2	-	-	-	2	-
Derivative financial liabilities	-	-	3	3	-	-	3	3
	-	-	5	3	-	-	5	3
Unit linked funds¹								
Non-participating investment contract liabilities	-	-	63,938	62,099	-	-	63,938	62,099
Derivative financial liabilities	257	62	466	507	-	-	723	569
	257	62	64,404	62,606	-	-	64,661	62,668
Total UK and Europe life and pensions	343	70	64,450	62,731	-	-	64,793	62,801
Canada								
Segregated funds								
Non-participating investment contract liabilities	-	-	10,678	10,488	-	-	10,678	10,488
	-	-	10,678	10,488	-	-	10,678	10,488
Non-segregated funds								
Derivative financial liabilities	2	2	8	-	-	-	10	2
	2	2	8	-	-	-	10	2
Total Canada	2	2	10,686	10,488	-	-	10,688	10,490
Other business units¹								
Non-participating investment contract liabilities	-	-	55	83	-	-	55	83
Derivative financial liabilities	-	-	3	27	-	-	3	27
Total other business units	-	-	58	110	-	-	58	110
Non-controlling interests and third party interest in consolidated funds								
Third party interest in consolidated funds	-	-	8,421	5,443	7	11	8,428	5,454
Derivative financial liabilities	89	23	147	170	-	-	236	193
Total non-controlling interests and third party interest in consolidated funds	89	23	8,568	5,613	7	11	8,664	5,647
Total	434	95	83,762	78,942	7	11	84,203	79,048

¹ As set out in Note 42(b) – Risk management – The Group structure, there has been a reallocation of SLIL from the other business unit to UK and Europe life and pensions. The 2010 comparatives have been updated to reflect this.

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.

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Settlement/ Issue £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
2011									
Equity securities	1,208	123	107	-	(198)	15	(10)	1,245	52
Debt securities	1,486	126	388	-	(259)	(346)	(13)	1,382	137
Third party interest in consolidated funds	(11)	(2)	-	6	-	-	-	(7)	-

	At 1 January £m	Total gains/(losses) recognised in the income statement £m	Purchases £m	Settlement/ Issue £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	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)	-

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.

During the year, £52m (2010: £177m) of debt securities were transferred from level 2 to level 3 and £398m (2010: £336m) 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.

There were no significant transfers in or out of level 3 equity securities or third party interest in consolidated funds during the year ended 31 December 2011. In the year ended 31 December 2010 the transfers in/out of level 3 included reductions in level 3 equity securities of £268m and level 3 third party interest in consolidated funds of £225m 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. 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. The Group reviews the appropriateness of the valuations based on its knowledge of the market.

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.

43. Fair value of financial assets and liabilities *continued***(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	2011 Carrying value £m	2011 Fair value £m
Financial assets			
Loans secured by mortgages	21	3,005	3,158
Financial liabilities			
Subordinated guaranteed bonds	37	556	479
Mutual Assurance Capital Securities	37	630	526
Non-participating investment contract liabilities	35	2,837	3,096
	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

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 2011 was £15,319m (2010: £15,329m).

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

44. Statement of cash flows

The tables below provide further analysis of the balances in the statement of cash flows.

There were no discontinued operations in the year ended 31 December 2011. The cash flows attributable to the operating activities of discontinued operations for the year ended 31 December 2010 were £6m. There were no cash flows from financing or investing activities relating to discontinued operations in the year ended 31 December 2010.

(a) Change in operating assets

	2011 £m	2010 £m
Investment property	(393)	(1,205)
Equity securities and interests in pooled investment funds	2,060	(9,408)
Debt securities	(2,416)	(5,678)
Derivative financial instruments	(691)	(23)
Reinsurance assets	379	100
Investment in associates ¹	(587)	(694)
Receivables and other financial assets and other assets	(98)	(228)
Deferred acquisition costs	(178)	(218)
Loans	(132)	(151)
Change in operating assets	(2,056)	(17,505)

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.

(b) Change in operating liabilities

	2011 £m	2010 £m
Other financial liabilities and other liabilities	805	(900)
Deposits received from reinsurers	16	(83)
Pension and other post-retirement benefit provisions	(104)	(123)
Deferred income	7	12
Insurance contract liabilities	973	1,823
Investment contract liabilities	2,226	11,285
Change in liability for third party interest in consolidated funds	103	443
Change in operating liabilities	4,026	12,457

(c) Non-cash and other items

	Notes	2011 £m	2010 £m
(Gain)/loss on disposal of property, plant and equipment		-	(1)
Depreciation of property, plant and equipment	5	15	12
Amortisation of intangible assets	5	18	22
Amortisation of deferred acquisition costs	5	132	196
Impairment losses on intangible assets	5	5	-
Impairment losses on property, plant and equipment	5	1	-
Impairment losses on investments in associates	5	-	4
Reversal of impairment on loans	2	(2)	-
Reversal of impairment on property, plant and equipment	5	(4)	(9)
Interest cost on other borrowings		7	6
Finance costs		116	113
Net foreign exchange losses on investment activities		22	23
Share of profit from associates and joint ventures	16	(51)	(24)
Adjustment for non-cash movements in investment income		(50)	(80)
Change in unallocated divisible surplus	34	(87)	(22)
Non-cash and other items		122	240

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 Trustee Company Limited (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 2011, capital expenditure that was authorised and contracted for, but not provided and incurred, was £275m (2010: £251m) in respect of investment properties. Of this amount, £248m (2010: £239m) and £27m (2010: £12m) relates to the contractual obligations to purchase, construct, or develop investment property and repair, maintain or enhance investment property respectively.

(b) Unrecognised financial instruments

The Group has committed the following unrecognised financial instruments to customers and third parties.

	2011 £m	2010 £m
Commitments to extend credit:		
Original term to maturity of one year or less	109	51
Original term to maturity of more than one year	3	7
Other commitments	273	335

Included in other commitments is £257m (2010: £315m) 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:

	2011 £m	2010 £m
Not later than one year	29	26
Later than one year and no later than five years	93	55
Later than five years	120	129
Total operating lease commitments	242	210

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) and Restricted stock plan (RSP)

Long-term incentive plan (LTIP)

Details of the LTIP are set out in the Directors' remuneration report. Under the terms of the plan, share options are awarded to executives and senior management based on personal performance and/or the performance results of the Group.

The performance period and grant date for the active LTIP schemes are as follows:

Plan	2011	2010	2009
Grant date	31 March 2011	25 June 2010	20 April 2009
Performance period	1 January 2011 – 31 December 2013	1 January 2010 – 31 December 2012	1 January 2009 – 31 December 2011

The performance target of the 2009 plan was altered during 2010. For 2009, the performance condition is 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 for the year to 31 December 2011. 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. In addition, in respect of the 2009 plan, the number of options that ultimately vest is also subject to a Total Shareholder Return multiplier.

The performance target for the three years of the 2010 plan is based on the Group's operating profit for the year ended 31 December 2012.

The performance target for the three years of the 2011 plan is in two parts. Part I is based on the Group's operating profit for the year ended 31 December 2013. Part II is based on the Group's performance against its 2013 Group scorecard. The 2011 plan also has personal performance targets.

Restricted stock plan (RSP)

RSP is an additional share plan under which options can be awarded to executives (other than directors) and senior management. The conditions and vesting period attached to RSP grants are tailored to the individual award. RSP awards may be granted at any time during the year.

(ii) Standard Life Investments Long-term incentive plan (SLI LTIP)

Under the terms of the 2011, 2010 and 2009 Standard Life Investments long-term incentive 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. The participants are also entitled to receive dividends in the form of an entitlement to additional shares. 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 Standard Life Investments long-term incentive plans shown in Note 47(b) represent the maximum number of options that can vest.

The majority of the awards granted under the Standard Life Investments long-term incentive plans 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) Annual bonus deferred shares

Details of the annual bonus are set out in the Directors' remuneration report. 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 2011 annual bonus, half of any bonus earned by executive Directors and members of the executive team 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 the 2010 annual bonus, half of any bonus earned by members of the executive and senior management 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.

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 £2m (2010: £1m).

The number of instruments granted in relation to the year to 31 December 2011 was 524,024 (2010: 1,076,701), 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 2011.

(v) Sharesave (Save-as-you-earn)

During the year the Group launched a Save-as-you-earn (SAYE) plan, allowing eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in the Company at a predetermined price at the end of the savings period. Employees are granted a predetermined number of options based on the monthly savings amount and duration of their contract. The conditions attached to the options are that the employee remains in employment for three years after the grant date of the options and that the employee satisfies the monthly savings requirement.

47. Employee share-based payments *continued***(a) Long-term incentive plan (LTIP) and Restricted stock plan (RSP)**

The terms and conditions of each of the ongoing arrangements are set out in the table below. The assumptions disclosed are based on the weighted average number of awards.

	2011	2010	2009
LTIP			
Date of grant	31 March 2011	25 June 2010	20 April 2009
Number of instruments granted	5,907,739	7,176,431	6,667,906
Share price at date of grant	207p	179p	187p
RSP			
Range of dates of grant	6 January 2011 – 6 October 2011	18 August 2010 – 20 December 2010	26 May 2009 – 16 September 2009
Number of additional instruments granted	497,656	271,077	165,382
Share price at date of grant	196p – 223p	200p – 232p	198p – 202p
Average share price at date of grant	216p	211p	200p
LTIP and RSP			
Expected outcome of meeting performance criteria (at the grant date)	50%	50%	50%
Fair value per granted instrument determined at the grant date	207p	179p	155p

The share options granted under LTIP and RSP will have a nil exercise price and settlement will be made in the form of shares. Both the weighted average 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 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 2011, 17,541,935 (2010: 17,010,829) options were outstanding under LTIP and RSP. The weighted average remaining expected life at 31 December 2011 was 1.36 years (2010: 1.54 years), while the weighted average remaining contractual life was 1.86 years (2010: 2.04 years).

A reconciliation of movements in the number of share options granted to executives and senior management under LTIP and RSP is set out in the table below.

	2011	2010
Outstanding at 1 January	17,010,829	14,615,186
Granted	6,405,395	7,447,508
Forfeited	(1,467,204)	(2,303,051)
Exercised	(53,616)	(1,401,207)
Expired	(4,353,469)	(1,347,607)
Outstanding at 31 December	17,541,935	17,010,829

The performance conditions attached to the 2008 LTIP plan were not met and therefore the outstanding options under this plan did not vest during the year as scheduled. The options exercised during 2010 related to the 2007 plan. The weighted average share price at the time of exercise of the options which were exercised during the year was 204p (2010: 205p). The weighted average exercise price was £nil.

(b) Standard Life Investments Long-term incentive plan

The terms and conditions of each of the ongoing arrangements are set out in the table below. The assumptions disclosed are based on the weighted average number of awards.

	2011	2010	2009
Main grant			
Date of grant	31 March 2011	16 June 2010	6 November 2009
Number of instruments granted	17,143,992	15,521,139	10,933,348
Share price at date of grant	207p	188p	213p
Contractual life (years)	3.75 years	3.96 years	3.80 years
Expected option life at grant date (years)	3.50 years	3.50 years	2.95 years
Expected outcome of meeting performance criteria (at the grant date)	50%	50%	50%
Fair value per granted instrument determined at the grant date	207p	188p	213p
Fair value per cash settled instrument granted determined at 31 December	206p	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 2011, 42,029,199 (2010: 31,118,960) options were outstanding. The weighted average remaining expected life at 31 December 2011 was 1.50 years (2010: 1.10 years), while the weighted average remaining contractual life was 2.00 years (2010: 1.57 years).

A reconciliation of movements in the number of share options granted to executives and senior management is set out in the table below.

	2011	2010
Outstanding at 1 January	31,118,960	21,066,243
Granted	17,143,992	15,521,139
Forfeited	(1,070,453)	(781,237)
Exercised	(5,163,300)	(4,687,185)
Outstanding 31 December	42,029,199	31,118,960

The options exercised during 2011 and 2010 relate to the 2008 and 2007 plans respectively. The weighted average share price at the time of exercise was 216p (2010: 207p). The weighted average exercise price was £nil.

(c) Share incentive plans

The terms and conditions of each of the ongoing arrangements are set out in the table below and are based on the weighted average number of awards.

	2011	2010	2009
Number of instruments granted ¹	676,775	719,178	789,287
Share price at date of grant	207p	202p	198p
Fair value per cash settled instrument granted determined at the grant date	207p	202p	198p

¹ Included in the number of instruments granted are 112,121 (2010: 119,194; 2009: 120,265) 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.

47. Employee share-based payments *continued***(d) Sharesave**

The grant date for the Sharesave scheme is 15 September 2011. On this date there were 3,858,908 options granted to employees participating in the three year scheme and 3,603,339 options granted to employees participating in the five year scheme. The fair value of a three year option is 33.78p and a five year option is 33.35p.

The share options granted will have an exercise price of £1.57 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 2011, 3,833,933 options were outstanding in the three year scheme and 3,587,678 options were outstanding in the five year scheme. The remaining expected and contractual lives of three year options are 2.75 and 3.25 years respectively, and of five year options are 4.75 and 5.25 years respectively.

(e) Employee share-based payment expense

The amounts recognised as an expense in Note 6 for equity settled share-based payment transactions with employees are as follows:

	2011 £m	2010 £m
Share options granted under long-term incentive and restricted stock plans	21	16
Annual bonus deferred shares granted	2	1
Matching shares granted under share incentive plans	1	1
Other share-based payment schemes	1	-
	25	18

Additionally, the Group incurred an expense for cash-settled share-based payment schemes of £2m in 2011 (2010: £1m). The liability for cash-settled share-based payments outstanding at 31 December 2011 is £4m (2010: £2m).

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:

	2011 £m	2010 £m
Sale to:		
Associates	8,397	17,340
Joint ventures	51	32
	8,448	17,372
Purchase from:		
Associates	8,993	18,052
Joint ventures	24	19
	9,017	18,071

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:

	2011 £m	2010 £m
Due from related parties:		
Joint ventures	55	74
	55	74

In addition to the amounts shown above, the Group's defined benefit pension schemes have assets of £739m (2010: £655m) invested in investment vehicles managed by the Group.

(b) Compensation of key management personnel

Key management personnel comprise 21 people (2010: 21 people) within the Group, including all Directors, both executive and non-executive and the direct reports of the position of Chief Executive Officer. 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.

The summary of compensation of key management personnel is as follows:

	2011 £m	2010 £m
Salaries and other short-term employee benefits	9	10
Post-employment benefits	3	-
Termination benefits	-	1
Share-based payments	4	2
Total compensation of key management personnel	16	13

(c) Transactions with/from and balances from/(to) key management personnel and their close family members

All transactions between the key management and their close family members, 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 2011, the key management personnel and their close family members contributed £4.4m (2010: £1.9m) 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 1.3 – Chief Financial Officer's overview. 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 – Risk Management.

49. Capital statement *continued*

Regulatory capital

The Group operates in a number of geographical regions, and local regulators, primarily the FSA, specify rules and guidance for the minimum level of capital required to meet local requirements.

The 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 and Mutual Assurance Capital Securities. The CRR represents the total of the individual capital resources requirements 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 Fund (PBF).

The HWPF's capital resources of £4,083m at 31 December 2011 (2010: £3,997m) 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.

The regulatory results of SLAL have the most significant impact on the Group capital position. The other significant components are insurance entities in Canada and Asia and non-insurance entities, including Standard Life Investments Ltd and Standard Life plc.

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 mainly comprise investment management and group corporate centre. The Group's capital position, based on draft regulatory returns, is set out below:

2011	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 £m					
Available capital resources								
Equity holders' funds								
Held outside life assurance funds	-	-	849	849	1,176	2,025	1,029	3,054
Held within life assurance funds	-	907	-	907	-	907	-	907
Equity attributable to ordinary equity holders of Standard Life plc	-	907	849	1,756	1,176	2,932	1,029	3,961
Unallocated divisible surplus	725	-	-	725	-	725	-	725
Other sources of capital								
Subordinated liabilities	-	-	-	-	-	-	1,186	1,186
Internal subordinated liabilities	-	-	1,186	1,186	253	1,439	(1,439)	-
	-	-	1,186	1,186	253	1,439	(253)	1,186
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	3,409	2	-	3,411	-	3,411	-	3,411
Exclusion of deferred acquisition costs and other inadmissible assets	(89)	(657)	(62)	(808)	(92)	(900)	(96)	(996)
Exclusion of deferred income	98	248	-	346	(1)	345	-	345
Exclusion of non-qualifying subordinated liabilities	-	-	(54)	(54)	-	(54)	-	(54)
Changes to the valuation of other assets and liabilities	(22)	(311)	(232)	(565)	58	(507)	253	(254)
	3,396	(718)	(348)	2,330	(35)	2,295	157	2,452
Total available capital resources to meet regulatory requirement	4,121	189	1,687	5,997	1,394	7,391	933	8,324
Analysed as follows:								
Capital not subject to constraints	-	-	1,637	1,637	375	2,012	850	2,862
Capital subject to constraints	4,121	189	50	4,360	1,019	5,379	83	5,462
Total available capital resources	4,121	189	1,687	5,997	1,394	7,391	933	8,324
Restricted assets within the long-term business fund								(999)
Regulatory capital resources								7,325
Regulatory capital resources requirement				3,426	776	4,202	37	4,239
Regulatory capital surplus								3,086
Analysis of contract liabilities								
Participating								
Insurance contracts	15,794	-	-	15,794	715	16,509	-	16,509
Investment contracts	15,314	-	-	15,314	5	15,319	-	15,319
Total participating contract liabilities	31,108	-	-	31,108	720	31,828	-	31,828
Unit linked								
Insurance contracts	1	1,251	-	1,252	2,047	3,299	-	3,299
Investment contracts	1,109	62,827	-	63,936	10,737	74,673	-	74,673
Total unit linked liabilities	1,110	64,078	-	65,188	12,784	77,972	-	77,972
Other non-participating								
Insurance contracts	11,968	3,874	-	15,842	5,904	21,746	3	21,749
Investment contracts	2	315	-	317	2,520	2,837	-	2,837
Total other non-participating liabilities	11,970	4,189	-	16,159	8,424	24,583	3	24,586
Total contract liabilities	44,188	68,267	-	112,455	21,928	134,383	3	134,386

¹ Capital resources amounting to £38m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £644m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

49. Capital statement *continued*

	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					
2010								
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 sources of 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
Restricted assets within the long-term business fund								(1,357)
Regulatory capital resources								7,473
Regulatory capital resources requirement				2,910	709	3,619	33	3,652
Regulatory capital surplus								3,821
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 £51m 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.

Movements in capital

The movements in the total capital resources shown in the capital statement are set out below.

2011	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					
At 1 January	4,031	321	2,361	6,713	1,413	8,126	704	8,830
Methodology/modelling changes	(79)	(1)	-	(80)	-	(80)	-	(80)
Change in assumptions used to measure life assurance contract liabilities and experience differences	(24)	3	-	(21)	(218)	(239)	-	(239)
New business	(11)	(121)	-	(132)	(20)	(152)	-	(152)
Investment surplus	913	(87)	71	897	162	1,059	-	1,059
Equity holder/inter-fund transfers	(68)	68	9	9	29	38	(38)	-
Dividend transfers	-	-	(300)	(300)	(110)	(410)	248	(162)
Redemption of subordinated liabilities	-	-	(604)	(604)	-	(604)	-	(604)
Other factors	(641)	6	150	(485)	138	(347)	19	(328)
At 31 December	4,121	189	1,687	5,997	1,394	7,391	933	8,324

Change in assumptions used to measure life assurance contract liabilities and experience differences includes a decrease to capital resources as a result of changes in Canadian mortality assumptions. This is primarily due to a change in mortality improvement rates.

As outlined in Note 37 – Subordinated liabilities, following a tender process the Company announced on 12 September 2011 that it had agreed to purchase €687,220,000 of the 6.375% fixed/floating rate subordinated guaranteed bonds due 2022 at a purchase price of €10,200 per €10,000. After settlement on 14 September 2011, SLAL purchased €687,220,000 of its outstanding subordinated loans to the Company on the same terms. €62,780,000 in aggregate principal amount of the bonds remain outstanding. Under FSA requirements, these do not qualify as capital resources and are shown as a movement in other factors.

Equity holder/inter-fund transfers include the transfer of €68m (2010: £71m) from the HWPF to the Proprietary Business Funds in relation to additional expenses charged on German unitised with profits business.

2010	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					
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

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 2011, SLAL had available capital resources of £6.0bn (2010: £6.7bn) and a CRR of £3.4bn (2010: £2.9bn). The capital resources shown in the capital statement are based on the value of assets and liabilities valued on a regulatory basis. However, the CRR reflects the higher value required as a result of the application of the realistic peak.

49. Capital statement *continued*

Capital subject to constraints for the UK regulated life business of £4.4bn at 31 December 2011 (2010: £4.4bn) 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 £1,394m (2010: £1,413m), which relate mainly to operations in Canada, also include operations in Asia. 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 £1,019m at 31 December 2011 (2010: £836m).

Other activities

At 31 December 2011, capital resources of £933m (2010: £704m) and capital subject to constraints of £83m (2010: £81m) 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, Hong Kong, 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 £253m (2010: £257m) to the Company. During the year ended 31 December 2010, Standard Life Investments Limited repaid the subordinated liabilities of £15m that it had issued. At Group level only subordinated liabilities issued to external parties are included in the Group's capital resources.

In preparation for the implementation of Solvency 2, the business of Standard Life Investment Funds Limited was transferred to SLAL on 31 December 2011. The current Group capital position has not been significantly impacted.

Group capital requirement

The Group must also calculate a group regulatory capital position under the Insurance Groups Directive (IGD). The IGD calculation is a prudent aggregate value for the Group's capital resources. The capital held within the long-term business funds of approximately £4.3bn (2010: £4.4bn) is restricted to the level of the CRR of those funds of approximately £3.4bn (2010: £2.9bn). Therefore, the Group recognises no net surplus in respect of capital within the long-term business funds.

On an IGD basis, the estimated regulatory capital position at 31 December 2011 is a surplus of £3.1bn (2010: £3.8bn). The reduction in the estimated regulatory capital surplus is predominantly due to the repurchase of a portion of the Euro denominated subordinated guaranteed bonds.

In respect of the Group's IGD regulatory 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 – Insurance contracts, investment contracts and reinsurance contracts – terms, methods and assumptions and Note 33 – Insurance contracts, investment contracts and reinsurance contracts.

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 – Risk management.

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 ¹	Nature of business
Standard Life Assurance Limited	Scotland	100	Life assurance
Standard Life Investment Funds Limited	Scotland	100	Life assurance
Standard Life Investments (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 Overseas 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 ^{3, 4}	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
Vebnet (Holdings) Limited	England	100	Holding company
Focus Solutions Group Limited	England	100	Software and consultancy solutions

¹ All issued share capital of the Company's principal subsidiaries is classified as ordinary.

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 2011.

⁴ 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.

A complete list of the Company's subsidiaries is available as an attachment to the Company's Annual Return.

51. Business combinations

On 11 January 2011, the Group purchased the entire issued and to be issued share capital of Focus Solutions Group plc (Focus). On 17 May 2011, Focus delisted its ordinary shares from trading and was re-registered as a private limited company, Focus Solutions Group Limited. 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 final fair value of net assets acquired and resulting goodwill are as follows:

	£m
Purchase consideration	
Cash paid	42
Loan notes issued	7
Total purchase consideration	49
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	(5)
	23
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.

The amount of revenue and profit included in the consolidated income statement for the year ended 31 December 2011 contributed by Focus was £16m and £1m respectively.

52. Events after the reporting period

A judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of Standard Life Assurance Limited in its claim of approximately £100m against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. The insurers are appealing the judgment and the appeal is unlikely to be heard before autumn 2012. No recoveries in respect of the claim are recognised in the consolidated income statement for the year ended 31 December 2011. The recognition of the benefit of any recoveries in respect of the claim in the consolidated income statement will depend on the timing and outcome of the appeal.

Independent auditors' report to the Directors of Standard Life plc on the EEV basis supplementary financial statements

We have audited the full European Embedded Value (EEV) basis supplementary financial statements of Standard Life plc (the Group) for the year ended 31 December 2011 which comprise the 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 EEV basis supplementary financial statements) which have been prepared in accordance with the EEV basis set out on pages 209 to 210 and on pages 233 to 239 and which should be read in conjunction with the audited consolidated financial statements.

Respective responsibilities of Directors and auditors

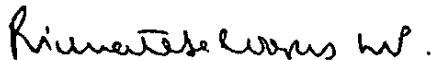
The Directors are responsible for preparing the EEV basis supplementary financial statements in accordance with the EEV basis set out in Notes 1 and 17. Our responsibility, as set out in our letter of engagement dated 6 May 2011, is to audit and express an opinion on the supplementary financial statements 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 6 May 2011, 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 EEV basis supplementary financial statements

An audit involves obtaining evidence about the amounts and disclosures in the EEV basis supplementary financial statements sufficient to give reasonable assurance that the EEV basis 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 EEV basis supplementary financial statements. In addition, we read all the financial and non-financial information in the EEV basis supplementary financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the EEV basis supplementary financial statements

In our opinion, the EEV basis supplementary financial statements for the year ended 31 December 2011 have been properly prepared in all material respects in accordance with the EEV basis set out on pages 209 to 210 and on pages 233 to 239.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
13 March 2012

- (a) The EEV basis 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 EEV basis 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 2011

	Notes	2011 £m	2010 £m
Covered business			
UK		450	436
Canada		324	250
International		104	93
HWPFF TVOG		11	(8)
Covered business EEV operating profit	2(a)	889	771
UK		67	28
Global investment management ¹	6(b)	69	33
Group corporate centre costs		(50)	(54)
Other	6(c)	14	9
Non-covered business EEV operating profit		100	16
EEV operating profit before tax from continuing operations		989	787
EEV non-operating items			
Long-term investment return and tax variances		70	578
Effect of economic assumption changes		(500)	(209)
Impairment of intangible assets		(5)	-
Impairment of investments in associates		-	(1)
Restructuring costs ²		(73)	(71)
Other EEV non-operating items		(13)	-
Consolidation adjustment for different accounting bases ³		58	51
EEV non-operating (loss)/profit before tax from continuing operations		(463)	348
EEV profit before tax from continuing operations		526	1,135
Tax attributable to:			
EEV operating profit		(265)	(249)
EEV non-operating items		108	(90)
EEV profit after tax from continuing operations		369	796
EEV profit after tax from discontinued operations⁴		-	20
Total EEV profit after tax		369	816

¹ Global investment management non-covered EEV operating profit of £69m (2010: £33m) represents operating profit of £125m (2010: £103m) after excluding profits of £56m (2010: £70m) which have been generated by life and pensions covered business. Global investment management EEV operating profit therefore represents third party non-covered EEV operating profit. Refer to Note 6(b) – Global investment management EEV operating profit before tax and Note 17 – EEV methodology.

² Refer to IFRS financial information Note 8 – Restructuring and corporate transaction expenses. The £73m of restructuring costs in 2011 also include additional impacts to required capital and PVIF following the termination of an internal reinsurance agreement.

³ This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 17 – EEV methodology.

⁴ The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and was classified as a discontinued operation for the year ended 31 December 2010.

EEV earnings per share (EPS) For the year ended 31 December 2011

	2011	2010
EEV operating profit after tax from continuing operations (£m) ¹	724	538
Basic EPS (pence) from continuing operations	31.5	24.0
Weighted average number of ordinary shares in issue (millions)	2,301	2,242
Diluted EPS (pence) from continuing operations	31.4	23.9
Weighted average number of ordinary shares on a diluted basis (millions)	2,304	2,248

¹ EEV operating profit before tax from continuing operations of £989m (2010: £787m) less attributed tax on EEV operating profit from continuing operations of £265m (2010: £249m).

EEV consolidated statement of comprehensive income For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
EEV profit after tax		369	816
Less: EEV profit after tax from discontinued operations		-	20
EEV profit from continuing operations		369	796
Fair value gains/(losses) on cash flow hedges ¹		-	(2)
Actuarial (losses)/gains on defined benefit pension schemes ¹		(88)	184
Exchange differences on translating foreign operations ²		(69)	152
Net investment hedge ¹		13	(39)
Aggregate tax effect of items not recognised in income statement		27	(59)
Other		-	9
Other comprehensive (expense)/income for the year		(117)	245
Total comprehensive income for the year attributable to equity holders from continuing operations		252	1,041
EEV profit after tax from discontinued operations		-	20
Other comprehensive income from discontinued operations ³		-	24
Total comprehensive income for the year attributable to equity holders from discontinued operations		-	44
Total comprehensive income for the year attributable to equity holders	7	252	1,085

¹ Consistent with the IFRS consolidated statement of comprehensive income.

² Exchange differences primarily relate to Canada (£30m) and India (£24m).

³ Refer to IFRS financial information Note 10 – Discontinued operations.

EEV consolidated statement of financial position As at 31 December 2011

	Notes	31 December 2011 £m	31 December 2010 £m
Covered business			
Free surplus		651	1,202
Required capital		1,296	1,031
Net worth		1,947	2,233
Present value of in-force		4,423	4,277
Cost of required capital		(583)	(439)
Total embedded value of covered business	2(c)	5,787	6,071
Non-covered business			
UK		393	271
Global investment management		256	256
Group corporate centre		650	457
Other		253	221
Total net assets of non-covered business	6(a)	1,552	1,205
Consolidation adjustment for different accounting bases ¹		89	45
Total Group embedded value	7	7,428	7,321
Equity			
Share capital		235	228
Shares held by trusts		(19)	(21)
Share premium reserve		1,110	976
Retained earnings on an IFRS basis		1,030	1,094
Other reserves		1,605	1,626
Additional retained earnings on an EEV basis		3,467	3,418
Total equity		7,428	7,321

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 2011

	31 December 2011	31 December 2010
Total Group embedded value (£m)	7,428	7,321
EEV per share (pence)	317	322
Diluted closing number of ordinary shares in issue (millions)	2,344	2,275

Approved on behalf of the Board of Directors on 13 March 2012 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 and the Interim Transitional Guidance issued in September 2011. 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 (the Company) 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.

With effect from January 2011, Canadian insurers have adopted IFRS as their basis for reporting, replacing the previous Canadian GAAP (CGAAP) basis. The impact of the change has been to reduce the Canada EEV by £59m. The comparative results for the 12 months to 31 December 2010 have not been restated.

Elsewhere within the Group, 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 Solvency 2. This approach is in accordance with the Interim Transitional Guidance for Embedded Value Reporting issued by the CFO Forum in September 2011. Similarly, no allowance has been made for forthcoming changes to the UK life insurance tax regime. The deferred tax position has been calculated using legislation in force at 31 December 2011.

The Hong Kong EEV results for 31 December 2010 were calculated on a 'risk neutral' approach, whereby projected investment returns and discount rates were based on risk free rates. For the results for 31 December 2011, Hong Kong is using a similar approach to that used in the rest of the Group's wholly owned businesses. This involves projecting investment returns on real world assumptions and setting a risk discount rate that removes the market risk above the risk free rate. Principal economic assumptions for investment returns and risk discount rates are provided in Note 13 – Principal economic assumptions – deterministic calculations – covered business. Due to the calibration methodology for setting the risk discount rate, there is no material impact on the results produced on the previous 'risk neutral' approach. Therefore the comparative results for 31 December 2010 have not been restated. The India and China joint venture (JV) businesses are still calculated on a 'risk neutral' approach.

Segmentation

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. Following the acquisition of Focus Solutions Group plc on 11 January 2011, UK non-covered business results for the year ended 31 December 2011 include Focus. UK non-covered business is shown within Note 6 – Non-covered business.

The EEV consolidated income statement presents EEV operating profit from continuing operations only and therefore excludes the results from discontinued operations.

Impact of UK budget changes announced on 23 March 2011

The Finance Act 2011 reduced the UK corporation tax rate to 25% with effect from 1 April 2012. The reduction to 25% has been included within our best estimate assumptions for UK corporation tax as at 31 December 2011.

The 2011 Budget statement also announced the Government's intention to make further reductions in the rate of UK corporation tax in 2013 and 2014. However, these reductions are subject to legislation being enacted in future years and, in accordance with our previous approach, have not been included within the best estimate assumptions as at 31 December 2011.

1. Basis of preparation *continued*

Recapture of internal reinsurance

On 31 December 2011, the business of Standard Life Investment Funds Limited (SLIF) was transferred to the Standard Life Assurance Limited (SLAL) Shareholder Fund and Proprietary Business Fund under a court approved scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000. The impact of the change has been to reduce the UK EEV by £10m. This is included within restructuring costs.

Events after the reporting period

A judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of SLAL in its claim of approximately £100m against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. The insurers are appealing the judgment and the appeal is unlikely to be heard before autumn 2012. No recoveries in respect of the claim are recognised in the income statement for the year ended 31 December 2011. The recognition of the benefit of any recoveries in respect of the claim will depend on the timing and outcome of the appeal.

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 2011	Notes	UK £m	Canada £m	International £m	HWPFF TVOG £m	Total £m
Contribution from new business	3	204	73	58	-	335
Contribution from in-force business:						
Expected return on existing business		242	144	54	-	440
Experience variances	4	12	118	7	11	148
Operating assumption changes	5	31	(8)	10	-	33
Development expenses		(33)	(14)	(27)	-	(74)
Expected return on free surplus		(6)	11	2	-	7
EEV operating profit before tax		450	324	104	11	889
Investment return and tax variances		41	41	(19)	7	70
Effect of economic assumption changes		(173)	(181)	105	(251)	(500)
Restructuring costs		(53)	(3)	(3)	-	(59)
EEV profit/(loss) before tax		265	181	187	(233)	400
EEV attributed tax		(66)	(45)	(56)	58	(109)
EEV profit/(loss) after tax		199	136	131	(175)	291

12 months to 31 December 2010	Notes	UK £m	Canada £m	International £m	HWPFF 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	-	-
EEV 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)
EEV profit/(loss) before tax		783	206	120	(14)	1,095
EEV attributed tax		(212)	(53)	(27)	4	(288)
EEV profit/(loss) after tax		571	153	93	(10)	807

An analysis of EEV profit after tax by territory is provided in Note 9 – Analysis of covered business EEV PVIF and net worth movements (net of tax).

EEV 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 EEV non-operating items are excluded from EEV operating profit and are reported as part of total EEV profit.

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 consolidated financial statements as disclosed in Note 42 – Risk management. The results for Canada and International include the cost of the Canada and Asia TVOG and the cost of TVOG arising on business written outside of the HWPF in Germany.

Improved new business profitability was due to higher sales volumes in the UK and increased margins in the UK and Canada. An analysis of new business contribution is provided in Note 3 – Analysis of new business contribution.

The increase in the expected return on existing business from £422m in 2010 to £440m in 2011 is primarily due to higher opening PVIF, partly offset by lower opening risk discount rates.

Details of experience variances and operating assumption changes are provided in Note 4 – Experience variances and Note 5 – Operating assumption changes.

Development expenses of £74m in 2011 (2010: £67m) reflect the increased investment in the business. Development expenses of £33m in the UK mainly relate to investment in corporate propositions, in particular trust based pensions; retail propositions, largely SIPP; and to investment in the launch of our repositioned brand and refreshed visual identity. The £27m of development expenses in International include £8m relating to the costs of developing the JV businesses and £19m relating to development of the wholly owned businesses to build future growth.

The negative £6m 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 liabilities relative to the expected return on the assets backing subordinated liabilities. The improvement over the £20m UK loss reported in 2010 mainly reflects the impact of a change in investment strategy in the assets that are backing the subordinated liabilities together with the impact on expected return of the completion of a tender for a tranche of subordinated liabilities in 2011.

Investment return and tax variances generated a profit of £70m across all covered business. Investment return and tax variances in the UK produced a profit of £41m. Investment returns in 2011 generated an increase in free surplus of £165m, largely within annuity business, which was offset by a reduction in PVIF of £237m, largely due to lower than expected investment returns on unutilised business. In addition, there was a profit of £110m, in excess of the returns that are included in the expected return on free surplus and in operating variances, arising from differences in movements of subordinated liabilities and the assets that are backing the subordinated debt. Canada investment return and tax variances generated a profit of £41m which is after a £79m pre-tax loss (£59m post-tax loss) from the impact of adopting IFRS accounting. Refer to Note 1 – Basis of preparation. The remaining positive variances in Canada primarily reflect the benefits of strong investment returns in 2011.

Effect of economic assumption changes was an overall loss of £500m. The main cause of the loss was higher TVOG within the HWPF of negative £251m and within the German With Profit Fund of negative £30m, which were largely due to lower risk free rates and higher swaption volatility. Reductions in risk free rates led to losses from lower future assumed investment returns of £615m in the UK and £161m in Canada, partly offset by a profit of £471m from reduced risk discount rates, which is explained in Note 13 – Principal economic assumptions – deterministic calculations – covered business. Changes to the long term corporation tax rates in the UK, Canada and Germany, along with the impact of the temporary levy on pension business in Ireland, resulted in an overall profit of £97m. Refer to Note 1 – Basis of preparation. Increases in the market valuation of the Canada subordinated liabilities created a loss within covered business of £59m, but this is offset within the overall Group EEV profit by a consolidation adjustment for different accounting bases.

Restructuring costs of £59m include £53m within the UK. This primarily represents the covered business costs associated with a number of restructuring programmes including Solvency 2, as well as the free surplus and associated other EEV impacts arising from the termination of the internal reinsurance agreement between SLAL and SLIF.

2. Segmental analysis - covered business *continued***(b) Segmental analysis of movements in EEV**

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
Opening EEV	3,657	1,758	732	(76)	6,071
EEV profit/(loss) after tax	199	136	131	(175)	291
Internal capital transfers	(376)	(116)	34	-	(458)
Transfer back of surplus to Standard Life Investments	(36)	(2)	(3)	-	(41)
Transfer back of mutual funds net worth	19	(5)	-	-	14
Actuarial (losses)/gains on defined benefit pension schemes	-	(42)	8	-	(34)
Foreign exchange differences	-	(30)	(36)	-	(66)
Aggregate tax effect of items not recognised in income statement	-	12	-	-	12
Other	(4)	1	1	-	(2)
Closing EEV	3,459	1,712	867	(251)	5,787

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
Opening EEV	3,120	1,553	658	(66)	5,265
EEV 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

Internal capital transfers mainly reflect dividend transfers to Standard Life plc.

(c) Segmental analysis of opening and closing EEV

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
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)
Opening EEV	3,657	1,758	732	(76)	6,071
Analysis of EEV					
Free surplus	686	(103)	68	-	651
PVIF	2,683	1,229	762	(251)	4,423
Required capital	169	1,059	68	-	1,296
Cost of capital	(79)	(473)	(31)	-	(583)
Closing EEV	3,459	1,712	867	(251)	5,787

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

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.

New business contribution (NBC) and the present value of new business premium (PVNBP) margins are shown after the effect of required capital.

12 months to 31 December 2011	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	F	12	3,598	99	3,936	3.4	0.3
Savings and investments	F	15	1,973	24	2,151	7.4	0.7
Annuities	S/R	58	312	-	312	-	18.6
Protection	S/R	-	-	-	1	-	5.2
Retail		85	5,883	123	6,400	4.2	1.3
Corporate pensions	F	60	1,889	620	4,607	4.4	1.3
Institutional pensions	F	59	3,027	1	3,028	1.0	2.0
Corporate		119	4,916	621	7,635	4.4	1.6
UK		204	10,799	744	14,035	4.3	1.5
Fee	F	38	1,216	33	1,695	14.5	2.2
Spread/risk	S/R	35	306	61	1,233	15.2	2.9
Canada		73	1,522	94	2,928	15.0	2.5
Wholly owned	F	51	1,567	86	2,275	8.2	2.2
Joint ventures		7	82	100	500	4.2	1.4
International		58	1,649	186	2,775	6.1	2.1
Total covered business		335	13,970	1,024	19,738	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 NBC to PVNBP and are based on the underlying unrounded numbers.

3. Analysis of new business contribution *continued*

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 NBC to PVNBP 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.

4. Experience variances

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWP TVOG £m	Total £m
Lapses	(37)	-	(11)	-	(48)
Maintenance expenses	(4)	-	-	-	(4)
Mortality and morbidity	3	-	1	-	4
Tax	32	72	16	(1)	119
Other	18	46	1	12	77
Total	12	118	7	11	148

The lapse experience loss of £37m in the UK includes a negative variance within our pensions business of £29m. This was mainly due to transfers within our pension business. UK lapse experience variance also includes a £10m adverse variance within mutual funds and a £2m loss on institutional pensions mainly arising from the loss of one large scheme. The £11m adverse lapse experience within International mainly arises from a £4m loss within the Ireland domestic business and a £5m loss within the JV businesses.

Management action that reduced future tax payable on profits from overseas branches resulted in positive tax variances of £36m in the UK and £15m in International. Tax variances in Canada represent the expected release of tax provisions within the actuarial reserves along with operating tax variances.

Other UK variances of £18m include a £50m profit from the impact of a management action to reduce current and future investment expenses; a £28m loss from an agreement to fund future recharges to non-covered businesses; various modelling improvements which generated a profit of £13m; a £7m cost from the completion of a tender for a tranche of subordinated liabilities; with £10m of other losses mainly arising from the impact of reserve changes and other reconciliations.

Within Canada, other variances mainly arise from the impact of management actions to enhance investment yields on assets.

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPf 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

For the 12 months to 31 December 2010, other UK variances of £43m 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.

5. Operating assumption changes

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPf TVOG £m	Total £m
Lapses	31	34	(18)	-	47
Maintenance expenses	10	40	(8)	-	42
Mortality and morbidity	(11)	(139)	(3)	-	(153)
Tax	1	-	-	-	1
Other	-	57	39	-	96
Total	31	(8)	10	-	33

Positive lapse assumption changes in the UK include a £25m gain from improved long-term assumptions for institutional pensions, and a £8m profit on legacy life business reflecting recent experience. Favourable changes in assumed early retirement rates for individual pensions have been offset by anticipating a period of higher paid-up activity as a result of pension reform changes.

Canada lapse assumption gains of £34m mainly arise from improved persistency within pensions business.

Within International, the lapse assumption loss of £18m includes a £7m loss from the JV businesses and a £6m loss from higher paid-up assumptions in Hong Kong.

Canada expense assumption profits of £40m include a £31m profit from mutual fund and segregated fund business and £15m of gains from group insurance business.

The £11m loss from mortality assumption changes in the UK mainly arise from annuities, reflecting updates for recent experience and revised longevity improvement rates. In Canada, most of the £139m loss from mortality assumptions reflects the impact of revised industry-standard mortality improvement rates.

The £57m other assumption changes in Canada include a £109m profit from various changes in asset allocation strategies, including the benefits of management actions aimed at enhancing the investment yield on assets. This was partly offset by a loss of £62m from a reduction in expected fee income in our group savings and retirement products.

The £39m other assumption changes in International include a gain of £48m within Germany due to revised assumptions for certain classes of deferred annuities, which enables recognition of the profits expected when the policy converts to an annuity in-payment.

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

5. Operating assumption changes *continued*

For the 12 months to 31 December 2010, 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 business volumes during 2010. The other assumption changes in Canada include a £37m loss from a reduction in expected fee income in our group savings and retirement products.

6. Non-covered business

Non-covered business EEV operating profit is represented by operating profit¹ 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 17 – EEV methodology.

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.

(a) Segmental analysis - non-covered business

	UK £m	Global investment management £m	Discontinued operations £m	Other including group corporate centre £m	Total non- covered business £m
12 months to 31 December 2011					
Opening EEV net assets	271	256	-	678	1,205
EEV profit/(loss) after tax	37	51	-	(54)	34
Transfer back of net worth from covered business	(19)	41	-	5	27
Foreign exchange differences	-	(6)	-	3	(3)
Internal capital transfers	136	(88)	-	410	458
Distributions to equity holders	-	-	-	(303)	(303)
Other	(32)	2	-	164	134
Closing EEV net assets	393	256	-	903	1,552

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 Company operated a Scrip dividend scheme for dividends paid in 2010 and 2011. 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 2011, dividends paid comprise £141m (2010: £92m) settled by the issue of shares under the Scrip scheme, and £162m paid in cash (2010: £186m).

The other movement in the UK EEV net assets mainly relates to the change in the UK non-covered pension scheme of negative £51m (2010: positive £214m) and the associated deferred tax asset of positive £15m (2010: negative £65m).

Other movements in other including group corporate centre predominantly relate to the £141m issue of share capital other than in cash in relation to the Scrip dividend paid by the Company.

	UK £m	Global investment management £m	Discontinued operations £m	Other including group corporate centre £m	Total non- covered business £m
12 months to 31 December 2010					
Opening EEV net assets	(19)	195	343	644	1,163
Opening adjustments	34	-	-	(34)	-
Opening adjusted EEV net assets	15	195	343	610	1,163
EEV (loss)/profit after tax	(9)	26	20	(66)	(29)
Transfer back of net worth from covered business	(28)	52	-	4	28
Foreign exchange differences	-	2	-	16	18
Internal capital transfers	144	(18)	(387)	344	83
Distributions to equity holders	-	-	-	(278)	(278)
Other	149	(1)	24	48	220
Closing EEV net assets	271	256	-	678	1,205

The opening adjustment of £34m represents the reclassification of other non-covered to UK non-covered business during the period.

¹ Refer to Accounting policy (jj) – operating profit in the IFRS financial information.

(b) Global investment management EEV operating profit before tax

Global investment management non-covered business profits are included in EEV on a look through basis. This means that the profits from global investment management which are generated from life and pensions business are allocated to covered business. Therefore, the difference between third party non-covered business EEV operating profit before tax of £69m (2010: £33m) and operating profit for the global investment management business of £125m (2010: £103m) is the profit allocated to covered business.

	12 months to 31 December 2011 £m	12 months to 31 December 2010 £m
Global investment management third party non-covered business EEV operating profit before tax	69	33
Third party related covered business EEV operating profit before tax	32	33
Total third party business EEV operating profit before tax	101	66
Other covered business EEV operating profit before tax	24	37
Global investment management operating profit before tax	125	103

Total global investment management EEV operating profit allocated to covered business of £56m (2010: £70m) consists of third party related covered business EEV operating profit of £32m (2010: £33m) and other covered business EEV operating profit of £24m (2010: £37m).

Third party related covered business EEV operating profits relate to products actively marketed and sold to third parties through global investment management distribution channels. If these profits are added to the global investment management third party non-covered business EEV operating profits of £69m (2010: £33m), there are £101m (2010: £66m) of total third party related profits for global investment management.

The increase in the proportion of global investment management EEV operating profit before tax generated from third parties is due to new business flows into higher margin products, a refinement of cost allocations and the fee received following the transfer of money market funds in the first half of 2011.

(c) Other EEV operating profits before tax

	12 months to 31 December 2011 £m	12 months to 31 December 2010 £m
Canada non-life subsidiaries	6	1
Mutual funds transferred to covered business	(7)	(3)
Canada non-life subsidiaries excluding transfers to covered business	(1)	(2)
Standard Life plc income	6	3
Other	9	8
Other non-covered business EEV operating profit before tax	14	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 2011 £m	12 months to 31 December 2010 £m
Opening EEV	7,321	6,435
Total comprehensive income for the period attributable to equity holders	252	1,085
Distributions to equity holders	(303)	(278)
Issue of share capital other than in cash	141	92
Shares acquired by employee trusts	(7)	(35)
Shares gifted to charity	-	4
Reserves credit for employee share-based payment schemes	24	18
Closing EEV	7,428	7,321

8. Reconciliation of EEV net assets to IFRS net assets

	31 December 2011 £m	31 December 2010 £m
Net assets on an EEV basis	7,428	7,321
Present value of in-force life and pensions business net of cost of capital	(3,840)	(3,838)
EEV net worth	3,588	3,483
Adjustment of long-term debt to market value	(44)	(40)
Canada marked to market adjustment	(19)	(46)
Deferred acquisition costs net of deferred income reserve	350	378
Deferred tax differences	123	98
Adjustment for share of joint ventures	24	35
Consolidation adjustment for different accounting bases ¹	(89)	(45)
Other	28	40
Net assets attributable to equity holders on an IFRS basis	3,961	3,903

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.

The movement in Canada marked to market adjustment reflects the impact of the adoption of IFRS reporting on EEV net worth for the Canada business. This change has not had a significant impact on the total Canada EEV results (net worth and present value of in-force life and pensions business net of cost of capital). Refer to Note 1 – Basis of preparation.

9. Analysis of covered business EEV PVIF and net worth movements (net of tax)**(a) Total**

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	1,202	1,031	2,233	3,838	6,071
Contribution from new business	(290)	64	(226)	484	258
Contribution from in-force business:					
Expected return on existing business	(1)	40	39	294	333
Expected return transfer to net worth	684	(85)	599	(599)	-
Experience variances	52	2	54	58	112
Operating assumption changes	(33)	2	(31)	49	18
Development expenses	(58)	-	(58)	-	(58)
Expected return on free surplus	5	-	5	-	5
EEV operating profit after tax	359	23	382	286	668
Investment return and tax variances	159	94	253	(206)	47
Effect of economic assumption changes	(512)	181	(331)	(50)	(381)
Restructuring costs	(41)	(17)	(58)	15	(43)
EEV profit/(loss) after tax	(35)	281	246	45	291
Internal capital transfers	(458)	-	(458)	-	(458)
Transfer back of surplus to Standard Life Investments	(41)	-	(41)	-	(41)
Transfer back of mutual funds net worth	14	-	14	-	14
Actuarial losses on defined benefit pension schemes	(34)	-	(34)	-	(34)
Foreign exchange differences	(6)	(17)	(23)	(43)	(66)
Aggregate tax effect of items not recognised in income statement	12	-	12	-	12
Other	(3)	1	(2)	-	(2)
Closing EEV	651	1,296	1,947	3,840	5,787

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
EEV 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 costs	(33)	-	(33)	-	(33)
EEV 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, Group 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.

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 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	930	159	1,089	2,492	3,581
Contribution from new business	(146)	18	(128)	282	154
Contribution from in-force business:					
Expected return on existing business	(1)	5	4	177	181
Expected return transfer to net worth	390	(4)	386	(386)	-
Experience variances	(23)	1	(22)	39	17
Operating assumption changes	(3)	1	(2)	26	24
Development expenses	(25)	-	(25)	-	(25)
Expected return on free surplus	(5)	-	(5)	-	(5)
EEV operating profit after tax	187	21	208	138	346
Investment return and tax variances	222	(4)	218	(182)	36
Effect of economic assumption changes	(219)	10	(209)	(110)	(319)
Restructuring costs	(37)	(17)	(54)	15	(39)
EEV profit/(loss) after tax	153	10	163	(139)	24
Internal capital transfers	(376)	-	(376)	-	(376)
Transfer back of surplus to Standard Life Investments	(36)	-	(36)	-	(36)
Transfer back of mutual funds net worth	19	-	19	-	19
Other	(4)	-	(4)	-	(4)
Closing EEV	686	169	855	2,353	3,208

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)
EEV 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 costs	(28)	-	(28)	-	(28)
EEV 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

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

(c) Canada

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	226	813	1,039	719	1,758
Contribution from new business	(42)	36	(6)	61	55
Contribution from in-force business:					
Expected return on existing business	-	33	33	75	108
Expected return transfer to net worth	168	(85)	83	(83)	-
Experience variances	75	4	79	10	89
Operating assumption changes	(26)	1	(25)	19	(6)
Development expenses	(10)	-	(10)	-	(10)
Expected return on free surplus	8	-	8	-	8
EEV operating profit/(loss) after tax	173	(11)	162	82	244
Investment return and tax variances	(63)	99	36	(6)	30
Effect of economic assumption changes	(280)	171	(109)	(27)	(136)
Restructuring costs	(2)	-	(2)	-	(2)
EEV profit/(loss) after tax	(172)	259	87	49	136
Internal capital transfers	(116)	-	(116)	-	(116)
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	(2)
Transfer back of mutual funds net worth	(5)	-	(5)	-	(5)
Actuarial losses on defined benefit pension schemes	(42)	-	(42)	-	(42)
Foreign exchange differences	(5)	(13)	(18)	(12)	(30)
Aggregate tax effect of items not recognised in income statement	12	-	12	-	12
Other	1	-	1	-	1
Closing EEV	(103)	1,059	956	756	1,712

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
EEV 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 costs	(1)	-	(1)	-	(1)
EEV 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, Group 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.

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

(d) International

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	46	59	105	627	732
Contribution from new business	(102)	10	(92)	141	49
Contribution from in-force business:					
Expected return on existing business	-	2	2	42	44
Expected return transfer to net worth	126	4	130	(130)	-
Experience variances	-	(3)	(3)	9	6
Operating assumption changes	(4)	-	(4)	4	-
Development expenses	(23)	-	(23)	-	(23)
Expected return on free surplus	2	-	2	-	2
EEV operating profit/(loss) after tax	(1)	13	12	66	78
Investment return and tax variances	-	(1)	(1)	(18)	(19)
Effect of economic assumption changes	(13)	-	(13)	87	74
Restructuring costs	(2)	-	(2)	-	(2)
EEV profit/(loss) after tax	(16)	12	(4)	135	131
Internal capital transfers	34	-	34	-	34
Transfer back of surplus to Standard Life Investments	(3)	-	(3)	-	(3)
Actuarial profits on defined benefit pension schemes	8	-	8	-	8
Foreign exchange differences	(1)	(4)	(5)	(31)	(36)
Other	-	1	1	-	1
Closing EEV	68	68	136	731	867

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
EEV 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 costs	(4)	-	(4)	-	(4)
EEV 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

10. Time value of options and guarantees (TVOG)

	31 December 2011 £m	31 December 2010 £m
UK and Europe HWPF	(251)	(76)
Canada	(29)	(26)
International	(41)	(17)
Total	(321)	(119)

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 £175m during 2011. This mainly arose from adverse economic assumption changes reflecting the increased cost of guarantees in a low yield environment, in particular for German business, alongside a general increase in both implied volatility and corporate bond spreads.

The £24m increase in TVOG within International mainly reflects the higher cost of guarantees for post demutualisation business in Germany.

11. Market value of subordinated liabilities within covered business

	31 December 2011 £m	31 December 2010 £m
UK	(1,005)	(1,682)
Canada	(341)	(302)
Total	(1,346)	(1,984)

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.

11. Market value of subordinated liabilities within covered business *continued*

UK subordinated liabilities include Euro denominated subordinated guaranteed bonds. On 14 September 2011, the Company settled a tender for these bonds, as described in Note 37 to the IFRS financial information. The tender was accepted for bonds with a face value of €687m and bonds with a face value of €63m remain outstanding. This tender resulted in a loss of £7m which is included within UK EEV operating profit as described in Note 4 – Experience variances.

The decrease in the UK subordinated liability mainly reflects the tender referred to above, along with increased market yields during 2011. The £39m increase in the Canada subordinated liability includes a £5m reduction from currency movements.

The impact of these movements, other than those related to the tender, are reflected in EEV non-operating profit in UK and Canada as shown in Note 2 (a) – Segmental EEV income statement. For Canada, this has been offset by the Group EEV consolidation adjustment in respect of Canadian subordinated liability, as shown in the EEV consolidated income statement.

12. 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 and the PVIF net of cost of capital impact from new business.

(a) PVIF emergence

In-force business

At 31 December 2011	PVIF £m	1-5	Cash emerging during years (£m)				20+
			6-10	11-15	16-20		
UK	4,280	1,501	978	673	449	679	
Canada	4,291	484	455	440	416	2,496	
International	1,337	386	248	147	102	454	
Total undiscounted	9,908	2,371	1,681	1,260	967	3,629	
Total discounted	4,744	2,069	1,108	628	364	575	

New business

At 31 December 2011	PVIF £m	1-5	Cash emerging during years (£m)				20+
			6-10	11-15	16-20		
UK	520	148	118	94	67	93	
Canada	157	21	27	21	18	70	
International	230	85	53	29	24	39	
Total undiscounted	907	254	198	144	109	202	
Total discounted	508	220	129	72	42	45	

(b) Reconciliation to closing PVIF

In-force business

At 31 December 2011	Reconciliation of discounted PVIF		
	PVIF £m	TVOG £m	Total £m
UK and HWPF TVOG	2,683	(251)	2,432
Canada	1,258	(29)	1,229
International	803	(41)	762
Total	4,744	(321)	4,423

See also Note 2(c) – Segmental analysis – covered business – Segmental analysis of opening and closing EEV.

New business

	Reconciliation of discounted PVIF			Total £m
	PVIF £m	Cost of capital £m	TVOG £m	
At 31 December 2011				
UK	289	(7)	-	282
Canada	68	(7)	-	61
International	151	(5)	(5)	141
Total	508	(19)	(5)	484

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 under Solvency 2. Similarly, no allowance has been made for forthcoming changes to the UK life insurance tax regime. The deferred tax position has been calculated using the legislation in force at 31 December 2011.

13. Principal economic assumptions - deterministic calculations - covered business

(a) Gross investment returns and expense inflation

At 31 December 2011	UK HWPf/PBF ¹ %	Canada %	Europe HWPf/PBF ¹ %	Europe offshore ² %	Hong Kong %
Gross investment returns					
Risk free	1.93	2.17	1.83	1.93	1.09
Corporate bonds	2.99 ³	⁴	n/a	n/a	3.41
Equities	4.93	8.60	4.83	4.93	4.09
Property	3.93	8.60	3.83	3.93	n/a
Other					
Expense inflation:	3.37	⁵		3.37	2.50
Germany			1.85		
Ireland			2.74		

¹ Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.

² Europe offshore denotes Standard Life International Limited (SLIL).

³ Excludes corporate bond returns on annuities. For annuities in UK equity holder owned funds, the overall investment return, after allowing for assumed defaults, is 4.20% for annuities that are level or subject to fixed escalations and 2.73% for annuities where escalations are linked to a price index.

⁴ 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 a mixture of government and corporate bonds.

⁵ 0.000% in 2012. The rate in subsequent years is based on a moving 30-year bond yield less a 3% deduction.

At 31 December 2010	UK HWPf/PBF ¹ %	Canada %	Europe HWPf/PBF ¹ %	Europe offshore ² %	Hong Kong %
Gross investment returns					
Risk free	3.49	3.29	2.96	3.49	⁶
Corporate bonds	4.08 ³	⁴	n/a	n/a	⁶
Equities	6.49	8.60	5.96	6.49	⁶
Property	5.49	8.60	4.96	5.49	⁶
Other					
Expense inflation:	3.95	⁵		3.95	⁶
Germany			2.29		
Ireland			3.01		

¹ Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.

² Europe offshore denotes Standard Life International Limited (SLIL).

³ Excludes corporate bond returns on annuities. For annuities in UK equity holder owned 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.

⁴ 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.

⁵ 0.691% in 2011. The rate in subsequent years is based on a moving 30-year bond yield less a 3% deduction.

⁶ The Hong Kong EEV results for 31 December 2010 are calculated on a risk neutral approach, whereby projected investment returns and discount rates are based on risk free rates. Refer to Note 13(d) – Principal economic assumptions – deterministic calculations – covered business – International – Asia for more detail.

13. Principal economic assumptions - deterministic calculations - covered business *continued*

(b) Risk discount rates - in-force business

At 31 December 2011	UK HWPF %	UK PBF ¹ %	Canada %	Europe HWPF %	Europe PBF ¹ %	Europe offshore ² %	Hong Kong %
Risk margin – in-force business							
Risk margin before cost of capital adjustment:							
Market risk	1.90	1.90	3.20	0.70	1.50	1.80	1.60
Non-market risk	2.60	0.90	3.50	1.30	0.80	0.70	1.50
Total	4.50	2.80	6.70	2.00	2.30	2.50	3.10
Cost of capital adjustment	-	(0.10)	(2.20)	-	(1.00)	(0.20)	-
Risk margin after cost of capital adjustment	4.50	2.70	4.50	2.00	1.30	2.30	3.10
Risk discount rates – in-force business							
Risk free	1.93	1.93	2.17	1.83	1.83	1.93	1.09
Risk margin	4.50	2.70	4.50	2.00	1.30	2.30	3.10
Risk discount rate³	6.43	4.63	6.67	3.83	3.13	4.23	4.19

¹ Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.

² Europe offshore denotes Standard Life International Limited (SLIL).

³ Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 5.55% and 3.51% respectively.

At 31 December 2010	UK HWPF %	UK PBF ¹ %	Canada %	Europe HWPF %	Europe PBF ¹ %	Europe offshore ² %	Hong Kong %
Risk margin – in-force business							
Risk margin before cost of capital adjustment:							
Market risk	1.80	1.60	2.60	1.80	1.60	1.60	⁴
Non-market risk	1.80	1.60	2.80	1.80	1.60	1.60	⁴
Total	3.60	3.20	5.40	3.60	3.20	3.20	⁴
Cost of capital adjustment	-	(0.50)	(1.80)	-	(0.50)	(0.50)	⁴
Risk margin after cost of capital adjustment	3.60	2.70	3.60	3.60	2.70	2.70	⁴
Risk discount rates – in-force business							
Risk free	3.49	3.49	3.29	2.96	2.96	3.49	⁴
Risk margin	3.60	2.70	3.60	3.60	2.70	2.70	⁴
Risk discount rate³	7.09	6.19	6.89	6.56	5.66	6.19	⁴

¹ Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.

² Europe offshore denotes Standard Life International Limited (SLIL).

³ 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.

⁴ The Hong Kong EEV results for 31 December 2010 are calculated on a risk neutral approach, whereby projected investment returns and discount rates are based on risk free rates. Refer to Note 13(d) – Principal economic assumptions – deterministic calculations – covered business – International – Asia for more detail.

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, which in 2011 led to a significant increase in Canada risk margins.

During 2011, separate risk discount rate risk margins were developed for the UK, the Ireland offshore business and the combined German and Ireland domestic business. Previously, average risk margins had been used across all four businesses. The main impact was to decrease the risk margins used for the combined German and Ireland domestic in-force business, reflecting in particular their lower exposure to market risk for the HWPF and lower non-market risk for equity holder owned funds. Corresponding increases were applied to the separate UK risk margins.

As part of the adoption of IFRS in Canada from 2011, the opening risk discount rate was changed from 6.89% to 6.79%. The effect of this change is included within the overall impact of the adoption of IFRS in Canada. Refer to Note 1 – Basis of preparation.

Annuity-in-payment profits were recognised for certain classes of deferred annuities in Germany during 2011. Refer to Note 5 – Operating assumption changes. The recognition of the additional non-market risks within these annuity-in-payment profits has increased the risk discount rates used to value the German and Ireland domestic business. This generated a loss of £9m which has been included within other assumption changes in the International EEV operating profit.

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 EEV income statement. The amounts within these totals that relate to the changes in risk discount rates are for UK: profit £295m, for Canada: loss £18m, and for International: profit £194m. These profits reflect the benefit of reduced risk discount rates which are mainly driven by reductions in risk free rates.

(c) Risk discount rates - new business

12 months to 31 December 2011	UK HWPF %	UK PBF¹ %	Canada %	Europe HWPF %	Europe PBF¹ %	Europe offshore² %	Hong Kong %
Risk margin – new business							
Risk margin before cost of capital adjustment:							
Market risk	2.00	2.10	1.10	1.80	1.90	1.70	1.40
Non-market risk	0.90	0.90	1.20	1.30	1.30	0.70	1.50
Total	2.90	3.00	2.30	3.10	3.20	2.40	2.90
Cost of capital adjustment	-	(0.20)	(0.30)	-	(2.00)	(0.20)	-
Risk margin after cost of capital adjustment	2.90	2.80	2.00	3.10	1.20	2.20	2.90
Risk discount rates – new business							
Risk free ³	3.49	3.49	3.29	2.96	2.96	3.49	2.10
Risk margin	2.90	2.80	2.00	3.10	1.20	2.20	2.90
Risk discount rate⁴	6.39	6.29	5.29	6.06	4.16	5.69	5.00

¹ Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.

² Europe offshore denotes Standard Life International Limited (SLIL).

³ 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 2010.

⁴ Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe were 6.30% and 4.54% respectively.

12 months to 31 December 2010	UK HWPF %	UK PBF¹ %	Canada %	Europe HWPF %	Europe PBF¹ %	Europe offshore² %	Hong Kong %
Risk margin – new business							
Risk margin before cost of capital adjustment:							
Market risk	1.80	1.50	1.40	1.80	1.50	1.50	⁵
Non-market risk	0.50	1.60	1.90	0.50	1.60	1.60	⁵
Total	2.30	3.10	3.30	2.30	3.10	3.10	⁵
Cost of capital adjustment	-	(0.40)	(0.70)	-	(0.40)	(0.40)	⁵
Risk margin after cost of capital adjustment	2.30	2.70	2.60	2.30	2.70	2.70	⁵
Risk discount rates – new business							
Risk free ³	4.11	4.11	3.85	3.39	3.39	4.11	⁵
Risk margin	2.30	2.70	2.60	2.30	2.70	2.70	⁵
Risk discount rate⁴	6.41	6.81	6.45	5.69	6.09	6.81	⁵

¹ Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.

² Europe offshore denotes Standard Life International Limited (SLIL).

³ 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.

⁴ 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.

⁵ The Hong Kong EEV results for 31 December 2010 are calculated on a risk neutral approach, whereby projected investment returns and discount rates are based on risk free rates. Refer to Note 13(d) – Principal economic assumptions – deterministic calculations – covered business – International – Asia for more detail.

13. Principal economic assumptions - deterministic calculations - covered business *continued*

(d) International - Asia

The PVIF and cost of required capital of the India and China JV businesses is calculated using a 'risk neutral' approach whereby projected investment returns and discount rates are based on risk free rates. This was also the approach adopted for Hong Kong until 2011. The risk free rates used were:

	31 December 2011 %	31 December 2010 %
India	8.55	6.81
China	3.89	3.92
Hong Kong	n/a	1.55

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 PVIF, based on a non-market risk 'cost of capital' approach. This has reduced the PVIF of the India and China JV businesses at 31 December 2011 by £25m (31 December 2010: £22m). Similarly, the 2011 pre-tax NBC has been reduced by £7m (2010: £8m) as an allowance for non-market risk.

14. Principal economic assumptions - stochastic calculations

The level of 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 TVOG.

Parameters used in ESG

Cash and bond returns

These variables are calibrated using repo rates and government strips.

Inflation

This variable is calibrated based on the relationship between 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 a three month lag).

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 2011 Swap term (years)		31 December 2010 Swap term (years)	
	10	15	10	15
10	19.1%	17.1%	14.4%	14.2%
15	17.7%	16.1%	14.5%	14.3%
20	16.0%	14.6%	14.2%	13.9%
25	14.6%	13.4%	13.6%	13.3%

Euro Option term (years)	31 December 2011 Swap term (years)		31 December 2010 Swap term (years)	
	15	20	15	20
10	20.2%	19.8%	15.5%	15.1%
15	19.4%	18.6%	15.0%	14.4%
20	17.6%	16.6%	13.5%	12.8%
25	16.3%	n/a	12.6%	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 2011	31 December 2010
10	26.2%	25.4%
15	26.7%	26.7%
20	27.4%	27.4%
25	28.4%	28.4%
European equities Term (years)		
10	27.9%	25.8%
15	27.9%	27.9%
20	28.6%	29.0%
25	28.9%	29.6%

Property-implied volatilities

The 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 2011 and 15% for 31 December 2010.

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

The principal exchange rates applied are:

Local currency: £	Closing 31 December 2011	Average to 31 December 2011	Closing 31 December 2010	Average to 31 December 2010
Canada	1.582	1.584	1.556	1.605
Europe	1.197	1.152	1.167	1.165
India	82.529	75.027	70.007	70.803
China	9.782	10.378	10.317	10.477
Hong Kong	12.070	12.499	12.171	12.032

16. Sensitivity analysis - economic and non-economic assumptions

The tables below show the sensitivity of the embedded value and NBC to different scenarios.

Sensitivities tested were:

- 1% increase and decrease in 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 lapse 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 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Embedded value	3,459	1,712	867	(251)	5,787
Risk discount rates +1%	(196)	(191)	(84)	-	(471)
Risk discount rates -1%	229	242	112	-	583
Interest returns +1%	(11)	37	(4)	97	119
Interest returns -1%	19	(359)	(25)	(344)	(709)
Fall in equity market values by 10%	(158)	(30)	(24)	(19)	(231)
Fall in property market values by 10%	(17)	(56)	(2)	(15)	(90)
Maintenance expenses -10%	132	100	13	-	245
Lapse rates -10%	116	118	17	(24)	227
Annuitant mortality -5%	(74)	(49)	(6)	(8)	(137)
Non-annuitant mortality -5%	8	30	2	1	41
Prescribed minimum capital	-	139	-	-	139

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 liability 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.

New business contribution:

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
New business contribution	204	73	58	-	335
Risk discount rates +1%	(31)	(13)	(13)	-	(57)
Risk discount rates -1%	37	16	18	-	71
Interest returns +1%	(1)	(8)	3	-	(6)
Interest returns -1%	-	10	(11)	-	(1)
Fall in equity market values by 10%	(25)	(10)	(4)	-	(39)
Fall in property market values by 10%	(4)	-	-	-	(4)
Maintenance expenses -10%	23	14	5	-	42
Lapse rates -10%	18	12	6	-	36
Annuitant mortality -5%	(3)	(1)	-	-	(4)
Non-annuitant mortality -5%	-	16	2	-	18
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 the India and China JV businesses), 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 Standard Life International Limited (SLIL)
- The Group's business in Hong Kong (Standard Life (Asia) Limited)
- The Group's share of results in the JV in India, HDFC Standard Life Insurance Company Limited, at 26% for the 12 months to 31 December 2011 (2010: 26%)
- The Group's share of results in the JV in China, Heng An Standard Life Insurance Company Limited, at 50% for the 12 months to 31 December 2011 (2010: 50%)

Non-covered business

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.

Non-covered business EEV operating profit is represented by 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.

17. EEV methodology *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. HWPF TVOG is disclosed separately in EEV, as explained in Note 2(a) – Segmental analysis – covered business – Segmental EEV income statement.

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 (global investment management, UK non-covered and other non-covered) and are instead included within the EEV results of the covered businesses.

The capitalised values of the future profits and losses from such service companies are included in the opening and closing embedded value for the relevant businesses, 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 in 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, 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 PVIF (excluding the allowance for TVOG) calculated using expected 'real world' asset returns equates with 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 PVIF using our internal capital model, and quantifying an additional risk margin based on the results of the stress tests.

The main elements of non-market risk which are stress tested are lapse, mortality, expense and credit risk assumptions. Benefits of diversification between risk types are allowed for in deriving the risk margins in line with our internal capital model.

Separate risk discount rates have been calculated for in-force and new business and for the principal geographic segments (UK, Germany, Ireland domestic, Ireland offshore, Canada and Hong Kong). 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 inter-fund arrangements) and on policies that are in equity holder owned funds. For HWPF policies, there is a significant inter-fund arrangement in respect of mortality surpluses on annuities. 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.

Within the EEV results for the India and China JV businesses, PVIF and cost of required capital are 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 PVIF using a 'cost of capital' approach on the risk capital arising from the key sources of non-market risk. For the India and China JV businesses, this methodology would give a similar result to the methodology used in the UK, Europe, Canada and Hong Kong, 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 at least 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. Required capital used in the EEV is also net of any capital that is assumed to be available from subordinated liabilities.

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 170% of minimum continuing capital and surplus requirements (MCCSR)
- India, China and Hong Kong – 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.

17. EEV methodology *continued*

Time value of financial options and guarantees (TVOG)

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 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 TVOG is calculated

The level of 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

UK and Europe – other

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, some of which 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 TVOG has been calculated using stochastic techniques. TVOG has reduced both NBC and closing PVIF for Germany.

An adjustment is made within free surplus to allow for the potential cost of a selection of guaranteed annuity benefits on unit linked and smoothed-managed business 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

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 other 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 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 businesses rather than the investment fees actually charged.

Restructuring costs for covered and non-covered business are consistent with those identified in the Group operating profit adjustments and primarily represent costs in relation to a number of restructuring programmes including Solvency 2. Refer to the IFRS financial information Note 8 – Restructuring and corporate transaction expenses for further detail. Restructuring costs in 2011 also include the impact on free surplus, required capital, cost of required capital and PVIF arising from the termination of the internal reinsurance agreement between SLAL and SLIF.

Acquisition costs used within the calculation of 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 company-specific considerations, along with data provided by the Continuous Mortality Investigation Bureau in the UK and the Canadian Institute of Actuaries in Canada.

Assumptions regarding option take-up, surrenders and withdrawals are assumed to vary, where appropriate, according to the investment scenario under consideration when deriving 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 using the approach used for the published new business figures as follows:

- New recurrent single premium business is classified as new regular premium business to the extent that it is deemed likely to renew
- Department for 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 (with the exception of vesting annuities for tax layer 1 deferred annuities sold before September 2009). NBC 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.

17. EEV methodology *continued*

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. NBC 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 approach is annuity business in the UK and Ireland where, to ensure consistency between the economic assumptions used in 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 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 PVNBP is discounted using the relevant opening risk free rate rather than the risk discount rate.

Tax

The opening and closing EEV numbers for 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. EEV attributable tax and EEV profit before tax are derived by grossing up EEV 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 EEV 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 the Company, 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 towards 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 debt plus the subordinated debt issued by Canada form part of covered business and have been deducted at market value within 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 2011 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 50, 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Company financial statements:

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

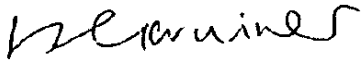
Matters on which we are required to report by exception

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 2011.



Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
13 March 2012

- (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 2011

	Notes	2011 £m	2010 £m
Revenue			
Net investment return	A	615	474
Other income		2	-
Total revenue		617	474
Expenses			
Administrative expenses	B	69	95
Interest payable on subordinated liabilities		116	113
Total expenses		185	208
Profit before tax		432	266
Tax credit	F	18	18
Profit for the year		450	284
Other comprehensive income for the year		-	-
Total comprehensive income for the year		450	284

The Notes on pages 246 to 266 are an integral part of these financial statements.

Company statement of financial position As at 31 December 2011

	Notes	2011 £m	2010 £m
Assets			
Investments in subsidiaries	G	5,043	4,948
Investments in associates and joint ventures	H	88	68
Loans to subsidiaries	J	687	1,297
Derivative financial assets	K	6	25
Equity securities and interests in pooled investment funds	J	24	28
Debt securities	J	88	1
Receivables and other financial assets	L	58	57
Other assets	M	17	19
Cash and cash equivalents	N	477	377
Total assets		6,488	6,820
Equity			
Share capital	O	235	228
Shares held by trusts	P	(23)	(25)
Share premium reserve	Q	1,110	976
Retained earnings	R	525	376
Other reserves	S	3,418	3,405
Total equity		5,265	4,960
Liabilities			
Subordinated liabilities	U	1,186	1,799
Deferred tax liabilities	I	3	4
Derivative financial liabilities	K	6	25
Other financial liabilities	V	28	32
Total liabilities		1,223	1,860
Total equity and liabilities		6,488	6,820

Approved on behalf of the Board of Directors on 13 March 2012 by the following Directors:



Gerry Grimstone, Chairman



Jackie Hunt, Chief Financial Officer

The Notes on pages 246 to 266 are an integral part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2011

2011	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January	228	(25)	976	376	3,405	4,960
Profit for the year	-	-	-	450	-	450
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	450	-	450
Distributions to equity holders	-	-	-	(303)	-	(303)
Issue of share capital other than in cash	7	-	134	-	-	141
Reserves credit for employee share-based payment schemes	-	-	-	-	24	24
Transfer to retained earnings for vested employee share-based payment schemes	-	-	-	11	(11)	-
Shares acquired by employee trusts	-	(7)	-	-	-	(7)
Shares distributed by employee trusts	-	9	-	(9)	-	-
31 December	235	(23)	1,110	525	3,418	5,265

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
Distributions to equity holders	-	-	-	(273)	(5)	(278)
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	-	-	-	15	(15)	-
Shares acquired by employee trusts	-	(35)	-	-	-	(35)
Shares distributed by employee trusts	-	10	-	(10)	-	-
Transfer between reserves on disposal of subsidiary	-	-	-	86	(86)	-
31 December	228	(25)	976	376	3,405	4,960

The Notes on pages 246 to 266 are an integral part of these financial statements.

Company statement of cash flows

For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Profit before tax		432	266
Fair value movements on equity securities, debt securities and derivatives	A	5	(5)
Gain on disposal of subsidiary	A	-	(47)
Dividend income from subsidiaries	A	(499)	(286)
Interest income on loans to subsidiaries	A	(82)	(80)
Distributions from equity instruments	A	(34)	(53)
Interest payable on subordinated liabilities		116	113
Movements in operating assets and liabilities		11	(32)
Net cash flows from operating activities		(51)	(124)
Cash flows from investing activities			
Loans repaid by subsidiaries		-	15
Acquisition of subsidiaries		(42)	(25)
Disposal of subsidiaries		-	138
Capital injections into existing subsidiaries		(37)	(44)
Interest received on loans to subsidiaries		85	102
Distributions from equity instruments	A	34	53
Dividends received from subsidiaries	A	499	286
(Purchase)/sale of equity securities, debt securities and derivatives		(88)	12
Acquisition of investments in associates and joint ventures		(20)	(6)
Net cash flows from investing activities		431	531
Cash flows from financing activities			
Dividends paid		(162)	(186)
Interest paid		(118)	(111)
Funding of shares acquired by trusts		-	(35)
Net cash flows from financing activities		(280)	(332)
Net increase in cash and cash equivalents		100	75
Cash and cash equivalents at the beginning of the year	N	377	302
Cash and cash equivalents at the end of the year	N	477	377
Supplemental disclosures on cash flows from operating activities			
Interest received	A	4	2

The Notes on pages 246 to 266 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 IFRS 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.

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

- Amendment to IAS 32 *Financial Instruments: Presentation – classification of rights issues*
- IAS 24 (revised) *Related Party Disclosures*
- *Annual improvements 2010*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

(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 2012 or later periods. The Company has not early adopted the standards, amendments and interpretations described below:

Amendment to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 July 2011)

The amendment to IFRS 7 requires additional disclosures for financial instruments which are designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets. This includes understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of the amendment to IFRS 7 is not expected to have an impact on the financial statements of the Company.

Amendment to IAS 12 *Income Taxes* (effective for annual periods beginning on or after 1 January 2012)

IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment to IAS 12 introduces a presumption that the recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. The adoption of the amendment to IAS 12 is not expected to have an impact on the financial statements of the Company. The amendment has not yet been endorsed by the EU.

Amendment to IAS 1 *Presentation of Financial Instruments* (effective for annual periods beginning on or after 1 July 2012)

The amendment to IAS 1 revises the way other comprehensive income (OCI) is presented. The key changes are as follows:

- Requirement to group items presented in OCI according to whether they will subsequently be reclassified to profit and loss
- Requirement to show separately the tax associated with items presented before tax in OCI for each classification of OCI items

The adoption of the amendment to IAS 1 will change the presentation of the statement of comprehensive income on the financial statements of the Company. The amendment has not yet been endorsed by the EU.

IAS 27 *Separate Financial Statements* (2011) (effective for annual periods beginning on or after 1 January 2013)

IAS 27 is amended to remove the requirements for consolidated financial statements which are superseded by the issue of IFRS 10. The adoption of IAS 27 (2011) is not expected to have a significant impact on the financial statements of the Company. The revised standard has not yet been endorsed by the EU.

IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 replaces the guidance on fair value measurement in existing IFRSs with a single standard. The standard does not change requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value and enhances disclosures about fair value measurement. Entities are required to make various quantitative and qualitative disclosures about fair value measurements and their classification within the hierarchy. The adoption of IFRS 13 is expected to result in additional disclosures in the financial statements of the Company. The standard has not yet been endorsed by the EU.

Amendment to IAS 19 *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013)

IAS 19 amendment revises requirements for pensions and other post retirement benefits, termination benefits and other employee benefits. The key changes which affect defined benefit plans are as follows:

- All actuarial gains and losses should be recognised immediately in other comprehensive income. Companies will no longer be able to defer gains and losses under the corridor approach.
- The calculation of the finance cost through profit and loss has been revised.
- Enhanced disclosures surrounding the characteristics and risk profile of defined benefit plans are required.

Other changes include changes to accounting for termination benefits and clarification of various miscellaneous issues and other matters submitted to the IFRS Interpretations Committee. The adoption of the amendment to IAS 19 is not expected to have a significant impact on the financial statements of the Company. The amendment has not yet been endorsed by the EU.

Amendment to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2013)

The amendment to IFRS 7 enhances the disclosure requirements where financial assets and liabilities are offset on the statement of financial position. The new requirements focus on enhancing quantitative disclosures about recognised financial instruments that are offset. Additionally enhanced disclosures are required on financial instruments subject to master netting or similar arrangements regardless of whether they are offset. The impact of the adoption of the amendment to IFRS 7 on the financial statements of the Company is currently being reviewed by management. The amendment has not yet been endorsed by the EU.

Amendment to IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 January 2014)

The amendment to IAS 32 clarifies the circumstances in which financial assets and financial liabilities may be offset on the statement of financial position. The impact of the adoption of the amendment to IAS 32 on the financial statements of the Company is currently being reviewed by management. The amendment has not yet been endorsed by the EU.

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2015)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in other comprehensive income. Financial liabilities that are neither held for trading nor elected to be held at FVTPL are measured at amortised cost. Financial liabilities that are held for trading are measured at FVTPL.

In December 2011 the IASB issued *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, which amends IFRS 9 to require application for annual periods beginning on or after 1 January 2015, rather than 1 January 2013.

The impact of the adoption of IFRS 9 on the financial statements of the Company is currently being reviewed by management. The standard has not yet been endorsed by the EU.

(a)(iii) Standards and amendments to existing standards that are not yet effective and are not relevant to the Company's operations or to the preparation of separate financial statements

Amendment to IFRS 1 *First time adoption of IFRS* (effective for annual periods beginning on or after 1 July 2011)

The amendment to IFRS 1 eliminates the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. Additionally, the revised standard provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013)

IFRS 10 introduces a single consolidation model to be applied to all entities and replaces previous requirements on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and Standing Interpretations Committee (SIC) 12 *Consolidation – Special Purpose Entities*. IFRS 10 defines control, determines how to identify if an investor controls an investee and requires an investor to consolidate entities it controls under the new standard. IFRS 10 identifies three elements which must be present for an investor to control an investee, which are as follows:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use that power over the investee to affect the amount of the returns.

IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013)

IFRS 11 defines and establishes accounting principles for joint arrangements and replaces previous requirements in IAS 31 *Interests in Joint Ventures* and Standing Interpretations Committee (SIC) 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The standard distinguishes between two types of joint arrangements – Joint Ventures and Joint Operations – based on how rights and obligations are shared by the parties to the arrangement. Joint operators should recognise their share of the assets, liabilities, revenue and expenses of the interest in accordance with applicable IFRSs. Joint venturers should apply the equity method of accounting prescribed in IAS 28 *Investments in Associates and Joint Ventures (2011)* to account for their interest.

(a) Basis of preparation *continued*

(a)(iii) Standards and amendments to existing standards that are not yet effective and are not relevant to the Company's operations or to the preparation of separate financial statements *continued*

IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013)

IFRS 12 is a single disclosure standard which applies to all entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 requires entities to disclose information to enable users of the financial statements to evaluate the nature, risks and financial effects associated with interests in other entities. The required disclosures are grouped into the following main categories:

- Significant judgements and assumptions
- Interests in subsidiaries
- Interests in joint arrangements and associates
- Interests in unconsolidated structured entities

IAS 28 *Investments in Associates and Joint Ventures* (2011) (effective for annual periods beginning on or after 1 January 2013)

IAS 28 is revised to include joint ventures as well as associates. Joint venturers are required to apply the equity method of accounting following the issue of IFRS 11.

(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 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:

Financial statement area	Critical accounting judgements, estimates or assumptions	Related accounting policies and notes
Assets whose carrying value is subject to impairment testing	Determination of the recoverable amount	(b), (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 subsidiaries associates and joint ventures are initially recognised at cost and subsequently held at cost less any impairment charge. An impairment charge is recognised when the carrying amount of the investment exceeds its recoverable amount.

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 pound Sterling, which is the Company's functional 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 within net investment return in the statement of comprehensive income. Translation differences on financial assets and liabilities held at amortised cost are included in the relevant line 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. All 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.

(h) Equity securities, debt securities and derivatives *continued*

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.

(h)(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.

(i) 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*.

(j) 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.

(k) Equity

(k)(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 reserve. Incremental costs directly attributable to the issue of new equity instruments are shown in the share premium reserve 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 consideration paid is treated as a deduction from total equity. Where such shares are sold, if the proceeds are equal to or less than the purchase price paid, the proceeds are treated as a realised profit in equity. If the proceeds exceed the purchase price, the excess over the purchase price is transferred to the share premium account.

(k)(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'.

(l) 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.

(m) 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.

(n) 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 or if the obligation is probable but the amount cannot be reasonably estimated.

(o) 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.

(p) 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. For share-based payment employee transactions, services received are measured at fair value.

For cash-settled share-based payment transactions, services received are measured at the fair value of the liability using an option pricing model. The fair value of the liability is remeasured at each reporting date and any changes in fair value are recognised in the income statement for the period.

For equity-settled share-based payment transactions, the fair value of services received 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 and non-vesting conditions, such as the requirement of employees to save in the Save-as-you-earn scheme, are included in the calculation of the fair value of the instruments at the date of grant. Vesting conditions which are not market 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.

Cancellations of awards granted arise where non-vesting conditions attached to the award are not met during the vesting period. Cancellations are accounted for as an acceleration of vesting and the remaining unrecognised expense in respect of the fair value of the award is recognised immediately.

At each period end the Company reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the income statement with a corresponding adjustment to the equity compensation reserve.

At the time the equity instruments vest, the amount recognised in the equity compensation reserve in respect of those equity instruments is transferred to retained earnings.

(q) 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

	2011 £m	2010 £m
Interest and similar income		
Cash and cash equivalents	4	2
Loans to subsidiaries	82	80
Other	1	1
	87	83
Income from subsidiary undertakings		
Dividend income	499	286
Distributions from equity instruments	34	53
	533	339
Gain on disposal of subsidiary	-	47
Gains/(losses) on financial instruments		
Equity securities and interests in pooled investment funds	(5)	4
Derivative financial instruments	-	1
	(5)	5
Net investment return	615	474

B. Administrative expenses

	Notes	2011 £m	2010 £m
Staff costs and other employee-related costs	C	49	68
Other administrative expenses		20	27
Total administrative expenses		69	95

C. Staff costs and other employee-related costs

	Notes	2011 £m	2010 £m
The aggregate remuneration payable in respect of employees was:			
Wages and salaries		40	57
Social security costs		5	5
Pension costs	D	4	6
Total staff costs and other employee-related costs		49	68
The average number of staff during the year was:			
United Kingdom		443	778
International		50	42
Total average number of staff		493	820

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 85 to 86.

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 2011 were £4m (2010: £6m).

Further information on the Group's pension schemes is given in Note 38 of the consolidated financial statements.

E. Auditors' remuneration

In 2011 auditors' remuneration amounted to £0.5m (2010: £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

	2011 £m	2010 £m
Income tax credit	17	19
Deferred tax credit/(expense) arising from the current period	1	(1)
Total income tax credit	18	18

The Finance Act 2011 reduced the UK corporation tax rate to 25% with effect from 1 April 2012 and this rate has been applied in calculating the UK deferred tax position at 31 December 2011. The 2011 Budget statement also announced the Government's intention to make further reductions in the rate of UK corporation tax in 2013 and 2014. These reductions have not been included in the calculation of deferred tax as they are subject to legislation being enacted in future years.

In 2010 the Company surrendered some of its tax losses to a subsidiary undertaking for no payment, resulting in an effective increase in tax of £5m.

The aggregate tax effect of items charged directly to equity is £nil (2010: £nil).

(b) Reconciliation of tax credit

	2011 £m	2010 £m
Profit before tax	432	266
Tax at UK corporation tax rate of 26.5% (2010: 28%)	(114)	(74)
Dividends not subject to UK corporation tax	132	80
Non-taxable profit on sale of subsidiary	-	13
Permanent differences	-	(1)
Total income tax credit	18	18

G. Investments in subsidiaries

	2011 £m	2010 £m
At 1 January	4,948	4,964
Acquisition of subsidiary	49	30
Injection into existing subsidiaries	46	45
Disposals	-	(91)
At 31 December	5,043	4,948

Details of the Company's principal subsidiaries are given in Note 50 of the consolidated financial statements.

On 11 January 2011, the Company's offer for the entire issued and to be issued share capital of Focus Solutions Group plc (Focus) was declared wholly unconditional and therefore this is the effective date of the acquisition. The purchase consideration was £42m cash and £7m loan notes. On 17 May 2011, Focus delisted its ordinary shares from trading and was re-registered as a private limited company, Focus Solutions Group Limited. 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.

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.

On 31 July 2010, the Company sold Standard Life Healthcare Limited for a cash consideration of £138m.

H. Investments in associates and joint ventures

(a) Investments in associates

The Company has a 25.3% (2010: 25.3%) interest in Tenet Group Limited, a company incorporated in England. The reporting date for Tenet Group Limited is 30 September as this is its year end date. This is different from the Company's year end date of 31 December.

The Company disposed of its interest in RSM BJ FM Group Limited on 9 September 2010.

(b) Investments in joint ventures

The Company has a 50% (2010: 50%) interest in Heng An Standard Life Insurance Company Limited, a company incorporated in China.

I. Tax assets and liabilities

	2011 £m	2010 £m
Deferred tax liabilities	3	4
Total tax liabilities	3	4

The amount of deferred tax liabilities expected to be settled after more than 12 months is £3m (2010: £4m).

There are no tax assets or current tax liabilities.

The Company has surrendered the benefit of its tax losses to underlying subsidiaries for a consideration of £17m (2010: £19m) which will be receivable within one year. In 2010, there were remaining losses surrendered for no consideration. Accordingly, no tax losses are available for carry forward. The Company has provided for deferred tax amounting to £3m (2010: £4m) in respect of unrealised gains on equity securities.

Recognised deferred tax

	2011 £m	2010 £m
Deferred tax liabilities comprise:		
Unrealised gains on investments	(3)	(4)
Net deferred tax liabilities	(3)	(4)
Movements in deferred tax liabilities comprise:		
At 1 January	(4)	(3)
Amounts credited/(charged) to net profit	1	(1)
At 31 December	(3)	(4)

J. Financial investments

	Notes	2011 £m	2010 £m
Financial investments at fair value through profit or loss:			
Classified as held for trading:			
Derivative financial instruments designated as held for trading	K	6	25
Total financial investments classified as held for trading		6	25
Designated upon recognition:			
Equity securities and interests in pooled investment funds		24	28
Debt securities		88	1
Total financial investments designated upon initial recognition		112	29
Total financial investments at fair value through profit or loss		118	54
Loans and receivables:			
Loans to subsidiaries		687	1,297
Receivables and other financial assets	L	58	57
Cash and cash equivalents	N	477	377
Total loans and receivables		1,222	1,731
Total financial investments		1,340	1,785

The amount of debt securities expected to be recovered or settled after more than 12 months is £1m (2010: £1m). Due to the nature of the equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

The amount of loans and receivables expected to be recovered or settled after more than 12 months is £633m (2010: £1,297m).

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 for the Group hedge part of the currency translation risk of net investments in foreign operations. For details refer to Note 22 of the consolidated financial statements.

	2011			2010		
	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	1,472	6	(6)	1,314	25	(25)
	1,472	6	(6)	1,314	25	(25)

The derivative liabilities of £6m (2010: £25m) are expected to be settled within 12 months. The derivative assets of £6m (2010: £25m) are expected to be recovered within 12 months.

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

2011	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Total £m
Cash inflows						
Derivative financial assets	739	-	-	-	-	739
Derivative financial liabilities	733	-	-	-	-	733
Total	1,472	-	-	-	-	1,472
Cash outflows						
Derivative financial assets	733	-	-	-	-	733
Derivative financial liabilities	739	-	-	-	-	739
Total	1,472	-	-	-	-	1,472
Net derivative financial instruments cash flows	-	-	-	-	-	-

2010	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	Total £m
Cash inflows						
Derivative financial assets	671	-	-	-	-	671
Derivative financial liabilities	643	-	-	-	-	643
Total	1,314	-	-	-	-	1,314
Cash outflows						
Derivative financial assets	643	-	-	-	-	643
Derivative financial liabilities	671	-	-	-	-	671
Total	1,314	-	-	-	-	1,314
Net derivative financial instruments cash flows	-	-	-	-	-	-

Cash inflows and outflows are presented on a net basis in the tables where the Company is required to settle cash flows net.

L. - Receivables and other financial assets

	2011 £m	2010 £m
Due from related parties	51	24
Collateral pledged in respect of derivative contracts	4	21
Accrued income	1	-
Other	2	12
Total receivables and other financial assets	58	57

The carrying amounts disclosed above reasonably approximate the fair values at the year end.

The amount of receivables and other financial assets expected to be recovered after more than 12 months is £nil (2010: £nil).

M. Other assets

	2011 £m	2010 £m
Due from related parties	17	19
Total other assets	17	19

Due from related parties comprises amounts due in respect of Group relief. The amount of other assets expected to be recovered after more than 12 months is £nil (2010: £nil).

N. Cash and cash equivalents

	2011 £m	2010 £m
Demand and term deposits with original maturity of less than three months	20	17
Other short-term investments	457	360
Total cash and cash equivalents	477	377

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.

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	2011 £m	2010 £m
At 1 January		376	274
Profit for the year attributable to equity holders		450	284
Dividends and appropriations		(303)	(273)
Transfer from equity compensation reserve for vested employee share-based payments	S	11	15
Shares distributed by employee trusts		(9)	(10)
Transfer between reserves on disposal of subsidiary	S	-	86
At 31 December		525	376

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 2011.

S. Reconciliation of movements in other reserves

	Notes	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Total £m
At 1 January 2011		3,108	36	261	3,405
Reserves credit for employee share-based payment schemes		-	24	-	24
Vested employee share-based payments	R	-	(11)	-	(11)
At 31 December 2011		3,108	49	261	3,418
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	R	-	(15)	-	(15)
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

In 2011 the total dividends and appropriations paid of £303m were treated as a deduction from retained earnings.

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.

Further information on the merger reserve and special reserve is given in Note 30 of the consolidated financial statements.

T. Financial liabilities

	Notes	2011 £m	2010 £m
Financial liabilities at fair value through profit or loss:			
Classified as held for trading:			
Derivative financial instruments designated as held for trading	K	6	25
Total financial liabilities classified as held for trading		6	25
Total financial liabilities at fair value through profit or loss		6	25
Financial liabilities measured at amortised cost:			
Subordinated liabilities	U	1,186	1,799
Other financial liabilities	V	28	32
Total financial liabilities recognised at amortised cost		1,214	1,831
Total financial liabilities		1,220	1,856

U. Subordinated liabilities

	2011		2010	
	Principal amount	Carrying value £m	Principal amount	Carrying value £m
Subordinated guaranteed bonds:				
6.75% Sterling fixed rate perpetual	£500,000,000	502	£500,000,000	502
6.375% Euro fixed/floating rate 12 July 2022	€62,780,000	54	€750,000,000	660
Mutual Assurance Capital Securities:				
6.546% Sterling fixed rate perpetual	£300,000,000	315	£300,000,000	315
5.314% Euro fixed/floating rate perpetual	€360,000,000	315	€360,000,000	322
Subordinated liabilities		1,186		1,799

U. Subordinated liabilities *continued*

The principal amount of subordinated liabilities is expected to be settled after more than 12 months, with the exception of the outstanding 6.375% Euro denominated fixed/floating subordinated guaranteed bonds which are expected to be settled within 12 months. The accrued interest on subordinated liabilities of £52m (2010: £71m) is expected to be settled within 12 months.

Following a tender process in respect of its Euro denominated 6.375% fixed/floating rate subordinated guaranteed bonds due 2022 (the Bonds), the Company announced on 12 September 2011 that it had agreed to purchase €687,220,000 of the Bonds at a purchase price of €10,200 per €10,000. After settlement on 14 September 2011, €62,780,000 in aggregate principal amount of the Bonds remain outstanding.

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

	2011 £m	2010 £m
Due to related parties	-	15
Collateral accepted in respect of derivative contracts	2	-
Loan notes arising on acquisition of subsidiary	7	-
Other	19	17
Total other financial liabilities	28	32

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 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 and from its exposure to equity securities. 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 instruments, derivative financial instruments and subordinated liabilities. The Company is also exposed to fluctuations in the equity securities markets, and as a result, 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 and liabilities are generally held in its functional currency. However, for strategic and capital reasons the Company may hold investments and liabilities in other currencies. In these cases, derivative financial instruments may be employed to manage currency exposure so that the Company has no remaining 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 undertaken 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 following reasonably foreseeable adverse variations.

(b)(i) Market risk concentrations

The analysis of market risk exposure presented below can be reconciled to the Company's total assets as follows:

	2011 £m	2010 £m
Financial investments	1,340	1,785
Investments in subsidiaries	5,043	4,948
Investments in associates and joint ventures	88	68
Other assets	17	19
Total assets	6,488	6,820

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 2011 and 31 December 2010, 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	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Debt securities	51	1	37	-	-	-	88	1
Equity securities	24	28	-	-	-	-	24	28
Loans	319	315	368	982	-	-	687	1,297
Cash and cash equivalents	473	373	4	3	-	1	477	377
Derivative financial assets	6	25	-	-	-	-	6	25
	873	742	409	985	-	1	1,282	1,728
Receivables and other financial assets							58	57
Financial investments							1,340	1,785

The market risk exposure to foreign currency assets is either matched by liabilities held in the same currency or managed using derivative financial instruments.

(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%	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Impact on profit after tax and equity	5	6	(5)	(6)	2	3	(2)	(3)	4	3	(4)	(3)

Limitations

The sensitivity analysis is non-linear and larger or smaller impacts should not be derived from these results. The sensitivity analysis represents the impact on profits 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.

W. Risk management *continued*

(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 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.

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 & Poors' 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 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 Company 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'. 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 Company'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.

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	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
AAA	-	-	-	-	459	360	-	-	-	-	459	360
AA	-	-	-	-	2	2	-	-	-	-	2	2
A	87	-	-	-	15	15	-	-	-	-	102	15
BBB	-	-	-	-	1	-	-	-	-	-	1	-
Not rated	1	1	687	1,297	-	-	6	25	58	57	752	1,380
Total	88	1	687	1,297	477	377	6	25	58	57	1,316	1,757

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 31 December 2011 and 31 December 2010, all financial assets were neither past due nor impaired.

(c)(ii) 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 Company may request the return of, or be required to return, collateral to the extent it differs from that required under the daily margin calculations.

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 2011, the Company had pledged £4m (2010: £21m) of cash and accepted of £2m (2010: £nil) of cash as collateral for derivative financial liabilities.

(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.

Liquidity risk is managed by the Company in consultation with the central Group capital management function, which incorporates treasury management. Liquidity risk is primarily managed by placing limits on the value of financial assets held which are neither quoted nor regularly traded on a recognised exchange and by maintaining a portfolio of committed bank facilities. The Company maintains a £500m syndicated revolving credit facility which does not expire until December 2013 and is currently undrawn. 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.

	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
2011							
Subordinated liabilities	73	286	330	335	222	-	1,246
Other financial liabilities	28	-	-	-	-	-	28
Total	101	286	330	335	222	-	1,274
2010							
Subordinated liabilities ¹	111	443	522	1,021	274	-	2,371
Other financial liabilities	32	-	-	-	-	-	32
Total	143	443	522	1,021	274	-	2,403

¹ The subordinated liabilities analysis has been amended to reflect contractual rather than expected repayments.

The principal amounts of financial liabilities where the counterparty has no right to repayment are excluded from the table along with interest payments on such instruments after 20 years.

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. Refer to Note K – Derivative financial instruments for the maturity profile of undiscounted cash flows of derivative financial instruments.

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 2011 (2010: £nil).

Under the trust deed in respect of the Group's UK defined benefit pension scheme, Standard Life Employee Services Limited (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, which gave rise to a liability of £nil at 31 December 2011 (2010: £nil).

Y. 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	2011 £m	2010 £m
Due from related parties:			
Subsidiaries	L,M	68	43
Loans to subsidiaries	J	687	1,297
		755	1,340
Due to related parties:			
Subsidiaries	V	-	15
		-	15

Transactions with related parties carried out by the Company during the year were as follows:

	2011 £m	2010 £m
Revenues from related parties:		
Subsidiaries	615	419
	615	419
Expenses to related parties:		
Subsidiaries	65	94
	65	94

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 and their close family members can also be found in Note 48 of the consolidated financial statements.

Z. 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.

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 certificates of deposit and derivative instruments that are not exchange traded.

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 debentures (see Note Z(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 table sets 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		2011 £m	2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m		
Assets								
Derivative financial assets	-	-	6	25	-	-	6	25
Equity securities	20	24	-	-	4	4	24	28
Debt securities	-	-	87	-	1	1	88	1
Total	20	24	93	25	5	5	118	54
Liabilities								
Derivative financial liabilities	-	-	6	25	-	-	6	25
Total	-	-	6	25	-	-	6	25

There were no significant transfers between level 1 and level 2 in the year.

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

The following table sets out a reconciliation of the movements in the level 3 instruments.

	At 1 January 2011 £m	Total gains/(losses) recognised in the statement of comprehensive income £m	Transfers into/ (out of) level 3 £m	At 31 December 2011 £m	Total gains/(losses) recognised in the statement of comprehensive income for assets or liabilities held at 31 December 2011	
					£m	£m
Equity securities	4	-	-	4	-	-
Debt securities	1	-	-	1	-	-
	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	£m	£m	£m	£m	£m
Equity securities	5	(1)	-	4	(1)	(1)
Debt securities	1	-	-	1	-	-

The Company does not intend to dispose of these financial instruments.

Z. Fair value of financial assets and liabilities *continued***(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.

(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	2011 Carrying value £m	2011 Fair value £m
Financial assets			
Loans to subsidiaries	J	687	580
Financial liabilities			
Subordinated guaranteed bonds	U	556	479
Mutual Assurance Capital Securities	U	630	526

	Notes	2010 Carrying value £m	2010 Fair value £m
Financial assets			
Loans to subsidiaries	J	1,297	1,224
Financial liabilities			
Subordinated guaranteed bonds	U	1,162	1,119
Mutual Assurance Capital Securities	U	637	563

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 Company does not consider its loans to subsidiaries to be impaired.

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

AA. Events after the reporting period

Details of events after the reporting period affecting the Company are given in Note 52 of the consolidated financial statements.

Glossary

Acquisition expenses

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, 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 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 variances and assumption changes, which relate to maintenance expenses.

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 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 operating profit and is made up of products where we generate revenue 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.

Global Absolute Return Strategy (GARS)

A type of fund provided by Standard Life Investments, which is proving to be very popular with investors. The fund's key objective is to deliver an average annual return to investors that is 5% above UK six month LIBOR (London Interbank Offer Rate).

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.

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 management 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 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-participating/non profit policy

A policy, including a unit linked policy, which is not a participating/with profits policy.

Operating profit

For a full definition of operating profit, refer accounting policy (jj).

Participating/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.

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 equity (RoE)

The annualised post-tax profit on an IFRS basis expressed as a percentage of the opening IFRS equity, adjusted for time apportioned dividends paid to equity holders. Operating RoE is based on operating profit after tax and total RoE is based on IFRS profit after tax attributable to equity holders.

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 time apportioned 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/risk based business

Spread/risk based business is a component of operating profit and mainly 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.

Spread/risk margin

Spread/risk margin reflects the margin earned on spread/risk business. This includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and reserving changes.

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.

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 account – 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 2011

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	64,083	54.49%	30,540,071	1.30%
1,001-5,000	46,598	39.62%	99,003,500	4.21%
5,001-10,000	4,148	3.52%	28,231,217	1.20%
10,001-100,000	2,280	1.93%	49,839,808	2.12%
100,001+ ¹	489	0.41%	2,146,051,226	91.18%
Totals	117,598	100%	2,353,665,822	100%

¹ These figures include the Company-sponsored nominee – the Standard Life Share Account – which had 1,263,123 participants holding 1,042,534,917 shares, and the Unclaimed Asset Trust, which had 75,258 participants holding 28,350,725 shares.

Financial calendar for 2012

2011 preliminary results	13 March 2012
Ex-dividend date for 2011 final dividend	21 March 2012
Record date for 2011 final dividend	23 March 2012
2012 Q1 trading results and interim management statement*	25 April 2012
Last date for DRIP elections for 2011 final dividend	9 May 2012
Annual General Meeting	25 May 2012
Dividend payment date (2011 final dividend)	31 May 2012
2012 half year results*	14 August 2012
Ex-dividend date for 2012 interim dividend*	22 August 2012
Record date for 2012 interim dividend*	24 August 2012
2012 Q3 trading results and interim management statement*	31 October 2012
2012 Interim dividend payment date*	14 November 2012

*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
<p>UK and Ireland If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar:</p>	<p>www.standardliveshareportal.com</p>	<p>questions@standardliveshares.com Address: Standard Life Shareholder Services 34 Beckenham Road Beckenham Kent BR3 4TU</p>	<p>0845 113 0045 +44 (0)20 3367 8224 (01) 431 9829</p>
<p>Germany and Austria If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar:</p>	<p>www.standardliveshareportal.com/de</p>	<p>fragen@standardliveshares.de Address: Standard Life Aktionärservice Postfach 20 01 43 60605 Frankfurt am Main Germany</p>	<p>+49 (0)6196 7693 130</p>
<p>Canada If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar:</p>	<p>www.standardliveshareportal.com (English) www.standardliveshareportal.com/fr (French Canadian)</p>	<p>questions@standardliveshares.ca Address: Standard Life Shareholder Services PO Box 4636 Station A Toronto M5W 7A4</p>	<p>1-866-982-9939</p>

Please note, you may not use any electronic address provided in this document or any related document – including in the Summary Financial Report 2011, Shareholder News, AGM guide 2012 (including the Notice of Annual General Meeting), your voting form or the letter or email from the Chairman about the 2012 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 2011 (unless otherwise indicated).

This document has been published by Standard Life for information only. It is based on our understanding as at March 2012 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.

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